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The Growth Challenge: Can Ugandan Cities get to Work?

UGANDA ECONOMIC UPDATE 5TH EDITION

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ABBREVIATIONS AND ACRONYMS

AICD	Africa Infrastructure Country Diagnostic
BOP	Balance of Payments
BoU	Bank of Uganda
BRT	Bus Rapid Transport
CBR	Central Bank Rate
COMESA	Common Market for Eastern and Southern Africa
CPI	Consumer Price Index
DRC	Democratic Republic of Congo
DSA	Debt Sustainability Analysis
EAC	East African Community
ERA	Electricity Regulatory Authority
EU	European Union
FDI	Foreign Direct Investment
FY	Fiscal Year
GDP	Gross Domestic Product
HIPC	Highly Indebted Poor Countries
HPP	Hydro Power Plant
ICT	Information and Communications Technology
IDA	International Development Association
IFC	International Finance Corporation
IFPRI	International Food Policy Research Institute
IGFT	Inter-Governmental Fiscal Transfer
IMF	International Monetary Fund
ISIC	International Standard Industrial Classification
KIIP	Kampala Institutional and Infrastructure Project
LIBOR	London Interbank Offered Rate
MDRI	Multilateral Debt Relief Initiative
MFPED	Ministry of Finance, Planning and Economic Development
MoLG	Ministry of Local Government Economic Development
NDP	National Development Plan
NHCC	National Housing and Construction Company
NEER	Nominal Effective Exchange Rate
ODA	Official Development Assistance
PIMS	Public Investment Management System
REER	Real Effective Exchange Rate
SMEs	Small and Medium-sized Enterprises
SSA	Sub-Saharan Africa
SSATP	Sub-Saharan Africa Transport Policy Program
UBoS	Uganda Bureau of Statistics
UEU	Uganda Economic Update
UNHS	Uganda National Housing Survey
UGX	Uganda Shillings
URA	Uganda Revenue Authority
USMID	Uganda Support to Municipal Infrastructure Development
VAT	Value Added Tax
WB	World Bank
WDI	World Development Indicators

FOREWORD

Across the world, urbanization has been on the rise. Already, 50 percent of the world's population and 80 percent of all economic activities are concentrated in cities. While the majority of Uganda's population still lives and works in rural areas, the process of urbanization is well underway as Kampala and other major Ugandan cities are expanding rapidly and playing an increasing role in the country's economy. At the current pace, Uganda's urban population is projected to increase from six million in 2013 to more than 20 million in 2040.

This Fifth Edition of the Uganda Economic Update presents evidence that if the urbanization process is well managed, it has the potential to stimulate economic growth and to provide productive jobs for a greater proportion of Uganda's young and rapidly expanding population. In many countries across the world, the growth of cities has stimulated the establishment and expansion of productive businesses by reducing the distance between suppliers and customers. The growth of cities has also facilitated provision of social services and infrastructure through economies of scale. These positive effects from urbanization are already visible in Uganda since the poverty rate is seven percentage points lower in urban areas than in rural areas. Most of the recent job creation is found in cities, and social indicators are also better in urban areas, especially in education and health.

The economic stimulus that can be created by the recent and future growth of urban areas should be particularly welcomed at a time when Uganda's rate of economic growth has slowed down to 4.5 percent in 2013/14. This is two percentage points lower than the historical average observed during the 2000s. While much of the recent growth has been generated by the Ugandan Government's ambitious investment program, there is a limit to the ability of this strategy to continue to facilitate significant growth into the future. In particular, as a result of this program, the public debt-service ratio has increased rapidly, while limited capacities continue to result in delays to the implementation of public projects.

Ensuring that Ugandan cities continue to drive economic growth should help provide the stimulus requested by the Ugandan economy but it is also a significant challenge. The congestion and slums seen today in the country's major cities are clear indications that the urbanization process needs to be better managed in order to achieve this goal. There is

a need to improve the business environment; to enhance skills; to develop infrastructure; and to provide better quality services and housing. While all these goals are achievable, their achievement will require close coordination and cooperation within the Government and between the public and private sectors. There is also a need to move fast as it is always easier to establish competitive cities by building solid foundations when the rate of urbanization is still relatively low.

The proposed focus on urbanization does not mean that policymakers should forget about other priorities. The urbanization process must be implemented in parallel with measures to transform the agricultural sector and to achieve positive development in rural areas. A well-managed, efficient agricultural sector is a vital precondition for the provision of food and inputs into urban centers. And the benefits flow in both directions. Remittances from urban workers can play a major role in financing the development of commercially viable farms. Such virtuous circles have been at the center of the development of strategies implemented by a number of emerging nations, including Thailand and, to some extent, China over recent years.

The development of Uganda's oil sector will also play a significant role in the urbanization process. Indeed, international experience has shown that rates of urbanization tend to accelerate following the commencement of oil production. With Uganda's oil industry expected to commence production in the foreseeable future, it is likely that this will also drive an increased rate of urbanization in the country. This creates both threats and opportunities. While this increased rate of urbanization will add pressure on the cities, the revenue derived from the oil sector may be utilized to finance the infrastructure necessary to ensure that Uganda's cities fulfill their potential to the maximum extent possible. The challenge for Uganda's policymakers is to ensure that these processes are managed to generate the maximum possible benefits for all of the country's citizens.

We hope that this economic update will serve as valuable input to enable Uganda's policymakers to meet this challenge effectively.

Philippe Dongier

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KEY MESSAGES

- **Over the past 12 years, the number of people living in Uganda's urban areas has been increasing by an average of 300,000 people per year.** At present, the majority of the residents of urban areas were born in the cities and towns where they currently reside. However, a significant and increasing proportion of the population consists of migrants from rural areas. The highest rates of growth are recorded in the central region, and most particularly in Kampala. If current patterns of growth continue, Kampala will become a mega-city with a population of more than 10 million people within the next 20 years. Similarly, the population of other towns will increase exponentially. With current and expected future rates of growth, the total number of people residing in urban areas will increase from 6.1 million people at present to more than 32 million people by 2050.
- **During the past few decades, similarly rapid rates of urbanization have been recorded in many emerging countries.** A rapid rate of urbanization is strongly associated with the process of development, with a trend towards an increasing proportion of the labor force moving away from low productivity activities in subsistence agriculture and towards higher productivity activities in services and manufacturing, which are typically located in urban areas. Across the world, urbanization is on the rise, and Uganda, while starting from a low base, is conforming to these general global patterns of development.
- **As is the case in many other developing countries, the prospects of good jobs, higher incomes and better living conditions in the cities continue to attract Ugandans from rural areas.** With 70 percent of Uganda's non-agricultural GDP being generated in these urban areas, the prospect of higher productivity jobs is considerably better than in the countryside. As a result of the concentration of productive economic activities in urban areas, wages in these areas are, on average, far higher than those in rural areas, while the rate of poverty is lower. However, urban areas are facing an increasing number of challenges. Key amongst these challenges are the high rates of urban unemployment and underemployment, with the rate of creation of productive jobs being lower than the rate of growth of the urban population. In addition, congestion in the cities restricts the movement of goods and people, while the quality of housing remains inadequate for a large proportion of the urban population. The delivery of social services of an adequate quality to a rapidly expanding urban population is also a source of concern.
- **Currently, the opportunity presents itself for Uganda to leverage urbanization to benefit a large proportion of the population.** On one hand, while the majority of the population still lives in rural areas, in future, push factors such as the rapid expansion of the labor force due to demographic factors; the increasingly rapid transformation of agriculture; an increased involvement in higher productivity non-farm activities; and the expected commencement of the exploitation of oil, are expected to attract a greater proportion of the population towards the country's cities and towns. On the other hand, international evidence shows that productive cities can become the engine of economic growth that Uganda urgently needs. In most emerging

The highest rates of growth are recorded in the central region, and most particularly in Kampala. If current patterns of growth continue, Kampala will become a mega-city with a population of more than 10 million people within the next 20 years.



A busy morning on Kampala street
Digital Media Network Ltd (2015)

economies, the growth of cities has contributed to these countries being able to achieve middle income status by galvanizing entrepreneurs; by attracting productive capital; and by facilitating higher rates of economic density and improved proximity to and between goods, people and ideas. Cities have also contributed to the achievement of improved quality and access to services and infrastructure, as it is generally cheaper and more cost-effective to provide and develop these services and infrastructure in densely populated urban areas, rather than in sparsely populated rural areas.

- **Through the implementation of smart policies, Uganda can ensure that its cities are both competitive and livable.** However, the achievement of these goals will require a comprehensive set of actions that will establish the necessary business environment required to create productive jobs; to provide a conducive working environment for workers; to develop good quality buildings for housing; to improve the quality of infrastructure; and to ensure good access to social services, particularly health and education services. Failure to unlock the potential of cities may result in a deceleration of growth and the emergence of dysfunctional slum cities in which people live in appalling conditions. Appropriate investments in the development of the country's cities are therefore vital if Uganda is to prevent urbanization from resulting in dysfunctionality and diseconomies of scale. While this will require an efficient public investment program, the participation of the private sector is also vitally necessary. In the short-term, this may require some re-prioritization within the existing public investment program. In the medium term, the revenues expected to be derived from the exploitation of oil, the value of which is anticipated to be in the range of US\$ 2 billion per year, can help finance the development of the necessary infrastructure.

Part 1: State of the Economy

- **New statistical evidence from the rebasing of national accounts and the population census suggests that the Ugandan economy is about 20 percent larger than had previously been calculated, while the population is three percent smaller.** According to these re-calculations, the country's average per capita income now stands at US\$ 706, bringing the country closer to middle income status. While this is excellent news, the recent performance of the economy creates causes for concern.
- **In FY 2013/14, at 4.5 percent, the Ugandan economy grew at a rate two percentage points lower than the historical (1990s and early 2000s) average rate of seven percent.** This was lower than had been expected, although the rate accelerated in the second part of the fiscal year. Concurrently, the value of private investment declined by three percent, with the same impact across all sectors of the economy. The main engine of growth remained public investment, the total value of which increased by more than 25 percent during FY 2013/14, with the Government continuing to implement its ambitious infrastructure development program. The decline in private investment reflects the slowdown in the construction sector and the decline in the value of imports of machinery and equipment, with this value decreasing by 15.1 percent during FY 2013/14. The industrial sector grew at a slower rate than in previous years, recording a rate of growth of 4.3 percent, compared to the recent five-year average of 6.7 percent. The agricultural sector also grew at a rate lower than that of the overall economy, continuing the worrying trend recorded in recent years.
- **The average rate of inflation declined in FY 2013/14 and first half of FY 2014/15 to 1.6 percent by December 2014.** This decline was largely due to the fall in the international price of oil, a stable energy supply, and improved weather conditions, with these conditions helping to boost food production and hence to maintain low prices. The Government continued to implement a cautious monetary policy, partly to offset the potentially inflationary pressures that could result from the depreciation in the value of the local currency and from growing fiscal expenditures. While this stance may have been justified, it resulted in persistently high lending rates, with rates remaining above 22 percent on shilling denominated loans, and a slow rate of expansion of credit to the private sector.

- While the fiscal deficit has remained under control, a number of significant challenges have emerged.** The construction of two landmark hydro projects were again not implemented according to schedule, resulting in a lower rate of execution of the public investment program. The Government also failed to collect the expected level of revenues. With commitments to other development expenditures, particularly involving the development of transportation infrastructure, and with recurrent expenditures executed as planned, the Government found it necessary to borrow on the domestic market to compensate for the short-fall in its revenue targets. Consequently, the total value of the Government's domestic borrowing increased to a figure equivalent to 16 percent of GDP, compared to 10 percent two years ago. Arguably, this increase has contributed to the continuation of Uganda's high interest rates and to the crowding out of private sector credit.
- On the external front, the boom in the tourism sector and increases in foreign direct investment (FDI) helped improve Uganda's overall external position in FY 2013/14.** However, the value of goods exports declined as a consequence of reduced demand from Uganda's major markets, including South Sudan and the Democratic Republic of the Congo (DRC), which continued to be affected by protracted civil unrest, and in Europe, which continued to be affected by an incomplete economic recovery. Because the value of imports remained flat, the trade deficit improved marginally from the equivalent of -11.8 percent of GDP during FY 2012/13 to -11.0 percent in FY 2013/14. While the total value of official aid and remittances declined, Uganda's external position benefited from the robust growth of the tourism sector and from the increased value of FDI, the value of which reached US\$ 1,154 million financing 61 percent of the current account deficit. Overall, Uganda maintained a sound reserves position, with the value of these reserves being equivalent to 4.7 months of projected imports of goods and services.
- Looking forward, the World Bank forecasts that the rate of growth of the Ugandan economy will reach 5.6 percent during FY 2014/15.** Economic growth is expected to remain on an upward trajectory into the medium term if proposed public investments materialize and if the level of private investment recovers as a result of the intensification of activities in the oil sector. The economy should also benefit from an improvement in the terms of trade if oil prices remain at the recent past levels of about US\$ 50 per barrel for some time. The construction and services sectors will make the most significant contribution to economic growth, with the agricultural sector being expected to continue to grow at a rate lower than that of the overall economy. The contribution of the manufacturing sector to economic growth will remain limited, considering its low weight in the overall economy. However, this contribution is expected to increase over time as a result of the interests in the extractive sector and the increased demand for Uganda's manufacturing products in regional markets. The rate of inflation is expected to remain at low levels, given stable commodity prices on international markets and prudent monetary policy. The external current account balance should remain equivalent to approximately 7.7 percent of GDP, with increases in the value of FDI compensating for the gradual decline in official aid.
- As in the recent past, the main driver of growth is anticipated to be the implementation of the ambitious public investment program.** Indeed, the FY 2014/15 budget projects a 22.9 percent increase in the total value of public expenditure. Most of this increase is explained by higher allocation to infrastructure and social sectors through the implementation of programs aimed at building the country's stock of physical and human capital. To be effective, this strategy presupposes improvements in investment management capacities and in the delivery of social services by both the central and local governments. As a result of the Government's ambitious investment program, the fiscal deficit is projected to jump from 3.9 percent of GDP in FY 2013/14 to 6.4 percent in FY 2014/15. This deficit is expected to be financed to an equal extent by both domestic financing and foreign borrowing.
- Thus, Uganda has good prospects for positive growth. However, to achieve this positive growth, it is vital that a number of domestic and external risks are managed appropriately.** On the domestic front, imminent risks include fiscal risks associated with the sequencing and overall management of the financing and implementation of the Government's huge infrastructure development program. This risk is exacerbated

by the Government's difficulties in meeting its targeted revenues. Delays in the negotiations related to the modalities for the financing of the key public sector projects have persisted in recent months. One measure to mitigate these risks could be to adopt an appropriately sequenced program to develop the capacities of government agencies to execute the investment plans and to achieve a higher rate of revenue collection. Capacity issues extend to the private sector, with domestic suppliers having limited ability to meet the additional demand created by the acceleration in public investment.

- **Outside the Government's investment program, it is vital that the authorities resist pressure to engage in additional expenditures, especially in view of the low levels of revenue collection and in the context of political pressures resulting from the forthcoming 2016 general elections.** While Uganda remains a low debt distress country, the Government's debt-service has increased from a value equivalent to 24 percent of GDP to almost 41 percent of GDP in the period from 2009 to 2014. Such an increase has restricted fiscal space. If the Government does not implement measures to control this appropriately, it will send negative signals to markets and potential investors, potentially resulting in a negative impact on economic growth.
- **On the external front, the slower than anticipated recovery to the downturns in the European and Asian economies may continue to negatively affect Uganda's export markets.** Volatile commodity prices may also reduce the value of exports in traditional sectors, for products such as coffee and tea, among others. The decline in oil prices has reduced the import bill, since oil accounts for about 20 percent of total imports. However, if these low prices persist, they may have a negative impact on the investment plans for Uganda's oil sector.
- **If Uganda is to achieve the level of economic transformation to which it aspires, it is vital that policymakers resist the urge to settle for a lower, long run growth path.** Over the past five years, the rate of growth of private investment decelerated from 11.2 percent to 4.7 percent per annum. With 75 percent of Uganda's labor force involved in the agricultural sector, the proportion of the labor force thus involved is still significantly higher than in many other developing nations, many of which have seen a far greater proportion of their population moving into more productive sectors. For example, in the period from 1987 to 2007, the proportion of the labor force in China involved in the agricultural sector declined from 60 percent to 44 percent, while the proportion in South Korea declined from 34 percent to 7.4 percent. If Uganda is to sustain a high rate of economic growth, it has to either raise the level of productivity of the sectors in which most of its labor force is employed or move people out of low productivity sectors.
- **Urbanization provides an opportunity for Uganda to accelerate the speed at which it can achieve the economic transformation.** Economic activities in the urban areas have driven growth and job creation in Uganda in recent years. In terms of job creation, the most dynamic sector has been the non-farm sector, mostly the informal sector. This pattern is similar to

While Uganda remains a low debt distress country, the Government's debt-service has increased from a value equivalent to 24 percent of GDP to almost 41 percent of GDP in the period from 2009 to 2014.

that recorded in many of today's developed countries and rapidly growing emerging economies. Cities are attracting migrants and investors because they provide opportunities for economies of scale and better access to services and markets. The challenge for Uganda is to leverage the growth of its urban areas so that the country will achieve faster, transformational growth and job creation.

Part 2: Getting Uganda's Cities to Work

- **While the process of urbanization is well underway in Uganda, it will continue to gain pace significantly into the medium-term future.** The Government's official estimates suggest that at present, only 18 percent of Ugandans live in urban areas, with the highest concentration in Central Uganda. Kampala dominates Uganda's urban landscape, with its population accounting for 35 percent of the country's total urban population. The combination of high population growth and the expected rural-urban migration suggest that within the next few decades, Ugandan cities will experience a population increase from about six million today to more than 30 million over the next two decades.
- **In Uganda, as elsewhere, the process of urbanization has created both benefits and challenges.** The good news is that the urbanization process has helped to increase the overall level of productivity in the economy. Indeed, the gradual shift away from traditionally low productive subsistence agriculture, with many non-agricultural jobs being created in the cities, has improved the welfare of a significant proportion of urban dwellers. According to the latest National Household surveys, living standards and welfare outcomes have improved significantly faster in cities than in rural areas. Urban areas have lower poverty rates and higher average consumption levels than do rural areas. In addition, the recent urban growth has generated benefits for rural households through increased remittances, most of which come from rural migrants to urban areas. Positive spillovers from the development of cities on rural areas is further evidenced by the relatively lower poverty rates observed in rural areas that are closer to big cities compared to those further away.
- **However, Uganda's urban areas are facing a number of challenges.** First, while the majority of migrants are able to find more productive jobs in cities than in rural areas, most of them have to settle for engagement in activities that are still not highly productive. The rate of youth unemployment is also much higher in urban areas than in rural areas. Second, congestion, especially in Kampala, clearly demonstrates that the growth of the city has placed severe strains on the functionality of the existing infrastructure. Third, the living conditions in cities and towns have remained suboptimal for many residents, with housing shortages leaving more than 60 percent of the urban population living in slums. Finally, the urbanization process has placed an increased pressure on access to public services, particularly education and health services, and infrastructure, particularly electricity and piped water.
- **Uganda is currently presented with an opportunity to leverage the process of urbanization to ensure that it benefits the majority of its citizens, including the poor.** Experiences from other countries show how urbanization has supported development. Building on such experiences and lessons, this update identifies three dimensions along which Uganda ought to develop its urban advantages, showing that it is necessary:
 1. To support economies of scale in production by increasing urban density and better connecting rural and urban areas;
 2. To improve the coordination of public investment with decisions related to the location of both people and businesses; and
 3. To increase the provision of public services and public goods such as transportation, water, and sanitation services, all of which are vitally necessary to support rapid urbanization.

To achieve these goals, the key roles for public policy include the following:

- i. To support the more efficient functioning of land markets, both in terms of allocation of land for the most valuable use and the building of structures;

- ii. To ensure the provision of connective infrastructure; and
 - iii. To enhance urban planning with the aim of providing common knowledge to guide and coordinate public and private investment.
- **The commencement of oil revenues will increase urbanization pressures while at the same time possibly provide the means to manage these pressures appropriately.** International experience suggests that in countries with an emerging oil industry, cities grow more rapidly when oil revenues start to flow. Resource-rich developing countries tend to have very large capital cities because a significant proportion of oil revenues are spent through the Government, which is based in the capital and secondary cities. On the other hand, oil revenues can be utilized to finance urban infrastructure. There are also strong complementarities between the skills necessary for the oil industry and for the development of cities. This is particularly evident in construction and the provision of food. In addition, the development of the oil industry should result in the provision of cheaper energy, thereby reducing the cost of production for energy-intensive industries, which are likely to be located in cities.
 - **The construction and development of effective cities is policy-intensive, involving the management of multiple interests and requiring decisions that are likely to evolve over time.** Managing economies of scale and investments depend upon layers of coordination between public investment in infrastructure, enterprise investment in productive capital, and household investment in housing. Each layer faces its own coordination challenges. For example, businesses involved in similar activities gain from clustering together (agglomeration benefits). The decisions of individual agents are sequential, so that in the absence of coordination, the evolution of a city is highly unlikely to be efficient, either in terms of improving the quality of life of its residents or of increasing the productivity of its workers. Policy interventions will be needed to enable this coordination and define clear accountability mechanisms, with these policy interventions involving either direct investment in infrastructure or the promulgation of regulations that influence the location and intensity of investment in residential and industrial/commercial structures. If Uganda does not implement effective measures to improve the working and living environment in urban areas, the results will be increased congestion and significant limits to the benefits of urbanization. And without the development of an urban tradable sector, the rapid population of Uganda's cities will mean that the negative impact of congestion costs will outweigh the positive benefits of agglomeration.
 - **Appropriate, well-planned investment in cities is critical for Uganda to achieve significant poverty reduction. It is also vital for the next stage of Uganda's development, particularly in the context of East African integration and the exploitation of the country's oil resources.** The core issue is that investments in durable structures will be important as a means to reduce the cost of inputs that can enhance the competitiveness of Uganda's exports to the East African community and beyond. These durable structures include investment in transport, housing, utilities and basic services. However, these investments will need to be complemented by institutional reforms to land policies and local government finances.



Bugolobi sewage treatment plant. *Great Lakes Film Production Ltd (2014)*

PART 1

THE STATE OF UGANDA'S ECONOMY

New statistical evidence suggests that the Ugandan economy is about 16 percent larger and the population three percent smaller than had previously been calculated. These two facts together mean that the country's average per capita income was US\$706 during FY 2013/14.

-
- The value of private sector investments declined by 3.3 percent, raising questions as to whether the increase in public sector activities is crowding out the private sector.
-
- During FY 2013/14, Uganda's economy grew at a lower than expected rate of 4.5 percent, as economic activities in the services and industry sector slowed down. This means that Uganda has recorded a rate of growth lower than its long-term (1990s and early 2000s) average of seven percent for three consecutive years.
-
- The rate of inflation declined over the year. Despite a decline in the value of exports, the overall external position remained strong due to increases in the values of FDI and tourism flows. However, the exchange rate has been very volatile.
-
- Fiscal performance during FY 2013/14 was poor in terms of both revenues and expenditures, but the overall fiscal deficit amounted to -3.8 percent of GDP, which was lower than the programmed deficit. To finance the deficit, domestic borrowing increased sharply to reach a value equivalent to 2.7 percent of GDP, which was 71 percent of the deficit.
-
- The economy is forecasted to grow at a rate of 5.6 percent per annum during FY 2014/15, with this rate possibly increasing to 6.4 percent in the following year. This rate of growth should be maintained at about the same level in the medium term, if Government's infrastructure program realizes efficiency and productivity improvements, and if oil resources create economic opportunities.
-
- The main downside risks emanate from to the fiscal management regime, particularly issues related to low levels of revenue mobilization; lack of sequencing and planning of infrastructure investments in accordance with absorptive capacity; and build-up of debt. Uncertainties in the global economy pose threats to the country's exports and hence to its overall external position, while spending pressures in the context of 2016 elections could have an inflationary effect.
-
- The forecast economic performance is still much lower than is required to enable the country to achieve middle income status in the short term. Investing in cities could reduce fiscal pressures as this investment could also accelerate economic growth, given that efficient cities support higher productivity economic activities; promote formalization; and ease revenue collection.
-



1. Uganda's economy today

Over the previous year, the Ugandan economy grew at a much slower rate than had been anticipated, despite shocks abating; the rate of inflation declining; and foreign exchange markets remaining calm. At a rate of growth of 4.5 percent in FY 2013/14, Uganda's economy grew at a rate lower than its long-run average of seven percent, for the third year in a row, which could indicate that the economy's overall growth potential is falling. However, the most worrying trend is that private sector investment contracted by -3.3 percent in FY 2013/14. Although the efforts by the Government to address binding constraints to growth should be commended, sustained high levels of public spending could crowd out the private sector. On the other hand, in FY 2013/14 the rate of inflation continued to decline, sinking to 5 percent. This enabled monetary policy to remain neutral. Uganda also continued to attract large inflows of foreign direct investment (FDI) and revenues generated by the tourism sector established new records. In contrast, the total value of exports declined slightly due to the drop in global commodity prices and the ongoing instability in South Sudan.



The Northern bypass providing connectivity and reducing congestion in Kampala's city centre. *Digital Media Network Ltd (2014)*

1.1 Re-calculating the size of the economy: A smaller population and a larger economy than previously estimated

The Uganda Bureau of Statistics (UBOS) has produced evidence to revise the two most basic statistics required to understand the economy, these being the country's population and the total value of economic output. First, the UBOS conducted a national population census, following which it rebased the national accounts. These numbers enabled the recalculation of the average level of income per capita, shedding new light on the state of the Ugandan economy.

The provisional results of the census indicate that Uganda has a total population of 34.9 million people. This is three percentage points lower than the figure of 37 million that had been previously calculated, while the rate of population growth of 3.0 percent in the period from 2002 to 2014 is also lower than the rate of 3.3 percent recorded in the period from 1991 to 2001. Even so, Uganda still has one of the youngest and fastest growing populations in the world. The average Ugandan woman gives birth to six children during her lifetime,

while more than 50 percent of the population is under the age of 15.

At the same time, the revision of the national accounts data indicates that the size of the economy is approximately one-fifth larger than had previously been calculated. In FY 2009/10, which became the new reference period for Uganda's national accounts, the rebasing exercise adjusted the economy upwards by a factor of 17.3 percent, from UGX 34,908 to UGX 40,946. The rebased GDP at current prices for the four subsequent years was higher than the previous estimates by 20.4 percent in FY 2010/11; 18.4 percent in FY 2011/12; 14.9 percent in FY 2012/13; and 13.1 percent in FY 2013/14. Much of the adjustment came as a result of including data on economic activity for non-profit organizations and informal sector cross-border trade, and by more careful measurements of the activities of the agriculture and informal sectors. Consequently, calculations of the relative contributions of different

economic sectors to GDP also changed, with the share of the agricultural sector to GDP increasing from 23.6 percent to 26.2 percent; that of the services sector increasing from 45.5 percent to 48 percent; and that of industry declining from 24.9 percent to 18.4 over the reference period. These numbers suggest that structural transformation away from agriculture into industry has not been as fast as was previously thought.

On the basis of these recalculations, it can be estimated that the value of Uganda's average per capita income reached the figure of US\$ 706 by FY

2013/14, significantly higher than the previously estimated figure of US\$ 510. The proportion of the population living below the poverty line is still estimated to be 19.7 percent, as was reported on the basis of the findings of the latest national household survey. This statistical evidence further confirms Uganda's achievements in terms of economic growth and poverty reduction. Uganda has edged nearer to middle income status and has already met the MDG goal of eradicating extreme poverty. The first part of this economic update reviews the recent economic developments in light of these changes.

Box 1: Re-basing Uganda's GDP: What does it mean?

The recent move by a number of countries across Sub-Saharan Africa to revise their Gross Domestic Product (GDP) figures has had a profound impact on the region's economic landscape. In November 2010, Ghana's statistical services announced a revision of the country's GDP, which led to a sudden doubling of its per capita GDP, from US\$ 550 to US\$ 1100, propelling the nation to middle income status overnight. In April 2014, Nigeria revised its GDP with a resultant 75 percent increase in its per capita income, suddenly making it the continent's largest economy, ahead of South Africa. Very recently, in September 2014, Kenya's statistics office also released the results of its GDP revision exercise. As a result, it was determined that the Kenyan economy was a quarter larger than had been previously estimated in GDP terms and that Kenya had actually achieved lower-middle income country status in 2012. Uganda's GDP has previously been measured on the base of 2002 prices. The rebasing involves changing the base year to 2009 and the structure of the economy so that new sectors of production are taken into account when measuring the economy.

Why do GDP figures need re-basing?

An economy's gross domestic product (GDP) measures the country's economic value of all goods and services that are produced within a country's borders during a specific time. The accurate measurement of the GDP of a country requires extensive data, as it involves collecting information on the price and quantity for each single good and service produced within the country during a specified time period. However, due to resource constraints, most countries do not collect this information on a regular basis, but only at least every five to ten years. Once this information is collected for a particular base year, the frequent GDP series (e.g. annual or quarterly series) are estimated by extrapolating on the basis of a limited sample of activities in the economy until a new full scale survey is conducted and a new base year is established.

What are the implications of the adjustments?

If the rebasing exercise is part of a regular routine conducted at not more than five years intervals, then the impact of the revision to GDP measurements is expected to be modest. However, in developing countries, the practice of re-basing at less frequent intervals often leads to large jumps in the estimated GDP figures whenever a new base year is established. This occurs for two reasons. First, due to resource constraints, governments of developing countries generally find it very expensive to conduct a re-basing exercise on a regular basis. Under such circumstances, the GDP estimates rely on base years that are often more than ten years old, resulting in large estimation errors of GDP. Second, it is expected that developing countries should be structurally transforming much more rapidly, with emergence of new services and industry sectors. This often leads to large adjustments in GDP when a new base year is established, because the structure of the economy in these countries is particularly prone to change over time.

The adjustments in GDP differ across countries, given the differences in time intervals between rebasing and the speed of adjustment across economies. Uganda's adjustment amounted to 17.3 percent in its new base year 2009/10 and 13.1 percent in FY2013/14, somewhat lower than in Kenya, but well below that of Ghana which had not revised its base for more than 17 years (see Box Table 1). The structure of Uganda's GDP also changed. In 2009/10, the share of agriculture in GDP increased from 23.6 percent to 26.2 percent, that of industry reduced from 24.9 percent to 18.1, and that for services increased from 45.5 percent to 48 percent. The impact on key macro indicators is also summarized in Box Table 2.

Box Table 1: Impact of GDP re-basing for selected countries

Country	Change in Base Year	GDP before revision (in US\$ billions)	GDP after revision (in US\$ billions)	Before/After Deviation	Gov. Dom. Revenue before revision (in % old GDP)	Gov. Dom. Revenue after revision (in % new GDP)	Gov. Dom. Revenue LICs' average 2006-2011 (in % of GDP)
Ghana	2006	12.09	19.79	63.7	21.9	13.4	13.0
Kenya	2009	30.70	37.00	20.5	24.0	19.9	13.0
Tanzania	2007	16.83	21.50	27.8	15.9	12.4	13.0

Box Table 2: Impact of GDP re-basing on Uganda's indicators FY 2012/13

% of GDP (unless stated)	Old series	New series	Sub-Saharan Average
Income per capita (current US\$, Atlas method)	\$510	\$673	\$1715
Financial depth (M2)	16.1%	13.9%	40.3%
Dom. Revenues	13.2%	11.5%	14.3%
Trade Openness	72.0%	62.6%	65.9%
Public Debt burden	30.1%	26.2%	N/A



New commercial buildings reshaping the face of Kampala. *Digital Media Network Ltd (2015)*

1.2. Recent economic developments

Uganda's record of prudent macroeconomic management has been tested in recent times. In the late 1980s, the country was among the first Sub-Saharan African countries to embark on liberalization and pro-market policies. Real GDP growth averaged seven percent per year in the 1990s and the 2000s. During this period, a stable macroeconomic environment and sustained private sector-oriented reforms led to Uganda becoming a mature reformer in 2006. However, since 2006, the country has witnessed an increased level of economic volatility and a lower rate of economic expansion. A series of exogenous shocks, including those associated with the secondary effects of the global economic crisis, bad weather and surges in international commodity prices, resulted in a deceleration in the rate of growth. In addition, slippages in fiscal management around 2011 created some instability in prices and to growth outcomes.

Over the past year, even though shocks have abated and policy stabilized, the rate of growth is still lower than the recent historical average. On average, the economy has been growing at a rate of 5.5 percent since FY 2009/10, compared to the historical average of 7 percent. After the adjustments to fiscal and monetary policy during FY 2011/12, macro stability was restored, characterized in particular by a lower and less volatile rate of inflation. However, despite a greater degree of macro-stability, growth in the economy remained sluggish. In fact, FY 2012/13 recorded the lowest growth rate in two decades, at 3.3 percent, partly on account of the slow take off of investment projects and the freeze to budget support by development partners. In FY 2013/14, the economy recovered somewhat, growing at a rate of

4.5 percent. This increase was supported by a benign economic environment, characterized by low rates of inflation, better harvests, and favorable global commodity prices. If growth continues at such low rates, it may be take at least another 8 years for Uganda to achieve an increase in its average per capita income from the current level of US\$ 706 to US\$ 1045, and thus achieving middle income status.

Despite these challenges, Uganda has committed itself to achieving the vision of becoming a middle income country within the next five years. To do so, the Government's investment program aims to address constraints to growth. This complements other national policies and strategies that focus on various aspects of economic transformation. But above all, Uganda must be more strategic in effectively identifying and rejuvenating its engines of growth to achieve this vision.



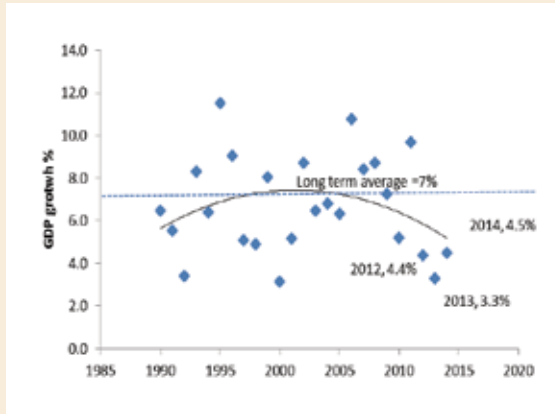
A busy Mukono town centre bringing benefits to residents. *Digital Media Network Ltd, (2014)*

1.2.1 Disappointing growth, despite the return of stability

Uganda's rate of economic growth in FY 2013/14 was lower than expected. Although corrective adjustments to monetary and fiscal policies and the reduced impact of exogenous shocks should have stimulated the economy, economic activity was sluggish during the first half of the financial year, with GDP recording an average rate of growth of 0.9 percent per quarter. This rate of growth increased somewhat during the second half of the year,

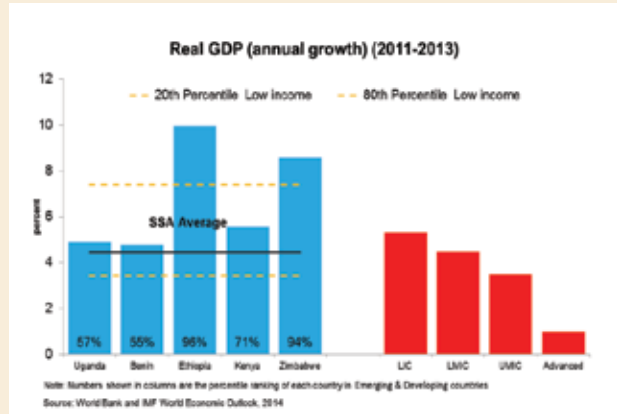
so that the overall annual rate of growth in FY 2013/14 stood at 4.5 percent. Although this is significantly higher than the figure of 3.3 percent recorded in FY 2012/13, it is still low compared to Uganda's average rate of growth of seven percent during 1990s and 2000s. It is also lower than the rate achieved by comparator countries and other low income countries (see Figure 1 and Figure 2).

Figure 1: Uganda's recent growth lower than long term average



Source: Bank of Uganda

Figure 2: Uganda's recent growth performance lower than comparators'



Source: Bank of Uganda

With the level of private investment declining significantly, the public sector remained the biggest driver of growth in FY 2013/14. Over the year, the Government significantly accelerated the implementation of infrastructure development projects. This led to a strong increase in the rate of growth of public investment, with the rate over the year standing at 26 percent in real terms. The total value of public consumption increased by 13.9 percent in real terms, significantly higher than the rate of growth in private consumption, which stood

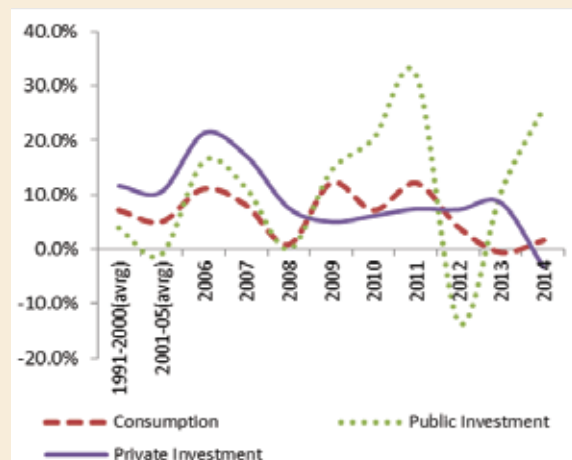
at 0.3 percent. Even more disappointingly, private investment contracted, with a rate of growth of -3.3 percent. In particular, there was contraction in the value of investments in machinery and equipment, with a recorded growth rate of -15.1 percent during FY 2013/14. A combination of demand- and supply-side factors, including the high interest rates; the disruptions in the market for produce and increased uncertainty resulting from the instability in South Sudan; and declining international commodity prices, lowered incentives for private sector investment.

Figure 3: Agriculture and services stagnated, as construction deceleration offset meager improvement in manufacturing during FY 2013/14



Source: Bank of Uganda

Figure 4: Government investment drove growth as private sector investments lulled



Source: Bank of Uganda

Over the year, the contribution of the agricultural sector to overall economic value-added stood at 25 percent, even after factoring in the additional three percentage point increase resulting from the rebasing exercise. The slight decline in the sector's contribution to growth represents a continuation of the ongoing decline in the sector's performance. The total value of the output of this sector declined by 0.1 percent during the first quarter of FY 2013/14, largely as a result of the delayed rainy season. Later in the year, activity in the agricultural sector accelerated slightly, as weather patterns normalized. In fact, credit to the sector also picked up significantly, growing by 36 percent during FY 2013/14, the second largest rate of increase after that of loans for personal and household use. This increase in the value of credit subsumed by this sector raised its portion of the total value of credit to the private sector to 9.8 percent, up from 6.5 percent two years ago. However, overall output growth in this labor-intensive sector increased by only 1.5 percent during the year, a far lower rate than the overall rate of growth of the economy. Despite this low level of growth to overall output, this sector still provides employment to more than three quarters of the workforce. According to the Uganda National Household Survey 2013/14, 34 percent of the working population derives an income from employment in the agricultural sector, while an additional 43 percent of the working population is involved in subsistence production.

With the rebasing of the economy, the contribution of the services sector to overall economic value increased by 2.5 percentage points, while the contribution of industry decreased by almost 7 percentage points. The services sector makes the largest contribution to overall economic value, contributing 47 percent in FY 2013/14. The services sector grew at a rate of 4.2 percent during FY 2013/14, only 0.2 points higher than the rate of growth recorded in the previous year. Within this sector, growth was mainly driven by the transport and communication, hotels and restaurants and real estate sub-sectors. The industrial sector makes the smallest contribution to the overall economic value, at 21 percent. Within this sector, the contribution of the manufacturing sub-sector increased by 2.8 percent, following a contraction of -2.5 in the previous year. The contribution of the construction sub-sector increased by 5.7 percent, compared to the rate of growth of 10.8 percent recorded in the previous year.

Overall, the rate of growth of industrial output remained at the same level of 4.3 percent as last year.

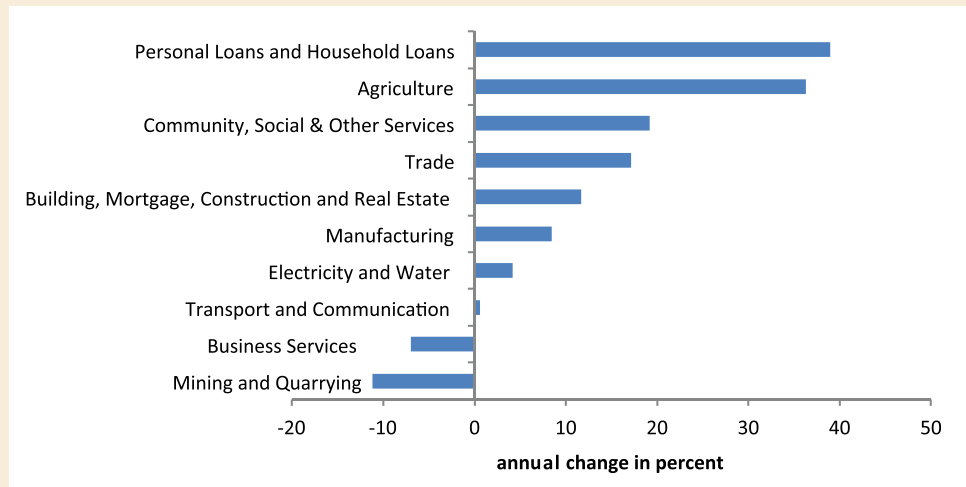
Unfortunately, both the industrial and services sectors have created only a limited number of jobs, with both these sectors being relatively capital intensive.

According to the latest Uganda National Household Survey, which was conducted in FY 2013/14, 22 percent of the population derives a livelihood from involvement in the services sector, with the largest proportion being involved in trade. The manufacturing sector provides employment to approximately 5 percent of the working population, while the construction sector provides employment to an additional 2 percent. With the exception of the mining sector, the bulk of jobs within the services and industrial sectors are concentrated in urban areas. The consistently higher-than-average rate of growth of employment in these sectors explains the relatively rapid rate of reduction of poverty in urban areas and the accelerated pace of migration from rural to urban areas. These two phenomena have a significant impact on Uganda's economic and social transformation, as will be discussed in detail in later sections of this update.



A street in Kampala with workers on the run.
Digital Media Network Ltd (2014)

Figure 5: Lending to agriculture grew almost as much as that for personal and household use



Source: Bank of Uganda

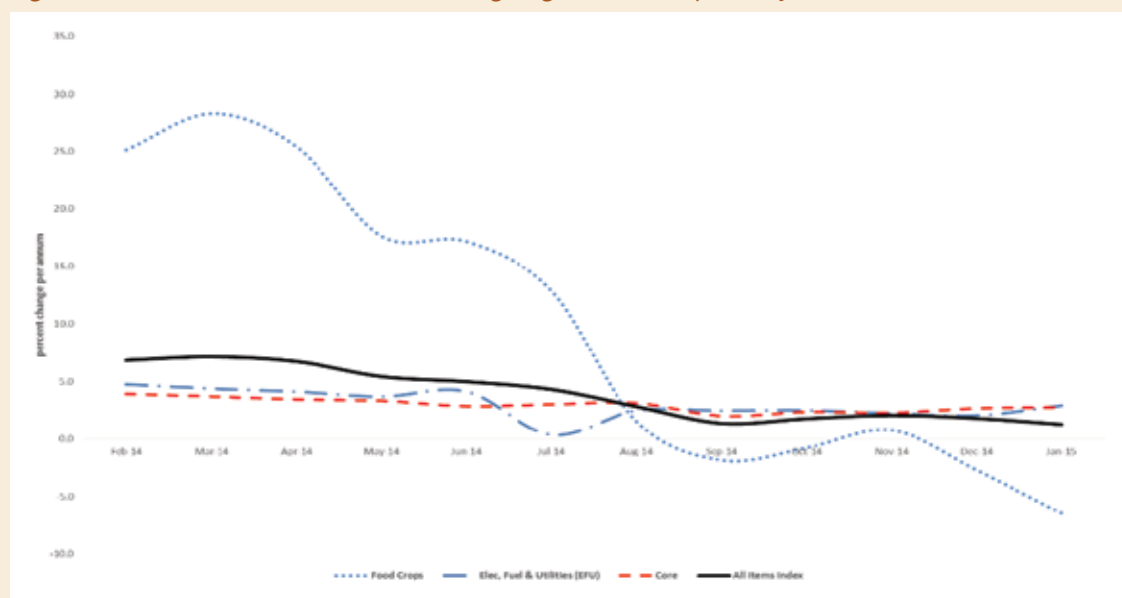
1.2.2 A neutral monetary policy stance despite receding inflation

Despite some increases over the last one and a half years, the rate of inflation has remained relatively low, largely due to improvements in the weather and the decline in international commodity prices. In FY 2012/13, the average rate of inflation stood at a record low of 3.6 percent. In the first six months of FY 2013/14, this rate of headline inflation increased significantly to a peak of 8.5 percent, as delayed rains and modest surges in international commodity prices placed pressure on food and energy prices. During the second half of the fiscal year, with a normalization in weather patterns, Uganda's first rainy season occurred in the period from March to June. The volume of rain over the year was relatively high, resulting in a bumper harvest. As a consequence, even as the rate of food crop inflation increased to 28 percent per annum by March 2014, this rate remained on a downward trend until the end of

the year. The average price for other consumer goods, including electricity, fuel and other utilities, recorded a modest increase of 4.1 percent over FY 2013/14, in spite of the decline in international oil prices; a stable energy supply; and a sustained appreciation in value of the shilling to UGX 2,474 to the dollar by February 2014. This value was seven percent higher than at the same point in the previous year. With the normalization of both weather patterns and international commodity prices, and as a result of a cautious adjustment to monetary policy, the overall headline inflation rate maintained its downward trend to reach five percent by the end of the fiscal year. This trend has continued in the current fiscal year. By December 2014, the food crop price was 1.9 percent lower than it was a year ago, while the annual headline inflation rate had decreased to 1.4 percent, its lowest figure since 2010.

The average price for other consumer goods, including electricity, fuel and other utilities, recorded a modest increase of 4.1 percent over FY 2013/14, in spite of the decline in international oil prices; a stable energy supply; and a sustained appreciation in value of the shilling to UGX 2,474 to the dollar by February 2014.

Figure 6: Inflation remained stable even during surges in food crop in the year before



Source: Uganda Bureau of Statistics

With reduced pressures on prices, it was not essential to implement an aggressive monetary policy. Rather, policy makers made limited adjustments to monetary policy to avoid reigniting inflation through volatility in food prices and the exchange rate.

The Central Bank responded to inflationary pressures during the first quarter of the year by increasing the Central Bank Rate (CBR) by one percentage point to 12 percent in September 2013. Following this, the Bank of Uganda revised the CBR in November 2013 and in June 2014, to gradually adjust the rate back to 11 percent, the level at which it stood at the beginning of FY 2014/15. The Bank of Uganda has since maintained the CBR at the same level, despite the decline in the rate of inflation and despite a slower rate of growth than had been anticipated. The degree of caution expressed by the Bank of Uganda is comprehensible in the context of demand-side pressures resulting from an increase in Government expenditure; a weaker Ugandan Shilling; and adjustments to electricity tariffs. As programmed, fiscal expenditure increased by 53 percent during the

first quarter relative to the corresponding period in FY 2013/14. The value of the shilling relative to the dollar depreciated significantly since February 2014, declining by six percent during the past eight months. This decline was largely due to the scaling down of the US Federal Reserve's quantitative easing program, the decline in the value of exports; and the decline in aid inflows; and. In addition, in October 2014, Uganda's Electricity Regulatory Authority (ERA) announced a marginal increase to the unit price for electricity, with this increase amounting to approximately 0.1 percent. While this adjustment may have limited direct effects on consumers of electricity, it could have indirect effects on prices of manufactured goods later. Moreover, with the food crop sector still accounting for 27 percent of the Consumer Price Index (CPI) basket, supply-side factors, such as the sector's low level of productivity and exposure to weather hazards, constrain the response of supply to monetary policy actions and increase price volatility, making long-term projections on inflation more difficult and thus complicating decisions related to monetary policy.

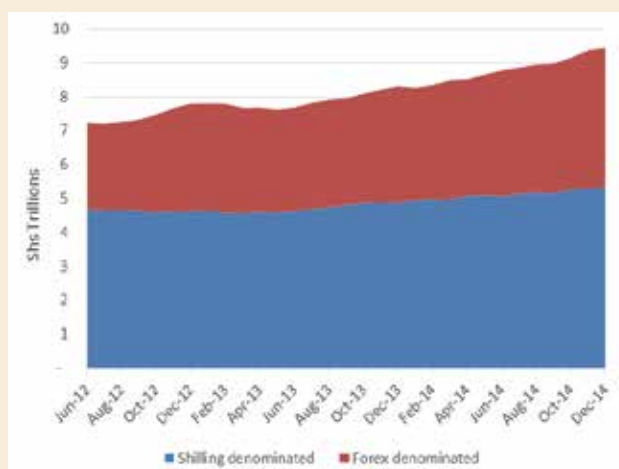
The degree of caution expressed by the Bank of Uganda is comprehensible in the context of demand-side pressures resulting from an increase in Government expenditure; a weaker Ugandan Shilling; and adjustments to electricity tariffs

Figure 7: Neutral policy stance attracted nil adjustment in interest rates



Source: Bank of Uganda

Figure 8: Foreign currency denominated loans gained more share in total domestic private sector credit



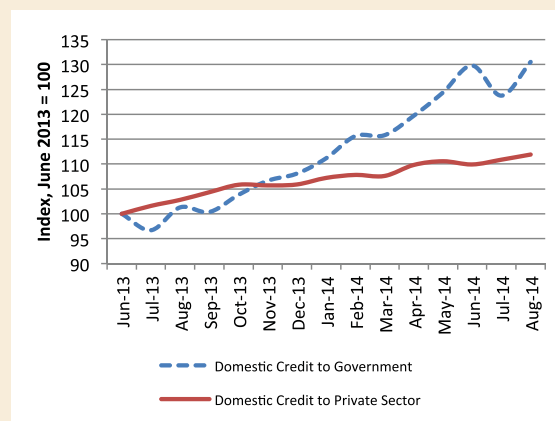
Source: Bank of Uganda

The reduction in the Bank of Uganda’s policy rate was not sufficient to make a significant impact on lending rates, and the servicing of loans declined slightly. Throughout the year, the average lending rates on shilling denominated loans continued to remain at a constant level, at around 21-22 percent. The total value of credit extended to the private sector increased by 13.9 percent, compared to an increase of 6.6 percent in FY 2012/13. Due to these persistently high interest rates, borrowers have shown a tendency to prefer loans denominated in foreign currency. Thus, the total value of foreign currency loans increased by 22 percent in FY 2013/14, while the value of loans denominated in the Ugandan Shilling increased by only 9 percent. Since the Bank of Uganda drastically increased interest rates in FY 2011/12 to prevent inflation spiraling out of control, the value of outstanding foreign currency loans as a share of outstanding credit to the private sector has continued to rise steadily, reaching almost 42 percent by August 2014. In terms of quality, between five and six percent of the loans have also not been serviced appropriately during the year. Hence, the ratio of non-performing loans has increased from 4 percent by the end of FY 2012/13 to a peak of 6.2 percent during FY 2013/14.

The large public expenditure program could be starting to reduce the degree of access to credit by the private sector. The relatively moderate increase

in the volume of domestic credit to the private sector contrasts with the very large expansion in domestic credit to the Government. In contrast to the modest increase in the value of credit provided to the private sector, with this increase reaching 13.9 percent during FY 2013/14, commercial banks increased the value of domestic credit to the Government by 30 percent in FY 2013/14. This has continued to increase rapidly during the first quarter of FY 2014/15, during which period it grew at the rate of 36.4 percent per annum.

Figure 9: Growth of credit to public sector at the expense of private sector



Source: Bank of Uganda

1.2.3 Strong external position, but export of goods underperformed

Uganda’s overall external position improved during FY 2013/14 as a result of the outstanding performance of the tourism sector; the decline in the value of imports; and robust FDI inflows.

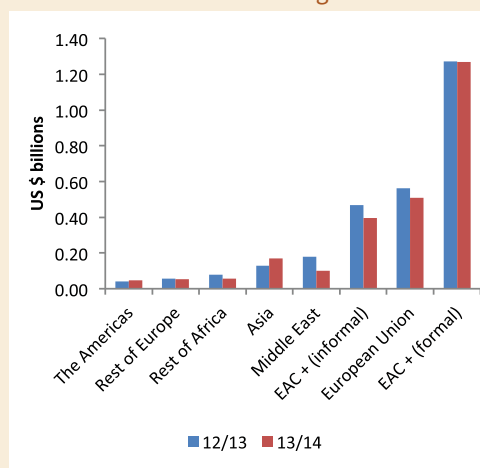
This allowed the country to maintain a sound reserves position, to a value equivalent to 4.7 months of imports of goods and services cover, even as official development aid inflows continued to decline.

During FY 2013/14, the value of merchandise exports declined by 6.7 percent. However, at the same time, the trade balance deficit improved from a value equivalent to 10.3 percent of GDP to 9.7 percent.

The decline in the value of merchandise exports was mainly a consequence of the reduced level of demand from Uganda’s export markets, including markets in South Sudan and the Eastern DRC, which have been affected by instability since 2013, and in Europe, where recovery from the recession has been slow. Uganda’s three biggest markets are the East African region (including Burundi, DRC, Kenya, Rwanda, South Sudan, and Tanzania), the EU, and the Middle East. Together, these markets purchased a

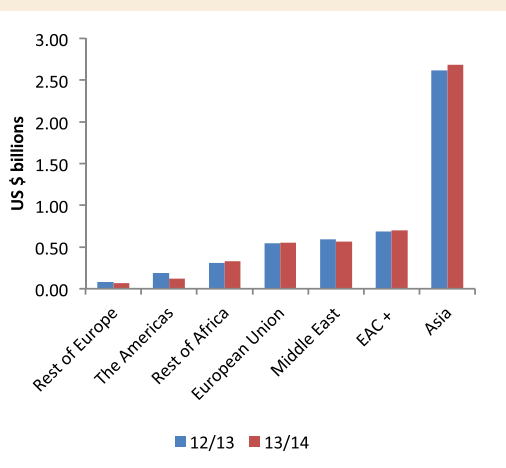
lower value of goods from Uganda during FY 2013/14 than they did in FY 2012/13. More than 50 percent of the total decline in the value of exports resulted from the lower value of exports of fish (23 percent), cement (13 percent), coffee (7 percent) and cotton (7 percent). In contrast, the value of imports of merchandise increased by less than 0.1 percent during FY 2013/14. This was largely due to a reduction in the Government’s imports bill by 17.6 percent. This reduction was partly due to delays in the implementation of several key infrastructure projects, including the Karuma and Isimba hydropower projects, and the decline in official development aid inflows, which are often used to finance the Government’s import bill, given a significant component of such imports is on account of projects funded by development assistance. Conversely, the value of private sector imports increased slightly, by 1.7 percent. However, this increase was not sufficient to offset the decline in Government imports. In fact, the value of private sector imports of capital goods also fell by 5 percent, from the equivalent of US\$ 1,229 million to US\$ 1,162 million. This decline was in line with the overall contraction in the value of private investment.

Figure 10: The bulk of merchandise exports find market within the EAC region



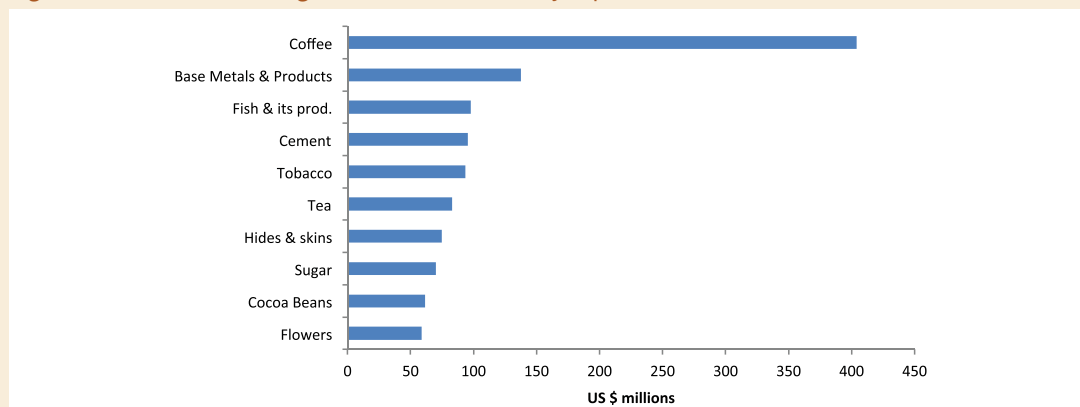
Source: Bank of Uganda

Figure 11: The bulk of merchandise imports come from Asia



Source: Bank of Uganda

Figure 12: Coffee remains Uganda’s main commodity export earner



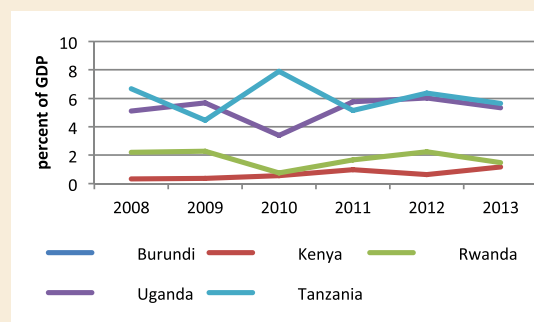
Source: Bank of Uganda

The outstanding performance of the tourism sector boosted the overall export of services and helped the current account deficit to improve from a value equivalent to -7.0 percent of GDP to -6.6 percent in the period from FY 2012/13 to FY 2013/14, despite decreases in private transfers, mainly in form of remittances. With the contribution of the tourism sector, the total value of exported services grew significantly, at a rate of 26.5 percent in FY 2013/14. The bulk of this growth came from tourism receipts, the value of which increased by 27.8 percent. With this increase, the tourism sector has become Uganda's largest earner of foreign exchange. By contrast, the total value of official transfers decreased by more than 40 percent, from US\$ 343 million in FY 2012/13 to US\$ 205 million in FY 2013/14. This decrease represents a continuation of trends observed over the recent past years, as some development partners suspended or redirected development assistance with the decline exacerbated by the enactment of the Anti-Homosexuality Bill in December 2013. The value of private transfers also decreased, with the total value of remittances falling by 4 percent over the fiscal year. It is possible that this decrease was driven by the crisis in South Sudan, which is one of Uganda's largest sources of remittances, although the negative impact of this crisis was probably offset by the inflow of resources resulting from the increased influx of refugees from South Sudan. In terms of the income account, the total value of the repatriation of profits associated with FDI was 46.5 percent lower than in FY 2012/13, while income payments for portfolio investments declined on account of the lower rate of interest paid on securities. As a result, the overall deficit in the income account significantly declined over the year, from a value equivalent to -2.7 percent of GDP to -1.6 percent.

Up to 61 percent of the current account deficit was financed through FDI, with portfolio investment flows drying up and official borrowing decreasing. During FY 2013/14, Uganda received FDI amounting to a total value of US\$ 1,154 million. This was 14 percent higher than the US\$ 1,009 million received in FY 2012/13. The increase was primarily spurred by progress in the development of Uganda's oil and gas sector. With FDI inflows equivalent to an average value of 4.2 percent of GDP over the past five years, Uganda received a higher level of FDI than almost any other country in the East African Community (EAC). Other flows of capital are increasingly coming through the private sector, as official loan disbursements declined to US\$ 310 million in FY 2013/14, down from US\$ 540 million in the previous year. Portfolio flows

declined significantly for the two years of FY 2012/13 and FY 2013/14, as would be expected after returns on Government securities were reduced. Therefore, their value amounted to outflows of US\$ 1.2 million in FY 2013/14, compared to US\$ 265 million recorded during FY 2011/12.

Figure 13: Uganda has been one of the largest receivers of Foreign Direct Investment in the EAC



Source: United Nations Statistics Database

With the huge capital inflows, Uganda's foreign exchange reserves increased to a level sufficient to finance the import of goods and services for 4.7 months. With a high level of foreign exchange reserves, the value of the shilling appreciated for eight straight months throughout FY 2013/14. The appreciation in the value of the shilling in the context of a weak current account masked the sluggish performance of the export sector. If the appreciation had persisted, it could have had adverse consequences for exports performance. However, since March 2014, the value of the shilling has depreciated, with the value of imports increasing due to increased construction activities and due to the decline in aid inflows and to the increase in foreign interest rates.



A container depot supporting trade flows, Industrial area, Kampala, Sheila Gashishiri (2013)

1.2.4 Key public investments postponed again, failing fiscal policy targets

Over the past two years, fiscal policy has failed to meet its projected objectives of stimulating the economy through higher overall expenditure and increased emphasis on capital expenditures. After the fiscal adjustment in FY 2011/12, the Government aimed to increase emphasis on capital expenditure to address the existing infrastructure deficits, which continue to be a major constraint to private sector development. Shortfalls in expenditure, the value of which has amounted to the equivalent of one to three percentage points of GDP since FY 2012/13, have been at the expense of capital expenditures, while recurrent expenditures have been implemented as planned. Therefore, the desired shift in expenditure has not yet materialized.

In FY 2013/14, the Government missed both revenue and expenditure targets. Parliament gave approval to the Government for expenditure to a value equivalent to 19.1 percent of GDP during FY 2013/14, with the bulk of these funds being allocated for investments in infrastructure¹. At the same time, the value of funds allocated for recurrent expenditure was only increased marginally, by 0.3 percentage points in the period from FY 2012/13 to FY 2013/14. On the other hand, the Government had projected an increase in domestic revenues by a value equivalent to approximately 0.3 percentage points of GDP, to reach a level equivalent to 12.8 percent of GDP. Neither the revenue nor the expenditure targets were however achieved. Actual spending was below target by a figure equivalent to approximately 2.4 percentage points of GDP. In terms of revenues, the total value of collected revenues amounted to the equivalent of only 11.9 percent of GDP, with the Uganda Revenue Authority (URA) recording a shortfall in the collection of taxes amounting to UGX 548.7 billion. In general, Uganda's performance in terms of tax revenues has been worse than any of its peers in the EAC, a situation that has been exacerbated by the stronger GDP base, following the rebasing exercise.

The underperformance in the area of revenue collection was largely due to shortfalls in corporate tax collection. Over the course of FY 2013/14, the collection of corporate tax fell short by UGX 304 billion. This was due to the fact that many businesses recorded

losses due to the decline in export earnings resulting from the ongoing conflict in South Sudan. At the same time, banks' profits declined due to the impact of regulatory prudence. During the year, the Bank of Uganda obliged banks to write-off non-performing loans that had accumulated since the spike in interest rates in 2012. The total value of value added tax was also UGX 206 billion lower than had been anticipated, largely as a result of the overall slowdown in economic activity.

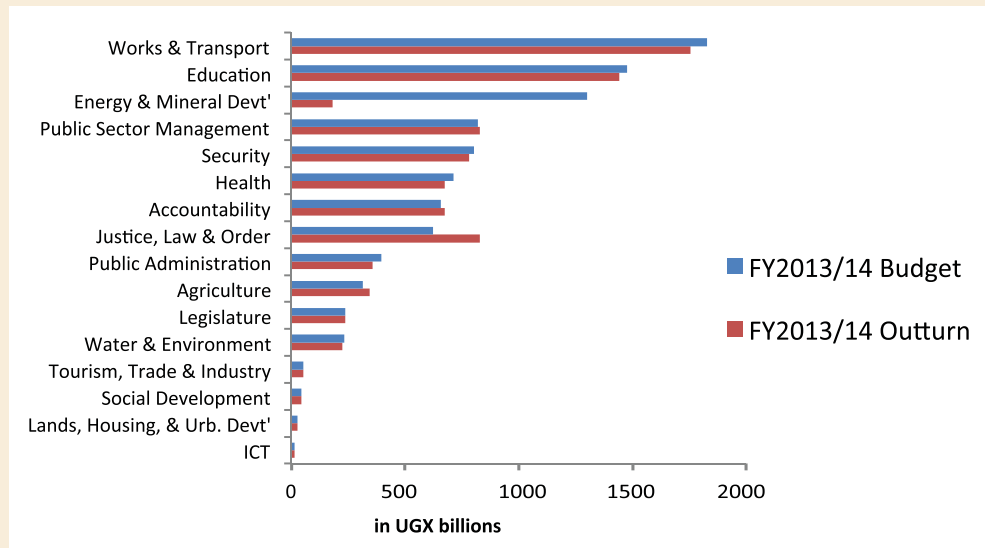
On the expenditure side, the usual recurring implementation challenges again affected two landmark projects. Due to capacity constraints, development and investment budgets have been heavily under-executed since FY 2011/12. During FY 2013/14, actual development and investment spending (excluding foreign projects) fell short of allocated budgets by a factor of approximately 25 percent, compared to 37 percent a year earlier. In FY 2013/14, the performance was even worse for the donor funded development budget, which was 33 percent lower than its initial allocation. However, it should be noted that most of the under-execution of the domestic development and investment budget in FY 2013/14 was on account of delays to the implementation of two landmark hydro power plant projects, the Karuma and Isimba projects. This delay was mainly on account of the authorities' decision to change the financing modality of these two large scale projects, which will now be partly financed through a non-concessional loan from the Exim Bank of China, with this loan covering 85 percent of the project costs.

The delays to the Karuma and Isimba hydro power projects negated improvements to the execution of other domestically funded projects. In fact, for the development budget of the transport sector, which accounts for 30 percent of the overall development program, performance exceeded expectations. Consequently, the domestic development and investment budget excluding the two landmark projects was over-executed by 1.4 percent.

Recurrent expenditures exceeded their budgeted allocation by a value equivalent to 0.4 percentage points of GDP in FY 2013/14, largely due to the

¹ This acceleration of infrastructure spending is consistent with the trend observed since the inception of the National Development Plan in FY2010/11, with Government aiming to substantially increase the allocation for the development budget. On average, this allocation has grown in nominal terms by 23.5 percent per year over the past 5 years.

Figure 14: Energy and mineral development sector failed to achieved budget objectives in FY 2013/14



Source: Ministry of Finance Planning and Economic Development

Government’s decision to increase unplanned security-related spending. Most sector spending remained within a 10 percent range of the initially budgeted allocation. Supplementary spending reaching a value equivalent to 0.5 percent of GDP was used to support the intervention in the South Sudan, down from the equivalent of 1.3 percent a year earlier. With these developments, the level of in-year reallocations of expenditure has been reduced significantly, contributing to increased predictability and improved integrity of the budget.

However, despite these improvements in budget execution, fiscal policy should have been more responsive to the shortfall in domestic revenues mobilization. The lower than projected collection

of revenue was not accommodated by a reduction in non-Hydro Power Plant (HPP) spending, forcing the Government to significantly increase domestic borrowing to finance the deficit. This increase in domestic borrowing was necessary because the resources for financing the HPP landmark projects had been ring-fenced and hence could not be used for other purposes. With the other expenditures executed as planned, the Government’s fiscal position was therefore very tight during FY 2013/14. Consequently, domestic borrowing increased to a value equivalent to 14.2 percent of GDP compared to a value equivalent to 8.8 percent two years ago. This high level of borrowing on Uganda’s thin domestic capital market could be a contributing factor to Uganda’s continued high interest rates.



Construction works, a key economic activity for new workers in urban areas, *Digital Media Network Ltd (2014)*

The deficit was lower than planned because overall expenditure was lower than anticipated. However, this was exclusively due to delays in the implementation of the landmark projects.

The overall deficit amounted to a value equivalent to -3.8 percent of GDP, which was lower than the budget target of -5.0 percent, but slightly higher than the figure of -3.6 percent recorded in the previous year. Despite the lower than budgeted fiscal deficit, its financing faced challenges because the underlying balance, which excludes one-off investment items such as the HPP projects, was 0.3 percent points higher at the end of the year than envisaged during budget preparation, due to the shortfall in tax revenues. The higher underlying balance caused the deficit to be much more heavily financed through domestic borrowing than had been originally foreseen. Meanwhile, the lower than expected level of external financing and the lower drawing down on Government savings was the result of the underperforming HPP projects.²

At the end of FY 2013/14, the Government reported low public debt ratios by both regional and international standards. In line with its debt strategy, new external borrowing has mainly been contracted to finance infrastructure-related projects, including for the development of energy and transportation

infrastructure. Such borrowing has been contracted on highly concessional terms, with by far the most significant proportion of these loans being sourced from the International Development Association (IDA) (59.5 percent) and other multilateral agencies (29.7 percent). In order to finance the huge infrastructure development program, the Government has also planned to contract non-concessional loans amounting to a value worth US\$ 2.2 billion during FY 2013/14. These loans have yet to be disbursed, due to delays in the implementation of projects. However, the value of public sector external debt increased from US\$ 3.7 billion (equivalent to 15.2 percent of GDP) in FY 2012/13 to US\$ 4.2 billion (equivalent to 16.0 percent of GDP) in FY 2013/14. Over the same period, the level of domestic debt also increased, from a value equivalent to 11.0 percent of GDP to a value equivalent to 14.2 percent. Therefore, the total value of public domestic and external debt was estimated to have reached the equivalent of 30.2 percent of GDP by the end of FY 2013/14, and the debt service ratio has risen fast, from 29 percent to 40.8 percent of domestic revenues in the period from FY 2011/12 to FY 2013/14, due to the relatively low level of revenues and the short maturity of domestic debt. The debt service ratio remains below the threshold level of 300 percent³, but these factors raise financing risks.

Figure 15: Public Debt Stock crippling upwards

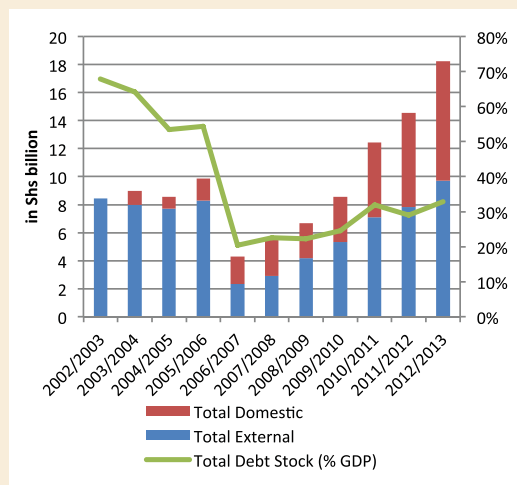
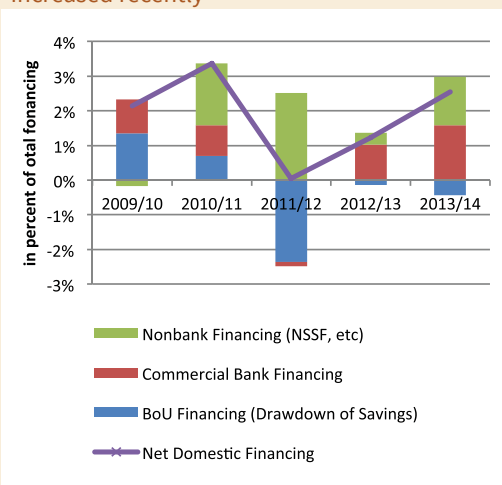


Figure 16: Domestic financing of the budget has increased recently



Source: Ministry of Finance Planning and Economic Development

² The delayed construction of Karuma hydro project should have been self-offsetting because of the way it was to be financed. In 2010 Heritage Oil sold its exploration license in the Albertine Region to Tullow Oil for a total US\$ 1.5 billion. This resulted in the payment of a capital gains tax of US\$ 434 million to the Government. This was used to accumulate Government savings, which were earmarked for the construction of the Karuma dam hydro project. Therefore, in the approved budget for FY 2013/14, which had anticipated construction of the dam to commence, Uganda's authorities had planned to finance part of the deficit through a drawing down on these savings. The postponing of major construction work at the Karuma site implied that the savings would not be drawn down during FY 2013/14.

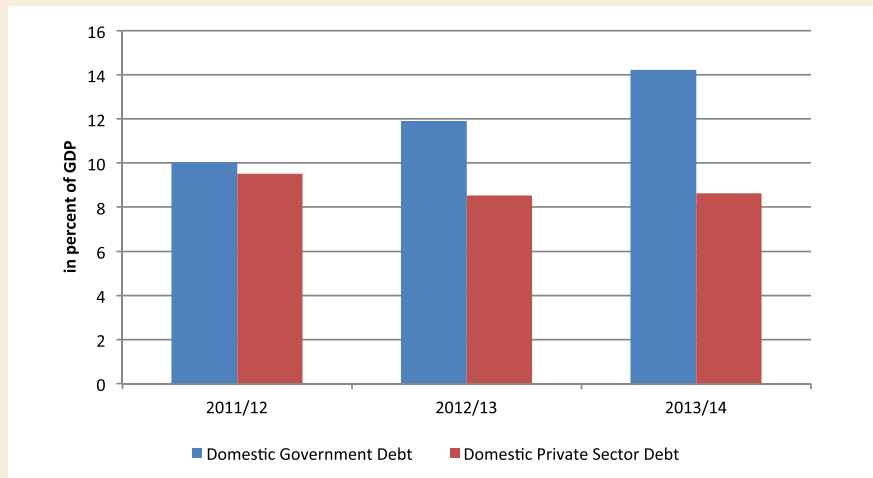
³ The World Bank's Country Policy and Institutional Assessment (CPIA) ranks Uganda as a "strong performer." Debt burden thresholds for strong performers are NPV of debt to GDP ratio of 50 percent, NPV of debt-to-exports ratio of 200 percent, NPV of debt-to-revenue ratio of 300 percent, debt-service-to-exports ratio of 25 percent, and debt-service-to-revenue ratio of 35 percent.

A high level of borrowing on Uganda’s thin domestic capital market could result in the reduction of private investment by pushing up interest rates.

As the Government increased its level of dependence on domestic loans to finance the budget, the share of domestic debt to GDP increased to more than 14.2 percent during FY 2013/14, up from 11.0 percent at the end of FY 2012/13. As a result, constituting 7.8 percent of the budget, the allocation of financial resources for interest payments is equivalent to the total value of allocations to the health sector. Moreover, the high

level of domestic debt has an impact on interest rates and credit. The fact that the level of the issuance of Government securities was far higher than had been planned could be one of the reasons why commercial banks have been reluctant to significantly reduce lending rates, despite the Bank of Uganda gradually reducing the CBR over the past two years. In fact, total private sector credit, denominated in shillings, has been declining since FY 2011/12, from the equivalent of 8.2 percent of GDP to the equivalent of 7.6 percent in FY 2013/14.

Figure 17: Domestic Government Debt vs. Domestic Private Sector Debt (in % of GDP)



Source: Ministry of Finance Planning and Economic Development

For the fiscal year 2014/15, the Government again announced its intention to accelerate public expenditure to address Uganda’s infrastructure deficit and to invest in the development of human capital. According to the approved budget, the level of expenditure during FY 2014/15 is expected to increase by 20.5 percent from the levels obtained in FY 2013/14. Of this expenditure, 29 percent will be allocated for the development of transport and energy infrastructure. In terms of the development of social and human capital, the allocation to the education and health sectors constitutes the largest share of Government expenditure, at 13 percent and 9 percent respectively.

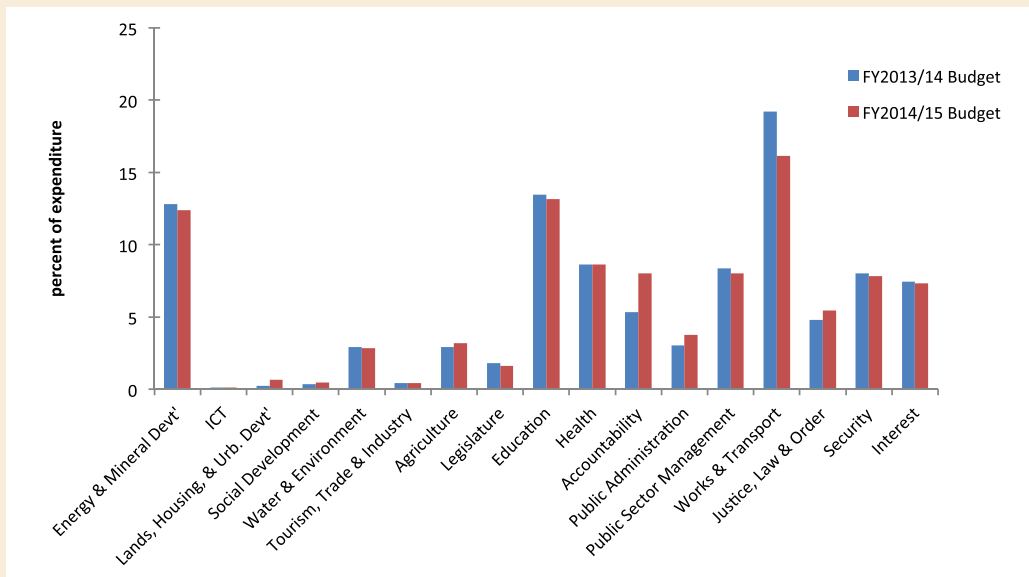
To finance increased expenditure, the Government intended to increase the value of collected taxation revenue. On the back of revenue shortfalls during FY 2013/14, the Government announced a series of tax measures in June 2014 aimed at simplifying the tax regime, removing distortions, and broadening the tax base. These measures were expected to generate additional revenue equivalent to a value of around

UGX 450 billion and to raise the share of domestic revenue from the equivalent of 11.9 percent of GDP to 12.7 percent by June 2015.

According to the approved budget for FY 2014/15, the overall fiscal deficit is expected to increase to a value equivalent to -6.4 percent of GDP, to be financed to an equal extent by domestic and external financing.

Part of the financing is expected to come from the domestic savings accumulated from oil-related capital gains tax, with these funds being earmarked for the development of the Karuma project. In addition, foreign borrowing has been negotiated for non-concessional loans from the Exim Bank of China for the construction of the Karuma and Isimba projects. With these loans, the value of external financing has increased to the equivalent of 2.6 percent of GDP. With this increase in the value of external financing, the Government plans to reduce the issuance of domestic debt for fiscal purposes from a value of UGX 1,715 billion (equivalent to 2.7 percent of GDP) in FY 2013/14 to UGX 1,498 billion (equivalent to 2.2 percent of GDP) in FY 2014/15.

Figure 18: Sector allocations of the FY2014/15 budget continued to favor transport, energy and education



Source: Ministry of Finance Planning and Economic Development

The Government has also included a contingency reserve equivalent to 0.2 percent of GDP in the budget, which will greatly strengthen its credibility.

The contingency reserve will mainly be used to compensate for revenue shortfalls, overruns in the recurrent budgets, and other unforeseen expenses at the time of budget formulation. This will help prevent the continued build-up of arrears, the value of which reached UGX 790 billion by the end of FY 2013/14, up from UGX 605 billion at the end of the previous year. It should also help to address the recurrent problem of supplementary requests due to poor budget planning, which in the past has often resulted in in-year transfer of resources from development budgets to recurrent budgets.

During the first half of FY 2014/15, implementation of the budget has faced the now familiar issues of delays that may result in under-execution. First,

the budget was approved only after a long delay as Parliament reassessed a number of measures, particularly the proposed new tax measures. Even though expenditure for the first quarter could proceed on 'vote on account', the delay created a degree of uncertainty regarding allocations for a number of Government agencies, especially for the second quarter. Second, the large infrastructure projects are yet to be implemented. The funding for the Karuma hydro power project has started disbursing from the earmarked domestic savings. At the same time, negotiations between the Exim Bank of China and the Government for loans to finance 85 percent of the project are yet to be concluded. Furthermore, there are still uncertainties regarding the public component of the financing for the oil refinery, making it difficult for private companies to make decisions regarding their level of involvement.

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Table 1: Fiscal framework FY 2009/10 to FY 2014/15

				FY2013/14	FY2013/14	FY2014/15
In percent of GDP	FY2010/11	FY2011/12	FY2012/13	App. Budget	Proj. Outturn	App. Budget
Revenues and grants:	15.3	13.1	12.9	14.1	13.0	14.1
Domestic revenues	13.4	11.1	11.5	12.8	11.9	12.7
o/w Tax revenues	10.5	10.0	11.0	12.5	11.7	12.2
Grants	1.9	1.9	1.5	1.3	1.0	1.5
Total expenditure	18.9	15.6	16.4	19.1	16.7	20.5
Recurrent	12.7	9.4	9.1	9.4	9.8	9.8
Development & Investment	5.9	5.8	6.6	9.7	7.0	10.5
External	2.2	2.9	3.4	3.7	2.4	4.1
Domestic	3.7	3.0	3.2	6.0	4.5	6.4
Arrears and Contingencies	0.0	0.0	0.0	0.0	0.0	0.2
Underlying balance (excluding on-off items)	-3.7	-2.5	-3.6	-3.4	-3.7	-2.9
Overall balance	-3.7	-2.5	-3.6	-5.0	-3.8	-6.4
External Financing	1.2	1.9	2.3	2.3	1.3	2.6
Budget Support Loans	0.5	0.3	0.5	0.0	0.0	0.0
Project Loans (concessional)	1.0	1.8	2.1	2.7	1.6	1.5
Project Loans (non-concessional)	0.0	0.3	0.0	0.0	0.0	1.5
Amortization	-0.3	-0.3	-0.3	-0.3	-0.4	-0.4
Domestic Financing	2.4	0.1	1.1	2.6	2.3	3.8
Bank of Uganda (-/+ is saving/dissaving)	0.7	-2.0	-0.1	1.1	-0.3	1.8
Domestic Borrowing	1.7	2.1	1.2	1.5	2.6	2.0
	0.0	0.0	0.0			
Errors and Omissions (-/+ is gap/surplus)	-0.1	-0.5	-0.2	0.0	-0.2	0.0
Memorandum items:						
Nominal GDP (UGX billions)	47077.7311	59420.1214	63904.5797	68406.7	68406.7	75092.7
Public debt stock	26.5	22.0	26.2		30.2	33.5
o/w External	15.1	13.2	15.2		16.0	18.4

Source: World Bank staff calculations based on data from Ministry of Finance, Planning and Economic Development and the Uganda Bureau of Statistics

During the first quarter of FY 2014/15, the value of collected tax revenue fell short of the defined targets by 3.8 percent, mainly on account of lower than expected levels of revenue from taxes on international trade, with these taxes accounting for 45 percent of total tax revenue. The value of revenues

derived from income taxes levied on small and medium taxpayers was also lower than anticipated. The performance during the second quarter was much better, bringing total revenue collected during the first eight months to UGX 785.2 billion, which is at par with the target for the period.

2.0 Uganda's economic outlook

In the near future, Uganda's economy is expected to rebound, with growth resulting from continuing macroeconomic stability and the implementation of key infrastructure projects by the Government. However, with limited private investment, the extent of recovery will depend on how the Government manages to address delays in the implementation of these projects. In addition, the Government will have to maintain tight fiscal control in the context of low levels of revenue mobilization and of pressure to increase spending during the upcoming election period. Furthermore, a cautious monetary policy will remain vital in view of instability of the foreign exchange market that may pass through to domestic inflation. In the medium term, the economy is expected to benefit from investments intended to remove binding constraints to growth and from the realization of oil production. With these factors, Uganda may again achieve the high rates of growth that it has recorded in its recent historical past. However, there are also a number of risks to the economy, including declining commodity prices resulting from the poor state of the global economy; bad weather, which may have a detrimental effect on the agricultural sector; regional insecurity, which may affect Uganda's balance of trade; and the effects of the upcoming 2016 election on macro and fiscal management.

2.1 The overall economic outlook for Uganda is positive.

The World Bank forecasts that the Ugandan economy will grow at a rate of 5.6 percent per annum during FY 2014/15, if the public investment program is executed as planned.

This is a significant increase from the rate recorded in FY 2013/14, when the economy grew by 4.5 percent. The increase in the rate of growth in FY 2014/15 will be largely driven by the acceleration in public investment as the Government overcomes delays to the implementation of key infrastructure projects. With sustained macro stability; improvements in the investment environment; and a manageable cost of credit, the level of private investment could also increase significantly. According to UBOS quarterly GDP releases, the economy grew much stronger at by 2.1 percent during the first quarter, compared to 1.4 percent realized during the corresponding quarter of FY 2013/14.

Barring the occurrence of new significant exogenous shocks, the rate of inflation is expected to remain below 10 percent during FY 2014/15, despite the major increase in public expenditure and despite the widening trade deficit.

The recent protracted depreciation in the value of the Ugandan shilling may put upward pressure on domestic prices. By end-January 2015, the shilling had depreciated by 16 percent compared to its level at the same point in the previous year. Nonetheless, with the low international commodity prices, and in particular the energy prices, the rate of inflation is projected to remain

at moderate levels, particularly given the decline in international commodity prices and the normal rains in Uganda, which have had a beneficial impact on crop yields within the agricultural sector. The increase in expenditure on large infrastructure projects, such as the Karuma and Isimba dams, may also have only a limited impact on domestic inflation, given that these projects are mainly funded through external borrowing and that they have high import content. When external funding is spent on importing goods and services, the related spending by Government does not increase the amount of local currency money on the domestic market, and therefore does not require authorities to issue extra securities to maintain monetary equilibrium. The total value of Government securities issued during FY 2013/14 was greater than expected, with the issuance of domestic debt exceeding targets by 80 percent during this year.⁴ In the light of this, the Government resolved to reduce domestic debt to moderate upward pressure on the cost of credit, which might crowd out of the private sector to an even greater extent. Assuming that the Government abides by this plan to scale down the issuance of domestic debt, then interest rates are not likely to increase. Under these circumstances, monetary policy will remain cautiously neutral. As a result, and also catalyzed by the public sector activity, especially in the construction sector, less crowding out by the government, and no disruption to oil sector investment plans, private investment is expected to rebound strongly in FY 2014/15, growing by 22 percent,

⁴ Government had planned to issue Treasury bill equivalent to a value of UGX 1.0 billion during FY 2013/14. Instead, Treasury bills worth UGX 1.8 billion were issued to close the funding gap.



Malaba border post supporting trade flows. *Sheila Gashishiri (2013)*

compared to the dismal performance in FY 2013/14, during which private investment contracted by more than 3 percent. The external current account balance is expected to remain weak on account of lower export earnings and a decline in the value of remittances, with commodity prices also forecast to decline throughout much of 2015. With the decline in the global economy exerting downward pressure on export performance, remittances and income flows, the current account deficit could increase to a level greater than the equivalent of around 7.7 percent of GDP in FY 2014/15. The figure recorded in FY 2013/14 stood at 6.6 percent.

Economic growth will largely be driven by growth within the construction and services sectors, as has been the case over the past decade. However, the rate of growth of the construction sector in particular is expected to accelerate rapidly.

The accelerated growth of the construction sector is expected to occur as a result of the increased investment in public infrastructure development and of increased private sector investment in the mining sector, with significant FDI inflows into the sector. Within the services sector, both the trade and the tourism sub-sectors are likely to record increased growth, although the tourism sub-sector remains highly sensitive to security issues in the Great Lakes Region and to perceptions of risk related to health and other social issues. Indeed, the impact of

perceptions of risk related to outbreaks of Ebola and Marburg hemorrhagic fevers in West Africa confirms the sensitivity of this sector to social, health and other perception issues. Within the industrial sector, the rate of growth of the manufacturing sector is projected to recover to reach an annual rate of growth of seven percent as financial conditions improve. The rate of growth of the agricultural sector is expected to reach approximately three percent in FY 2014/15, with long-term weather forecasts pointing to favorable climatic conditions and better rainfalls.

Fiscal policy is expected to focus on ensuring that fiscal prudence and macro stability is maintained in the context of the execution of huge infrastructure projects.

To offset the recent tax revenue shortfall, a significant strengthening of revenue collection will be required through the implementation of new measures to expand the tax base to increase revenues to a value equivalent to 12.7 percent of GDP. Assuming that the construction of Karuma and Isimba hydro power projects are implemented as planned, total expenditure will rise to a value equivalent to 20.5 percent of GDP, up from 16.7 percent in FY 2013/14. The budget for recurrent expenditure is expected to remain constant at the equivalent of around 10 percent of GDP, assuming the Government resists pressures to increase expenditure during the upcoming election period and curbs the use of supplementary budgets.

Table 2: Key Macroeconomic Indicators in the Outlook

	FY2010/11	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16	FY2010/11- FY2014/15
In percent of GDP				Prel.	Proj.	Proj.	Average NDP1
National Income and Prices							
Nominal GDP (billion UGX)	47,078	59,420	63,905	68,407	75,093	83,551	62,780
Nominal GDP (million US\$)	17,947	24,034	24,642	26,505	28,172	30,349	24,260
Nominal GDP p.c. (US\$)	562	731	727	759	783	819	713
Real GDP Growth	9.7%	4.4%	3.3%	4.5%	5.6%	6.4%	5.5%
Real GDP per capita	6.5%	1.3%	0.2%	1.4%	2.5%	3.3%	2.4%
Deflator (GDP)	4.8%	20.9%	4.1%	2.4%	3.9%	4.6%	7.2%
Deflator (Private Consumption)	5.7%	19.0%	2.4%	4.6%	0.1%	-0.6%	6.4%
National Accounts (real growth)							
Gross Public Investment	32.0%	-13.4%	10.5%	26.0%	53.3%	-7.4%	21.7%
Gross Private Investment	7.4%	7.3%	8.5%	-3.3%	21.6%	8.5%	8.3%
Public Consumption	45.8%	-30.0%	-4.2%	13.9%	11.0%	8.2%	7.3%
Private Consumption	7.8%	9.9%	0.2%	0.3%	-1.6%	3.7%	3.3%
National Accounts (in % of nominal GDP)							
Gross Public Investment	7.6%	6.5%	6.7%	8.0%	11.9%	10.6%	8.0%
Gross Private Investment	20.5%	21.4%	22.4%	20.5%	25.2%	27.2%	22%
Public Consumption	12.7%	8.2%	8.0%	9.1%	9.9%	10.3%	10%
Private Consumption	73.9%	76.6%	72.8%	71.3%	64.3%	59.7%	72%
Gross Domestic Saving	12.3%	12.6%	15.4%	15.0%	21.8%	25.3%	15%
Public Sector (in % of nominal GDP)							
Domestic Non-Petrol Revenue	11.1%	10.5%	11.5%	11.9%	12.7%	13.2%	11.5%
Petrol Revenue	2.5%	0.7%	0.0%	0.0%	0.0%	0.0%	0.6%
Grants	1.9%	1.9%	1.5%	1.0%	1.4%	1.0%	1.5%
Total Expenditure and net Lending	19.1%	15.6%	16.5%	16.7%	20.4%	19.4%	17.7%
Fiscal Balance incl. Grants	-3.6%	-2.5%	-3.5%	-3.8%	-6.4%	-5.1%	-4.0%
Balance of Payments (in % of nominal GDP)							
Trade balance (goods and services)	-14.8%	-12.9%	-10.3%	-9.7%	-11.3%	-7.8%	-11.8%
Current account balance, incl grants	-8.6%	-8.7%	-7.0%	-6.6%	-7.7%	-4.9%	-7.7%
Monetary Sector (in % of nominal GDP)							
Money and quasi-money	17.1%	13.0%	14.0%	14.9%	16.4%	17.5%	15.1%
Foreign Reserves and Debt (in % of nominal GDP)							
Gross Foreign Reserves (UGX billion)	5,362	6,536	7,553	8,822	8,082	8,255	7,271
Gross foreign reserves (months of imports)	3.6	4.1	4.4	4.7	4.4	4.3	4.3

Source: MFPED, UBOS, and BOU

The annual rate of economic growth is expected to accelerate to 6.4 percent in FY 2015/16, the uncertainties due to elections notwithstanding.

It is likely that similar rates will be achieved into the medium term future. In FY 2015/16, overall investment is expected to grow more moderately than during FY 2014/15 due to the uncertainty created by the general elections and the global economy; and the likely negative effect of a moderate rise in interest rates (around 2 to 3 percent higher than current levels) to contain demand side pressures emanating from high public spending. In the meantime, while the strong emphasis on investment is expected to lead to a slight decline in private consumption by around -1.6 in FY 2014/15, this is expected to accelerate again in FY 2015/16 when growth in investment declines. The strong acceleration in public investment will lead to a deterioration in the trade balance by 2 to 3 percent in FY 2014/15, improving again thereafter when public investment decreases to more sustainable levels.

This strong recovery and acceleration into the medium term is expected to be largely driven by the intensification of activities related to the oil sector, mainly in construction and services. The acceleration in the rate of economic growth will be driven by the growth of the services and construction sectors as the development of Uganda's oil fields in the Albertine region is intensified. It is expected that Uganda will receive

up-front investments to a total value of US\$ 8-12 billion over the next five years, with these investments being utilized to prepare the region for oil production. The agricultural sector is expected to continue to achieve a lower rate of growth than the overall rate of growth of the economy, due to the sector's supply-side constraints, which include lack of irrigation, insufficient fertilizer use, and outdated farming practices, amongst other issues. The manufacturing sector will continue to achieve high rates of growth, albeit starting from a low base. In addition, it is possible that increased activity will occur in agro-processing and other previously largely undeveloped sectors, given renewed interest on the part of both foreign and domestic investors. Though still only contributing to a small share of GDP, the mining and quarrying sector could be a significant source of further growth in coming years, as the sector's proven potential starts attracting increased attention from investors.

The achievement of a positive growth trajectory assumes prudent macroeconomic management, implemented to deliver stable prices and higher productivity dividends from the Government's huge investment program. Inflationary pressures may increase in FY 2015/16 if recurrent expenditure by the Government increases as a result of pressures related to the 2016 general election. On the other hand, the generally weak global economy into the medium term is expected to have a disinflationary effect.

2.2 Imminent risks require appropriate management

Despite the positive outlook for growth, there are a number of risks that could jeopardize this growth if these risks are not managed appropriately. In particular, as has been the case over the recent past, fiscal risks are eminent. Firstly, while the economy has safely settled into a state of equilibrium following reductions in aid inflows, domestic revenues have not increased in tandem. There remains considerable uncertainty regarding the timing of the commencement of oil revenues. Even when these revenues begin to flow, it is likely that during the early stages, their value will not be extremely high. The value of the required investments in infrastructure development is significant, with a potential for financing risks if these investments are not properly managed and sequenced. Key investments, such as the refinery and pipeline, are to be financed primarily through FDI. Still, the Government is

expected to invest about US\$ 200 million in oil-related infrastructure to meet its expected equity commitments. Therefore, the Government plans to finance the infrastructure program through non-concessional loans, the value of which is expected to increase to US\$ 2.2 billion over the next three years. In addition, the financial and economic viability of these investments has yet to be assessed. For the transportation sector, for example, while an integrated multi-modal, long-term transport sector development plan should have guided the medium- and long-term investment priorities in roads, aviation, railways, ferries and inland water transport modes, investments have been implemented on the basis of piecemeal plans. The development of the standard gauge railway system alone is estimated to cost US\$ 6.0 billion, calling into question the financing options that have been put on the table for the sector.

In principle, Uganda still has space to contract loans to finance the development of its infrastructure projects. However, there are a number of absorptive capacity and fiduciary risks associated with the proposed frontloading of infrastructure investments.

Having benefitted from several rounds of debt relief during the 2000s, Uganda's total public debt stock is estimated to have reached a value equivalent to 30 percent of GDP by the end of FY 2013/14, having gained about 4 percentage points on account of the GDP rebasing. This level of debt is well below the pre debt-relief levels, when the value of the public debt stock reached the equivalent of 70-80 percent of GDP. It is also lower than the average figure for the rest of Sub-Saharan Africa, where the average figure for non-oil exporting countries stands at 42 percent. Thus, Uganda's overall public debt stock appears to be manageable.

However, the capacities of Government agencies to plan and execute major projects; the availability of skilled local labor; and the capacities of other supportive infrastructure, such as the Mombasa port, may fail to meet the level required to effectively execute an accelerated program. Both the long delays at the start of the Karuma project and the various corruption cases related to the management of infrastructure programs demonstrate important capacity problems, as well as fiduciary and value-for-money risks. In the past, these risks have led to financial loss and delays in the execution of projects by the Government. They may continue to constrain the achievement of the growth benefits from the current development spending drive.

If the quality of public investment management is not improved, the planned increase in infrastructure could fail to deliver a strong private sector response and instead create inflationary pressures. This may quickly result in an unsustainable public debt stock. However, improving public investment management capacity will also require additional expenditure on maintenance and operations. For example, the failure to increase the recurrent budget in some of Uganda's key infrastructure sectors, such as roads and transportation, may have exacerbated the governance problems that have recently beset the sector. Although the value of the overall project portfolio in the roads and transportation sector has increased fourfold over the last four years,

the sector's recurrent budget has remained constant in nominal terms over the same period. In addition, with Ugandan roads generally being designed to last for a period of 4-6 years, periodic maintenance is vital to maintain the road stock at constant levels. However, the road fund, which was recently created to ring-fence spending for maintenance purposes, continues to be under-funded, particularly when compared to allocations for the development of new roads. According to international best practice, a value equivalent to around three percent of the value of the road stock should be allocated for maintenance every year. However, last fiscal year, the sum of only UGX 280 billion was allocated to the road fund, with this figure being equivalent to only around 1.4 percent of the total value of the road stock.

Given the shallow capital markets that exist in Uganda, domestic debt has been mainly issued for short term maturities. The short average maturation period of domestic debt, with this average standing at less than three years, together with the Government's low revenue base, create a substantial refinancing risk. In fact, Uganda's debt service-to-revenue ratio currently stands at 40 percent, compared to 24 percent in 2009, and is among the highest amongst all low income countries. Although the Government has indicated that it plans to scale down the issuance of domestic debt, unforeseen increases in domestic borrowing are still possible, particularly as pressure to increase expenditure may intensify in the context of the upcoming general election in early 2016.

Beyond fiscal management related risks, there are additional risks related to developments within the global economy and to the upcoming elections. In particular, the weak state of the global economy presents a major risk to Uganda's growth prospects, given that Uganda has a small, open economy that is highly susceptible to developments beyond its borders. While the state of the global economy has fluctuated due to conflicting pressures related to the slowdown in the European and emerging economies, a strong US dollar, increased oil supplies, and good crop prospects for most agricultural commodities, the World Bank expects that commodity prices will remain

⁵ World Bank, 2014, Global Economic Prospects, October 2014.

weak into the medium term future.⁵ In addition, major advanced economies are implementing measures specifically intended to keep interest rates low. However, there is a possibility that, following the global economic and financial crisis, potential output in advanced economies may not have a big room to expand further beyond the current level of activity. In such a scenario, inflation may quickly accelerate in these economies, forcing central banks to aggressively raise interest rates. For Uganda, this is a particularly risky scenario, as it would most likely lead to a sudden depreciation of the nominal exchange rate. This could severely affect the ability of businesses to repay their foreign currency loans, which amount to more than 40 percent of the total privately-owed outstanding debt stock.

In the context of the upcoming 2016 general elections, there may be intensified pressure on the Government to increase expenditure.

If the Government succumbs to this pressure, this increased expenditure may intensify inflationary pressures and result in lower than expected levels of economic activity. One of the contributing factors to the dramatic increase in the rate of inflation in the aftermath of the 2011 election was the excessive use of Government savings to finance expenditures driven by electoral

pressures, which monetary policy accommodated. Both in FY 2009/10 and FY 2010/11, the Government used savings to a value equivalent to 1.4 percent and 0.7 percent of GDP respectively to finance its budget. Although the Bank of Uganda borrowed funds on the domestic markets to mop up excessive liquidity, these borrowed funds were insufficient to prevent an acceleration in the rate of inflation, which was further fuelled by rising food prices and a depreciation in the value of the Ugandan Shilling. The experience of Uganda's last general election demonstrates that in order to ensure macro-economic stability, it is of crucial importance to maintain a strong coordination between fiscal and monetary authorities. Box 2 explains why, in the Ugandan context, monetary policy and fiscal policy are strongly interrelated. As the Government plans to draw down its savings at the Bank of Uganda, a similar scenario to that of 2011 could arise if the savings, generated through the application of a special tax levied on an early sale of oil exploration rights and intended to finance the construction of the Karuma and Isimba hydroelectric power plants, are instead utilized for recurrent expenditure. In addition, the increased anxiety and uncertainty associated with elections in Uganda could undermine business and economic activity, especially in urban areas.

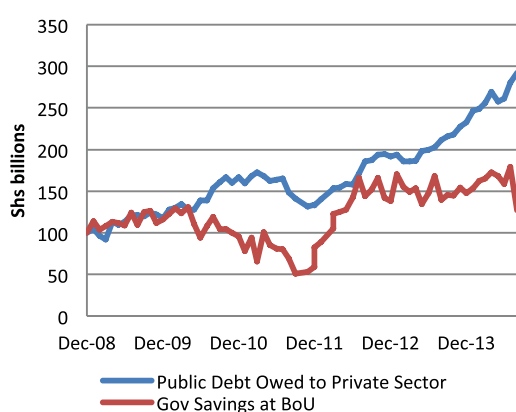


A Citizen at the polling station in Kampala city center. *Sheila Gashishiri (2001)*

Box 2: Disentangling monetary and fiscal policy in Uganda

For a long time in Uganda's recent history, fiscal and monetary policy decisions could not be easily disentangled. The Government relies on treasury bills to finance its budget, while the Bank of Uganda has been using the same treasury bills to ensure that there is the right amount of money in circulation to support the growth of the economy's productive capacity. A similar phenomenon also occurs in more developed economies. However, the key difference is that in most developed economies, central banks sell and buy treasury bill on the secondary market, in which agents trade existing government debt, while governments focus on the primary market in which new treasury bills are being sold. Due to its relatively underdeveloped capital markets, Uganda only has very limited secondary market for domestic government debt. Therefore, both the Government and the Bank of Uganda rely on the primary domestic debt market. How then can monetary and fiscal policy actions be distinguished?

Box figure 1: Trend of government debt and savings 2008-2013



Source: Bank of Uganda and World Bank calculations

Changes in the Government's net savings accumulated at the Bank of Uganda and changes in the total outstanding domestic debt stock owed by the Government to the private sector can provide some indications of fiscal policy vis-a-vis monetary policy actions. When the Government issues treasury bills, this leads to an increase in the Government's overall debt stock, but not to higher net savings. When the central bank issues treasury bills for monetary policy purposes, this leads to an increase in the Government's net savings and an increase in the overall debt stock. As summarized in Box figure 1 below, over the period from 2008 to 2014, four distinct periods can be distinguished:

December 2008 - April 2010: During this period, public debt owed by the Government increased in line with its overall gross savings at the central bank. The increase in domestic government debt was thus not used to finance the budget, but to control liquidity in the economy by the Bank of Uganda. This was in line with the Government's debt strategy, which did not allow the issuance of domestic debt for fiscal purposes.

May 2010 - September 2011: During this period, the Government's savings declined by more than 60 percent. Meanwhile, the Government's domestic debt stock remained almost at its same nominal value. The combination of monetary and fiscal policy were thus strongly expansionary, as the Government used much of its savings to finance the budget and monetary policy remained broadly neutral, contributing to the surge in inflation which occurred in the second half of 2011.

November 2011 - June 2012: Coinciding with the drastic increase in the rate of inflation, both the Government and the Bank of Uganda took action to pursue a much a more restrictive policy stance, which required fiscal restraints and an increase in domestic borrowing to mop up the excessive liquidity in the economy generated during the previous period. This allowed for a rapid rebuilding of the Government's savings and a reduction in inflationary pressures, but also led to very high interest rates.

Since June 2012: Overall savings at the central bank have remained constant, yet domestic borrowing has almost doubled in nominal terms. This means that the overall effect of monetary and fiscal policy has broadly been neutral. Whereas the Government has increasingly used domestic debt issuance to finance its budget, monetary policy ensured that liquidity levels in the economy are adequate.

On the external front, there has been a slower than anticipated recovery in some European and Asian economies, which may negatively affect Uganda's exports. Moreover, the sudden increase in volatility in financial markets and lower commodity prices, may continue to prevent full recovery.

Furthermore, while the recent decline in oil price is beneficial to Uganda's balance of trade, it poses some risk to its investment plans in the oil sector, if the prices settle at a price below the country's break-even price of about US \$ 60 per barrel, but

also on account of uncertainty. Indications from authorities are that oil sector investment plans remain on track, because they are still a solid economic proposition even at the new lower oil prices. In addition, the trend of prices for stocks to be sold in future indicate that prices will eventually increase. The main risk is if the recovery takes longer to happen. This, together with the increased uncertainty make it more likely for potential stakeholders in the sector to sit and wait, hence delaying critical investment decisions (see Box 3).

Box 3: Why a sustained oil prices decline could be a double edged sword for Uganda

World oil prices have declined by almost 60 percent between July 2014 and January 2015. What is the expected impact of this decline on the Ugandan economy?

- i) Positive effects on current account as import bill declines: The prices on these imported products are closely linked to world crude oil prices and had declined by approximately 40 percent between July 2014 and January 2015. Such a decline can potentially reduce the value of Uganda's imports by approximately 8 percent assuming the demand elasticity is constant in the short-term. Over time, freights charges (equivalent to USD 1.2 billion) would be reduced as they are also sensitive to the price of oil (and transport).
- ii) Imperfect transmission, but eventual decline in domestic prices: Domestic energy and transport prices are expected to decline but the transmission from international oil prices has been imperfect and lagging due to specific quantity taxes and regulations as well as the recent depreciation of the local currency. The international prices are transmitted to the domestic market mainly through:
 - Gasoline/Diesel/Kerosene retail prices - These are unregulated and are determined by the combination of CIF price of oil, the exchange rate, taxation, and oil companies' profit margin. Petroleum products are charged an excise duty of Shs 900 per liter for petrol, Shs 850 per liter for diesel and Shs 200 liter for kerosene. These taxes account for 50-60 percent of the final prices. As a result of these factors, the fall in the oil prices has been imperfectly transmitted to domestic prices, which declined on average by only seven percent between October 2014 and January 2015.
 - Electricity tariffs are adjusted on a quarterly by a formula of energy payment that accounts for fuel costs and exchange rate. The share of fuel supply in total energy production has been declining in recent years, after a peak in 2011 and 2012. Since fuel still accounts for approximately 15 percent of total power generation cost of UETCL, the recent decline of 30 percent in prices of imported petroleum products (in local currency) could potentially lead to a decline of 5 percent in the cost of electricity depending on the annual generation mixture with hydro and thermal power plants. Since July 2014, electricity tariffs remained flat. The next revision is expected at end of February 2015.
- iii) Marginal impact on the Government's budget, at least in the short term. On the revenue side, taxes on petroleum products generate over 10 percent of the total tax revenue but those are based on quantity and not on value. They should remain unchanged as long as they are no variations in volumes. Over time, lower prices should boost demand and generate higher revenues for the Government. Similarly, the fuel expenses bill of the government is less than one percent of its total spending and so the reduction in fuel prices should only have a marginal impact on its finances.

- iv) Long-term investment plans for the oil sector could be affected negatively not only if oil prices will remain low in the longer horizon, but also due to increased uncertainty. It is estimated that the exploitation of oil in Uganda is cost effective if the price of oil is above US \$ 60 per barrel. Therefore, a permanent decline in oil and in gas prices could push multinational investors to revisit their plans as investments are rendered unviable. In the shorter term, the decline in gas prices, and the perspective of lower profits, will make harder the negotiations between the government and these investors. But so will the price uncertainty as the driving factors make it very difficult to predict the path of future oil prices. In the past, protracted legal and regulatory uncertainty has been a major drag in the process, including the construction of the pipeline between Uganda and Kenya.

2.3 Strengthening the sources of growth and jobs to accelerate development

In the past, Uganda made great progress in terms of the achievement of income growth and job creation.

However, over the past years, it has recorded significantly lower levels of achievement in these terms due to lower rates of economic growth and to rapid population growth. The adoption of wide ranging economic reforms in the 1990s and, later, the restoration of peace, allowed the Ugandan economy to grow at an average rate of seven percent annually for a period of two decades until 2010. During that time, per capita income grew at an average annual rate of 3.7 percent. Over the same period, the number of new jobs in the formal sector increased by an average annual rate of 6 percent. If Uganda had continued to grow at that same rate, it would currently have a level of per capita income that is 7.7 percent higher in real terms than its actual realized level. However, the actual average rate of economic growth since 2010 has been two percentage points lower, standing at 5.4 percent. Hence, with the population continuing to grow at a rate in excess of three percent, the average per capita income has grown by just 2.4 percent per annum.

The deceleration in the rate of Uganda's economic growth could reflect a shift in its long term potential growth path, as this deceleration has been largely due to a corresponding deceleration in private investment. From an average rate of growth of 11.2 percent per annum in the two decades prior to 2010, private investment has grown at an average annual rate of only 4.7 percent over the past five years. The deceleration in private investment has occurred in spite of considerable FDI inflows and despite the discovery of oil in 2007, which is generally associated

with an increase in private investment, particularly in the period during which the infrastructure for the exploitation of oil resources is developed.

At the aggregate level, Uganda is only at the first stage of transformation, as changes in the structure of production have not been matched with corresponding changes in the employment structure. In the two decades prior to 2010, the contribution of the services sector to GDP increased by 3.6 percentage points every five years. Similarly, the contribution of the industrial sector increased by 2.7 percentage points over the same period. With these developments, the contribution of the agricultural sector to the country's value addition has declined by 3.7 percent of GDP every five years. As a result, the contribution of the agricultural sector to overall GDP declined from 55 percent in 1990 to 24 percent by 2010. Over the same period, the contribution of the services sector increased from 31 percent to 46 percent. The contribution of the manufacturing sector increased marginally from six percent to eight percent, the bulk of the increased contribution from the industrial sector coming from the construction sector, which increased its share from four percent to 13 percent. However, with 75 percent of Uganda's labor force primarily involved in the agricultural sector, Uganda has yet to achieve a level of transformation similar to a number of other successful developing countries. For example, in the period from 1987 to 2007, the proportion of the Chinese labor force involved in the agricultural sector declined from 60 percent to 44 percent, while in South Korea, the proportion declined from 34 percent to 7.4 percent over the same period.

At the micro level, a shift is occurring from the tradable to non-tradable sectors. According to business data,⁶ Uganda's businesses operating in the production of tradable goods still employed more people nominally, but the share of the labor force employed by such businesses declined by seven percent in the 10 year period prior to 2010. This could have occurred as an increasing proportion of new entrants into the labor markets sought employment in the non-tradable services sector. However, for the economy as a whole, this phenomenon represents a major reallocation of resources from the tradable sectors to the non-tradable sectors. As the proportion of the labor force employed by large-scale business enterprises involved in commercial farming and manufacturing activities declined relative to the proportion employed by microenterprises involved in retail trade, hotels and restaurants, on aggregate, the proportion of the labor force employed by small enterprises increased by 12 percent. As stated in the Second Uganda Economic Update, the relative shift away from the traded sector could have implications for Uganda's growth for three reasons: i) small firms engaged in the production of tradables appear to have a higher level of labor productivity (value added per worker) than small firms engaged in the provision of services, so the contraction in the workforce of these enterprises could reduce overall productivity levels;⁷ ii) Uganda needs to export in order to generate learning externalities from trade and to better manage the current account deficit; iii) these sectors may provide a significant number of employment opportunities if they continue to grow and to increase the volume of their exports, since their ability to create jobs is not limited by the size of the domestic market.

The overall shift in production and employment patterns has not been growth enhancing because resources are shifting away from high productivity sectors to low productivity sectors. This could at least partially explain the overall slowdown in the rate of economic growth. Business growth has primarily involved low value-added products, as households divest away from agriculture and small-scale entrepreneurs find solace in low-value retail services. With the bulk of new firms setting up in

sectors characterized by low value production, the transformation of production into manufacturing and higher value-added products has been slow. Businesses that have recorded increased levels of productivity have done so through the deployment of new technology, which partially replaced labor, as has been the case in the financial services sub-sector. In order to sustain a rapid economic expansion, Uganda has to either raise the level of productivity in sectors where the largest proportion of its labor force is employed or to move people out of low productivity sectors. Across space, urban areas have been the source of growth and job creation in Uganda, as non-agricultural production has been concentrated in these areas.

While still incipient, urbanization has played a major role in Uganda's transformation, since the highest proportion of production and jobs in the formal sector are found in or near urban areas and along transport corridors. It is estimated that more than 70 percent of manufacturing activities are conducted in urban areas. Similarly, 65 percent of new jobs over the past decade were created in cities and urban communities. Employment opportunities in the formal sector have been concentrated in urban areas around the Kampala corridor, which covers Greater Kampala, Wakiso, Mukono, and Jinja; the eastern corridor, which covers the Kenya border area (Soroti, Lira, Gulu through to Arua); the south-west corridor, which consists of Masaka, Mbarara, Kabale and the Rwanda border area; and especially in the western corridor out to Kasese and Fort Portal, through Mubende and Kyenjojo Districts. In these areas, workers on average receive higher wages than in rural areas.

In the future, a greater proportion of economic activities can be expected to be located in urban areas. First, transformation from low to high productivity economic activities would result in increased activity in urban areas. Global experience suggest that non-agricultural higher productivity activities concentrate in urban areas, which acts as a pull factor for labor, attracting migrants from rural areas in search of higher wages.

⁶ Uganda Bureau of Statistics, *Censuses of Business Establishments, 2000/01, 2009/10*

⁷ Example: Manufacturers have between 37 percent and 64 percent higher real value added per worker than firms in hotels and restaurants or retail and wholesale.



Nakasero market in Kampala - such markets link the rural areas to growing demand in urban centres. *Digital Media Network Ltd (2014)*

Second, Governments' focus on agricultural transformation also has implications for the urbanization process. Currently, Uganda is a low income country whose labor force is predominantly employed in the agricultural sector, but mainly at subsistence levels, with 94 percent of agricultural output being derived from small farms of less than one acre. However, up to 75 percent of the labor force derives their primary livelihood from the farm. This means that the demand for urban goods has been low, as rural residents spend a large proportion of their incomes on food. This has limited trade between urban and rural areas, the level of which is determined by the level of demand for food by the small urban population and demand for urban goods by the rural population. If the focus on agricultural transformation results in the achievement of the stated goal, then it will facilitate increased rural incomes, possibly through the application of technological innovations. If this occurs, the demand for urban goods can be expected to increase. This will increase the demand not only for non-food goods in rural areas, but for labor in urban areas. Such a transformation will not just have an impact on existing large urban areas, it may magnify the role of small towns that serve an intermediary function between the rural and urban economies.

Third, Uganda is at the forefront of regional integration efforts.⁸ A more integrated regional economy will require Kampala to become a more competitive city. Uganda has entered into a number of regional agreements, including the EAC and COMESA. These regional agreements have yielded significant dividends, almost doubling Uganda's regional exports over five years, to the point where they constituted 25 percent of the country's total exports in FY11. This has enabled Uganda to diversify its export base into industrial output is such as iron sheets, cement and plastics, and to progressively reduce its imports, as it is now increasingly producing inputs that it previously imported. These achievements notwithstanding, regional integration is still in its infancy, with many benefits yet to materialize. Uganda's level of trade with its regional neighbors is still sub-optimal, with trade remaining distorted by many factors, including high transport costs, non-tariff barriers, limited currency convertibility, and failure to manage the social and political impacts of the unequal distribution of benefits and costs. At the same time, the development of new regional markets remains affected by ongoing regional insecurity. Among other benefits, regional economic integration will increase the reach of the country's largest cities, particularly Kampala. However, it will

⁸ World Bank, 2013, Uganda Economic Update, First edition, Bridges Across Borders – Unleashing Uganda's Regional Trade Potential

⁹ World Bank, 2012, Promoting Inclusive Growth: Transforming Farms, Human Capital and Economic Geography (Chapter 7, Planning for Efficient Urbanization)

also place these cities in direct competition with other cities in the region.⁹

Kampala's size and potential for growth must therefore be viewed in the context of its role in the regional economy, rather than merely in the local economy.

As the economic and political capital of a small landlocked economy, Kampala's size has been constrained and some of its productivity benefits foregone. However, the size of Kampala will be determined by how effectively it grows in response to regional integration to provide a range of amenities and services that a larger integrated economy requires. As such, the debate on Kampala's optimal size is not very useful. Instead, it is more useful to ask if the metropolis is serving the needs of firms and households and if it is sufficiently flexible to compete with similar urban centers within the East African region and beyond. City size will be determined by the extent to which it fulfills these functions.

Fourth, the commencement of oil revenues in Uganda will increase the urbanization pressures, while at the same time potentially providing the means for the management of these pressures.

International experience suggests that cities grow more rapidly when oil revenues start to flow. Resource-rich developing countries tend to have very large capital cities because oil revenues are spent through the Government, whose activities are naturally based in cities. On the other hand, as Paul Collier states, oil revenues can be used to develop urban infrastructure and to attract high productivity skills necessary for the oil industry, which are also critical for the development of cities. The exploitation of oil could also result in cheaper energy, thereby reducing the cost of production for the industrial sector, the activities of which are likely to be located in cities. However, unlike other tax revenues, oil revenues have a finite lifespan. Since the country will be depleting its natural assets through the exploitation of oil, the present generation

of decision makers has a responsibility to protect the interests of the nation's future by using a substantial proportion of oil revenues to offset this depletion by accumulating other assets, rather than just spending it on consumption. In the context of the exploitation of its diamonds, Botswana provides a good example of how this may be implemented to reduce poverty and to provide sustainable benefits. The key issue relates to the nature of the assets to be accumulated. These assets should be productive and should prepare the economy for a future when oil runs out. The two investments which best meet these criteria are urban infrastructure and education. By the mid-21st Century, Uganda will need to have efficient cities inhabited by educated workers to be competitive.

By ensuring that the process of urbanization takes place rapidly and efficiently, Uganda may achieve the economic transformation to which it aspires.

As in many other successfully developing regions around the world, urban areas will be the source of growth in productivity and productive employment. The link between urbanization and economic growth is based on the propensity of non-agricultural activities, particularly activities in the manufacturing and services sectors, to develop faster than in urban areas. Unfortunately, even within urban areas, the majority of jobs created are in the services sector. This raises two questions:

1. Is the kind of growth that is taking place in urban areas supporting the much needed productivity enhancements, and will it drive a more rapid rate of economic growth?
2. What can Uganda do to ensure that urban areas serve as engines of growth?

Part 2 of this economic update discusses the state of urbanization, the opportunities for leveraging urbanization to achieve increased growth into the future and how such opportunities can be tapped.

Paul Collier states, oil revenues can be used to develop urban infrastructure and to attract high productivity skills necessary for the oil industry, which are also critical for the development of cities.

PART 2

GETTING UGANDAN CITIES TO WORK

Uganda's urbanization is just beginning, with only 18 percent of population residing in cities and towns. However, the process is gaining momentum, and the number of residents of urban areas is expected to quadruple to more than 20 million by 2040.

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- Uganda's urbanization is just beginning, with only 18 percent of population residing in cities and towns. However, the process is gaining momentum, and the number of residents of urban areas is expected to quadruple to more than 20 million by 2040.
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- Ugandan cities are creating many non-agricultural jobs and improving the economic position of urban residents. However, they are failing to create a sufficient number of jobs for the labor force, especially for youths, with the majority of jobs being in the low productivity non-tradable sector. In addition, the limited infrastructure is constraining mobility of people and goods, and more than 60 percent of the residents of urban areas live in slums.
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- Building effective cities is a policy-intensive process. The economies of scale and scope depend upon layers of coordination between public investment in infrastructure, enterprise investment in productive capital, and household investment in housing.
-
- A more efficient and better managed urbanization process can support the agricultural and rural transformation by effectively absorbing the labor being released by these sectors; by providing a market for agricultural produce; and by financing further transformation and commercialization.
-
- As regional integration deepens, Kampala is increasingly placed in direct competition with other regional cities, particularly Nairobi and Dar es Salaam, rather than other towns within Uganda. Therefore, Kampala must be developed in the context of a regional economy, and not just a national economy.
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- The commencement of the exploitation of oil and the associated flow of resources will increase the pace of urbanization, while also providing the means to manage this process effectively.
-
- The key policy challenge is to ensure that the next phase of urbanization is well managed, with appropriate urban planning policies and enforcement, accompanied by the appropriate provision of public services, reliable transport and affordable housing.
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Downtown Kampala – shoulder to shoulder at people rush to work.
Digital Media Network Ltd (2014)

3. Urbanization is changing Uganda’s demographic and economic landscape

Urbanization can be defined as a process by which the population in cities and towns increases relative to that in rural areas. It also defines the ways societies adapt to this change. Urbanization is the outcome of social, economic and political developments that lead to concentration of people and growth of large cities, changes in land use, and transformation from rural to metropolitan pattern of organization and governance. In development history, urbanization was characterized as the process when workers moved towards manufacturing hubs in cities to obtain jobs in factories, as agricultural jobs became less preferred.

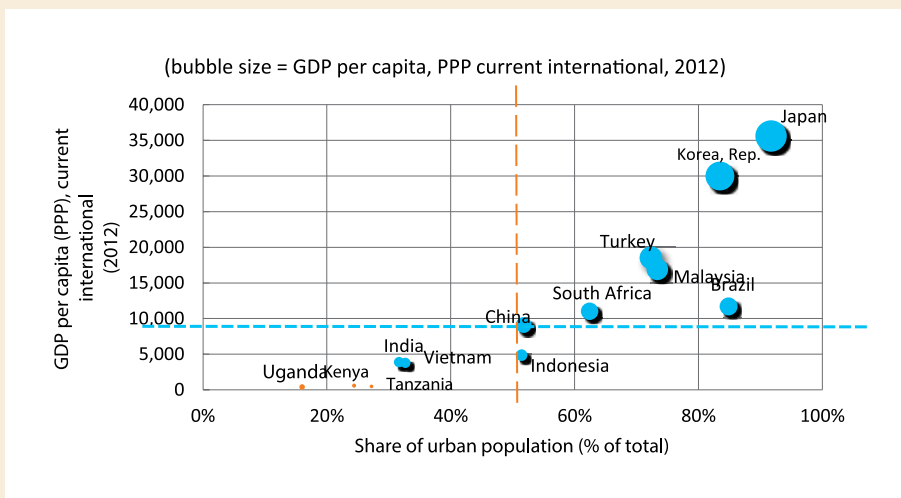
3.1 Uganda’s rapidly accelerating urbanization process

Most Ugandans still live in rural areas. However, while the process of urbanization is in its early stages, it is accelerating rapidly. According to the recently released population census, 6.4 million Ugandans, or approximately 18 percent of the population, lived in urban areas in August 2014¹⁰.

According to these figures, the degree to which Uganda has become urbanized is relatively low compared to its neighbours (see figure 19), although other measures suggest that the urbanization process in Uganda has progressed considerably further, reaching the level recorded by its neighbors (see Box 4).

¹⁰ The Uganda Bureau of Statistics defines urban population as the population of gazetted city, municipalities and towns.

Figure 19: Urbanization is positively correlated with higher levels of development



Source: World Bank's World Development Indicators 2014.

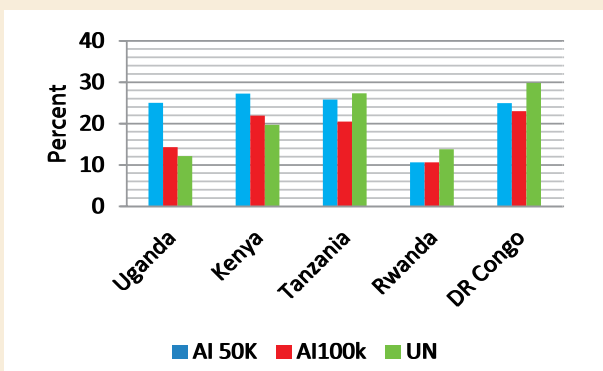
Box 4: Measuring urbanization in Uganda for comparability

United Nations projections use national definitions to distinguish urban and rural areas. Based on these definitions, Uganda's level of urbanization was estimated at 15 percent by 2014. The official UN estimate of urbanization for Kenya stands at 25 percent, while the figure in Tanzania is 31 percent.

Another measure of urbanization is the agglomeration index. This measure is similar to using a \$2 a day measure of poverty to compare welfare across countries (World Bank 2008). The agglomeration index does not use statistical definitions of 'urban areas', but instead uses three indicators to estimate the level of urban concentration in a country or region – these are population density, the population size of large urban centers, and proximity (travel time) to the nearest such urban center as a measure of proximity to urban areas.

According to this measure, using cities that have a population of at least 50,000 people, Uganda's level of urbanization was estimated to reach 25 percent. According to this measure, Uganda's rate of urbanization increased by 7 percentage points from its level in 2002. According to this measure, Uganda has reached the same level of urbanization as Tanzania. This is a level only slightly lower than Kenya's, where an estimated 28 percent of the population lives within urban agglomerations (Box figure 2). Uganda's level of agglomeration is estimated to have increased further over the past four years, to reach 34 percent in 2014. This emphasizes the point that the availability and quality of the transport network has a bearing on the extent of urban interactions. Dense settlements in close proximity but without transport connectivity would have fewer interactions in comparison with better connected but further settlements.

Box figure 2: Uganda' level of urban agglomeration compares to its neighbors'



Source: Uchida and Nelson 2010

Uganda remains at a relatively low level of urbanization partly because of demographic factors.

Average total fertility rates are high in Uganda, with an estimated 6.7 live births per woman in 2006. At the same time, the infant mortality declined from 122 deaths per 1,000 live births in 1991 to 76 in 2006, largely due to improved access to health services. The result is the sharp increase in Uganda’s population over the past 20 years. Uganda is clearly at a very early stage of a demographic transition to low birth rates and low death rates, with death rates having dropped significantly without a corresponding fall in birth rates, resulting in a large increase in population (Mukwaya et al, 2010).

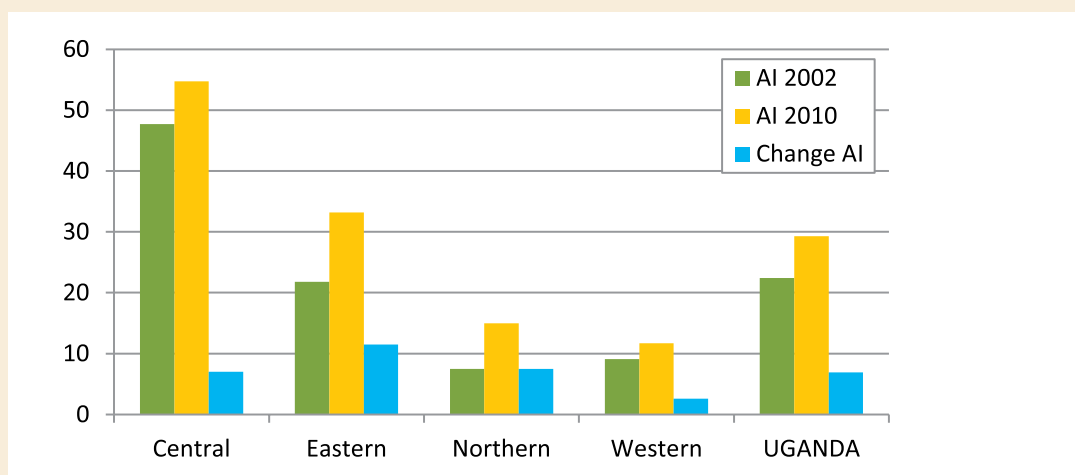
In addition, the level of migration from rural to urban areas is still low, with the bulk of the labor force remaining engaged in subsistence agriculture.

While Uganda remains a predominantly rural country, annual urban population growth rates are higher than those of the rural population, with urban population growth rates over the past thirty years being almost double those in rural areas. In the period from 2002 to 2010, the urban population grew by 5.6 percent, while the rural population grew by 3.1 percent. In addition, less than 10 percent of the overall population moved to another district, with the majority of this movement within and between districts involving movement

from one rural area to another, rather than from rural to urban areas.¹¹ The search for arable land influences migration in Uganda’s predominantly agrarian economy, where differences in soil quality, land tenure and access to markets matter have considerable bearing on where people choose to live. In the Northern part of the country, where a protracted conflict has occurred, 70 percent of migration is driven by security issues, but in the other regions, jobs, education and marriage are leading reasons for moving. Given that a large portion of the labor force is not in the wage sector, most migrants do not access information on returns and differentials between rural and urban areas that would drive the decision to migrate. By 2010, up to 69 percent of the labor force was still engaged in subsistence agriculture.

With the location of the capital city, Kampala, in the central region, this is the most urbanized region in Uganda, with 54 percent of its population living in agglomerated areas in 2010. However, the level of urbanization is growing rapidly in the Eastern region, having increased by 11.5 percent over the decade. In 2010, the Western region was the least agglomerated of the country’s regions. Over the decade, the rate of urbanization in this region has also been slower than in any other region of the country.¹²

Figure 20: Uganda – Agglomeration (concentration of the population) across regions



Source: Mukwaya et al, 2011¹³

¹¹ Koola and Ozden (2010), based on 2005/06 UNHS

¹² The AI uses a city population cutoff of 50,000. Important to note that transport connectivity is measured by design definitions of road quality and doesnot take into account actual road quality or traffic volumes

¹³ Mukwaya P., Y. Bamutaze, T. Benson, S. Mugararura, 2012, Rural Urban Transformation in Uganda in Journal of African Development Volume 14 no. 2, Fall 2012.

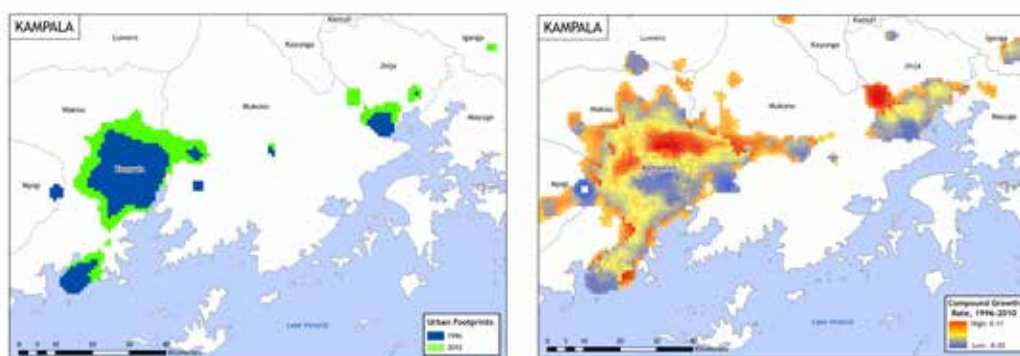
As in many other developing countries, the capital city, Kampala, dominates Uganda's urban landscape. With 1.5 million people living in Kampala, the city is home to 31 percent of the country's urban population, with the remaining 69 percent living in cities with less than 500,000 people. Kampala has grown through the annexation of adjacent towns and through encroachment into rural areas. It has grown from an administrative township covering

just 0.7 square kilometers in 1902 to a large town covering 195 square kilometers by 1968 and to a sprawling metropolis covering 839 square kilometers at present. Thus, in the period from 1902 to 2010, the geographical area covered by an average annual rate of approximately 6 percent, a rate considerably higher than either the global or regional rate of urbanization (see Box 5). The Greater Kampala area is even larger, with a population of 3.5 million people.

Box 5: Kampala's expansion of spatial footprint – a view from outer space

Kampala dominates the urban landscape, accounting for one-third of Uganda's urban population. With a population of 1.5 million by 2014, Kampala accounts for 35 percent of the urban population in the country. The next largest town is Kira with 313,761 people, located barely 4 km from Kampala. Under the new Kampala City Metropolitan Planning Authority, Kira and Nansana are part of the new Kampala Metropolitan Area. Greater Kampala therefore boasts a population of 3.5 million and is growing fast both on account of redevelopment within the city and expansion on the periphery. Night-lights data shows that there has been rapid expansion of Kampala's spatial footprint over the period 1996 to 2010.

Based on night-time light intensity, the spatial patterns of growth show a continued push at the city's peripheries. This kind of agglomeration across cities is what has driven spatial expansion in other cities. The intensity of night-time lights provides an indication of where growth has been occurring irrespective of whether or not economic activity is linked to sprawl. In the case of Kampala, growth appears to have been rather slow at the core of the city, but much more rapid on the periphery (as indicated by the warmer colors). In fact, Kampala economically stagnated over the time period 2000-2010, growing just 5.9% in 10 years (< 1/2% per year). This process of urban expansion or sprawl will accelerate as incomes rise and people demand larger homes, which can be developed at the outer edges of the city, where land is still available.



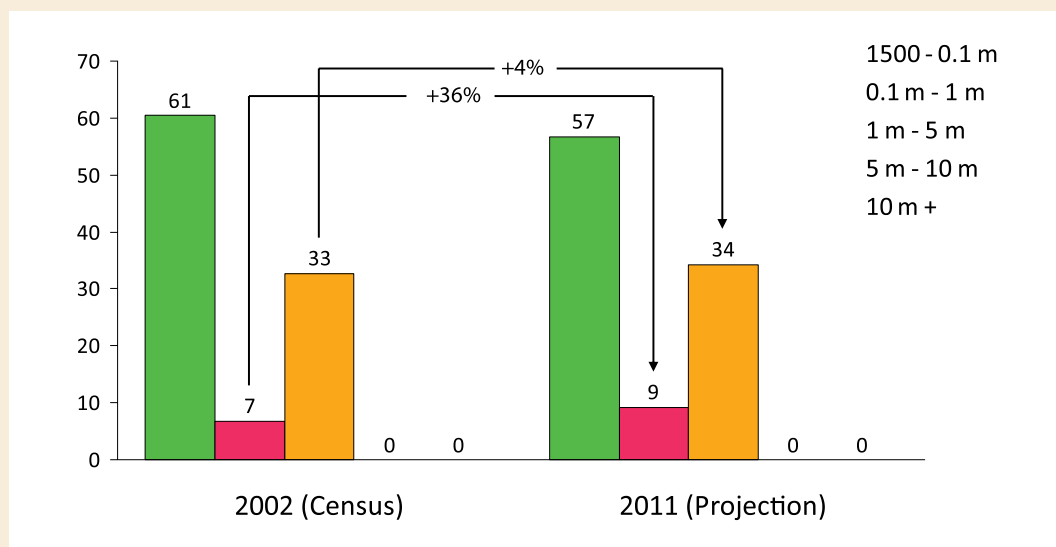
Source: World Bank, GSURR unit 2014



The fact that the movement of people between cities of different sizes is still limited partially explains Kampala’s continued dominance of the urban landscape. In 2011, the share of the population across cities of different sizes was almost the same as it was a decade earlier (see figure 21). This pattern is not unique to Uganda, with the capital cities of many developing countries, including Accra and Dakar, acting as a single pole of attraction. In such situations, secondary cities have not attracted migrants from rural areas and smaller

towns to the same extent as did the capital cities. This pattern results in the limited growth of secondary cities and hence limits their ability to reap economies of scale. This pattern also contrasts with that of countries such as China, where rapid urbanization has been accompanied by a large movement of people towards a number of larger cities in addition to the capital. This has enabled a large number of Chinese cities, particularly those in the southern region, to reap economies of scale and to achieve higher levels of economic efficiency (see Box 6).

Figure 21: Limited role of secondary cities in Uganda’s urban system

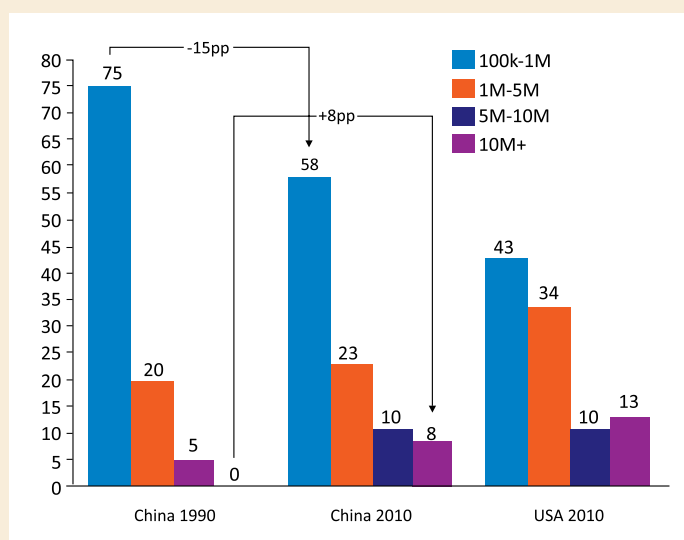


Source: Uganda Bureau of Statistics

Box 6: How China right-sized cities over two decades

In the early 1990s, China's cities were under sized, substantially impairing their efficiency. Migration restrictions limited labor mobility and agglomeration. As a result, over 75 percent of China's urban population was in smaller cities, ranging between 100,000 and 1 million people. Only a small share of China's urban population was located in larger cities (Au and Henderson, 2006). This pattern of urbanization was different from other emerging economies, or in developed countries such as the United States, where the share of urban population in large cities is much higher.

Box figure 2: Percentage of urban population in cities of various sizes



Over the two decades to 2010, China witnessed a huge redistribution of people across cities of different sizes as authorities relaxed migration restrictions. This redrew China's demographic map by reducing the share of the urban population in smaller cities to levels similar to those of other developing countries—though it is still much higher than in urbanized United States (Box figure 2). Similarly, the share of China's population located in its very largest cities is converging with, but not yet comparable to, that in the United States.

Source: World Bank 2014 ; Urban China

In recent years, the rate of urbanization in Uganda has accelerated significantly. In the period from 2002 to 2014, the urban population grew by an average annual rate of 6.8 percent, compared to 4.5 percent in the period from 1991 to 2002. At these levels, the rate of urbanization in Uganda is significantly higher than the average annual regional rate of 3.7 percent. In fact, Uganda's high rates make it the most rapidly urbanizing nation in Africa.

With increasing incomes, it is expected that the rate of urbanization in Uganda will continue to increase.

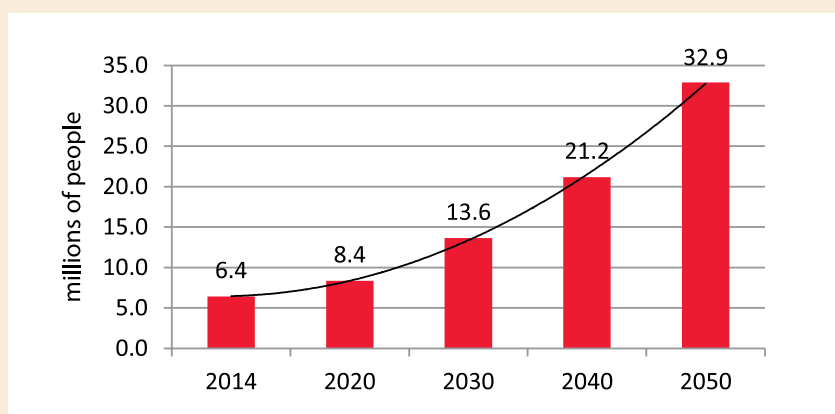
Projections by the United Nations suggest that by 2050¹³, the total number of Ugandans living in urban areas will increase to over 20 million by 2040, and to approximately 33 million, equivalent to 32 percent of the country's total population (see figure 22). This pace of urbanization will be close to both what other developing countries are experiencing and to that experienced by developed countries about a century

ago. On average, in today's developed countries, the proportion of the population living in urban areas increased by an average annual rate of 7.7 percent in the period from 1880 to 1900. In developing countries, the average annual rate of increase in the period from 1985 to 2005 stands at approximately 8 percent.¹⁴ According to the United Nations, at a global level, a greater proportion of the world's population now lives in urban areas than in rural areas. International experience shows that although the urbanization process proceeds slowly at initial stages of economic development, it accelerates around the point when a country achieves middle income status, before slowing down again when it achieves higher income status. At present, Uganda is in the initial stages of economic development, but urbanization may be expected to accelerate as incomes increase and the country achieves middle income status. The anticipated acceleration in Uganda's rate of urbanization will be additionally driven by four key ongoing developments.

¹⁴ World Urbanization Prospects, 2014 revision. Washington DC: World Bank

¹⁵ World Development Report (2009), Reshaping Economic Geography. Washington DC: World Bank.

Figure 22: Uganda to see exponential growth in urbanization as it moves towards middle income status



Source: Uganda Bureau of Statistics

The process of urbanization is taking place in the context of a broader transformation characterized by a shift from traditional low-productivity economic activities towards more modern, higher productivity economic activities. In particular, this transformation involves an increase in the significance of the manufacturing and service sectors relative to the agricultural sector. In general, when the proportion of the population living in urban areas increases, per capita incomes also tend to rise. This is particularly the case if the contributions of the industrial and services sector to overall gross domestic product and the proportion of the working force employed in these sectors increases relative to that of the agricultural sector.¹⁶ Overall, the better opportunities available in urban areas act as pull factors that motivate large numbers of poor people to where they have better economic opportunities and access to basic services such as clean drinking water, health care and schools.¹⁷ Further, the process of urbanization may be instrumental in improving living conditions in rural areas, as this process creates new employment opportunities in the areas and increases the demand for rural services.

However, generating these benefits from urbanization is a policy intensive process. The 2009 World Development Report “Reshaping Economic Geography” brings together two centuries of global evidence to show that policies related to the institutions that govern the financial resources required to deliver basic services and to enable the fluidity of key factor markets – land,

labor, and capital – are the most critically important if a developing nation is to reap the benefits of urbanization. In addition to implementing appropriate institutional policies, it is also vital to make appropriate investments in inter-regional and urban connective infrastructure. This infrastructure is essential to making a city’s markets accessible to other cities and to other neighborhoods within the city, as well as to outside export markets. Such investments can amplify the economic gains generated through the process of agglomeration while offsetting congestion costs.

Per capita incomes tends to rise as urbanization increase particularly if the contributions of the industrial and services sectors to overall gross domestic product and the proportion of the working force employed in these sectors increases relative to that of the agricultural sector

¹⁶ Satterthwaite, D. (2007). The Transition to a Predominantly Urban World and its Underpinnings (No. 4)

¹⁷ World Bank. Global Monitoring Report 2013: Rural-Urban Dynamics and the Millennium Development Goals. Washington, DC: World Bank

Given the process of urbanization that is taking place in Uganda is expected to intensify, many existing Ugandan cities will more than double their population within a relatively short period of time, and many new cities will be built. The key policy challenge is to ensure that the process of

urbanization facilitates an enhancement in the overall level of productivity of workers and in the profitability of businesses. For this structural transformation to generate the optimal level of benefits for all of Uganda's citizens, it is essential that adequate public goods and decent housing be developed for the poor.

3.2 The good news - economic activity, jobs and welfare in the cities

The ultimate goal of development is to facilitate improvements to people's socio-economic conditions. Urbanization should be driven by the provision of amenities that make work and

life generally better, normally referred to as pull factors. There is evidence to show that at least to some extent, urban areas in Uganda are already achieving this.

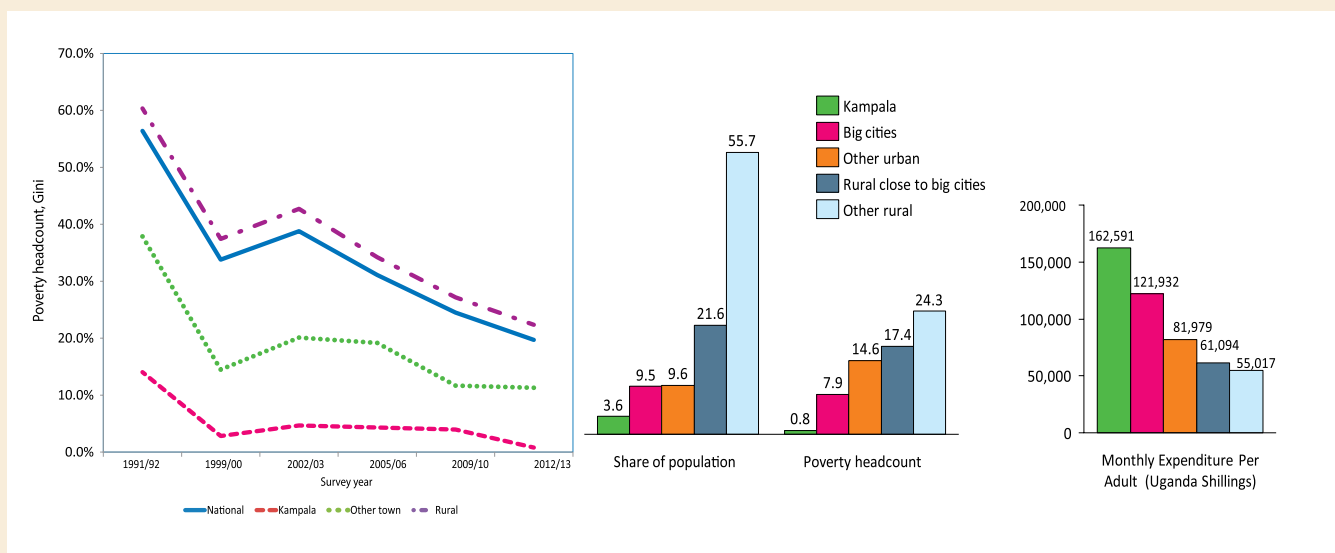
3.2.1 Urbanization has welfare improving effects

Living standards and welfare outcomes have improved faster in cities than in rural areas.

According to the latest household income and expenditure survey of 2012/13, urban areas have lower rates of poverty and higher average consumption levels than do rural areas. Within urban areas, larger cities also have lower poverty rates and higher consumption levels than smaller

cities (see Figure 22). Average monthly per capita expenditure, a reliable measure of living standards, is UGX 163,000 in Kampala, compared to UGX 122,000 in other secondary cities and to UGX 82,000 in other urban areas. By contrast, average monthly per capita expenditure in rural areas stands at only UGX 55,000, with this level being relatively higher in rural areas that are close to big cities.

Figure 23: Poverty trends and consumption based welfare across cities and rural areas



Source: World Bank staff calculation using 2012/13 UNHS data

There is evidence showing that migration to cities enhances the welfare of migrants, especially for intra-district migrant households¹⁸ because of the familiarity with the customs, practices, languages, and perhaps even of the job market by these migrants compared to the migrants from other districts.

Access to basic infrastructure services is much higher in urban areas than in rural areas. Overall, a relatively small share of the Ugandan population

has access to electricity and water. Nonetheless, by 2012/13, 38 percent of the urban population was connected to the electricity grid, while 22.8 percent had connections to piped water. In stark contrast, in rural areas, less than two percent of the residents were connected to the electricity grid or the water network. Within urban areas, higher incomes are associated with higher levels of access, while in rural areas access is almost uniformly poor, even for households that can afford the services.

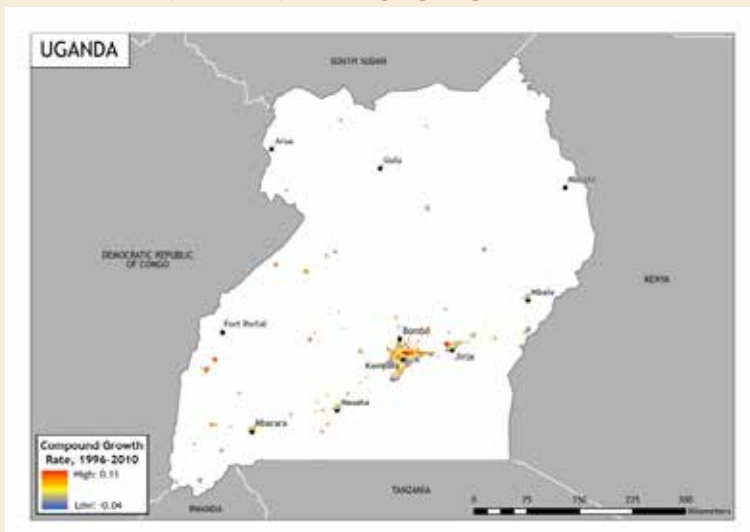
3.2.2 Urban areas are generating more economic activity and opportunities for jobs

In Uganda, in general, economic activity is concentrating in cities and large towns in order to exploit economies of scale and to access markets. High productivity businesses and higher commercial value agricultural production are becoming increasingly concentrated in urban areas. As a result of this concentration, 70 percent of the country's non-agricultural GDP is generated in urban areas. Firms have favored locating around the Lake Victoria crescent, which encompasses the Southern, Central, and Western regions of the country, which are also Uganda's most urbanized regions (Figure 24). These developments are similar to developments that have occurred elsewhere in the world, with international evidence strongly suggesting that population density is associated with higher levels of productivity. This higher level of productivity is usually the result of the

fact that concentration results in reduced transport costs and reductions in costs resulting from delays and uncertainty about the timing of the delivery of goods and services. Density also cuts communication costs by allowing frequent face-to-face interactions, which are extremely important for the exchange of complex non-codified ideas and for the building of trust between business partners and consumers. All of these factors promote innovation and increased productivity. With respect to specialization, increased concentration enables a scaling up of production, which in turn promotes specialization, stimulating specialized services, including legal, software, data processing, advertising, and management consultancy services. Higher densities promote knowledge spill-overs through learning by workers and spill-overs between firms, while increased scale promotes competition.

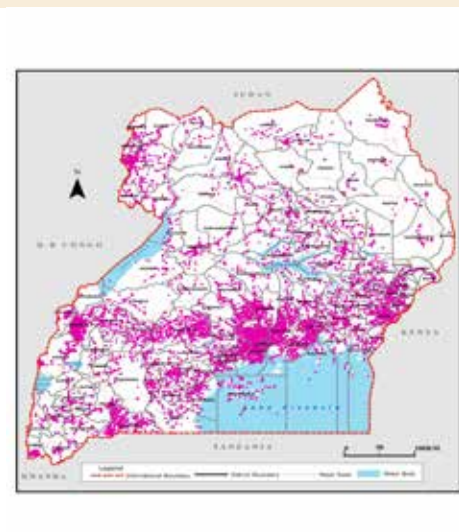
Figure 24: Expansion of non-farm economic activity in Uganda is tracking the urban trail

a) Estimated spatial footprint using night lights



Source: World Bank, GSURR Unit

b) Business firm location



Source: Uganda Bureau of Statistics; Census of business Establishments, 2009/10

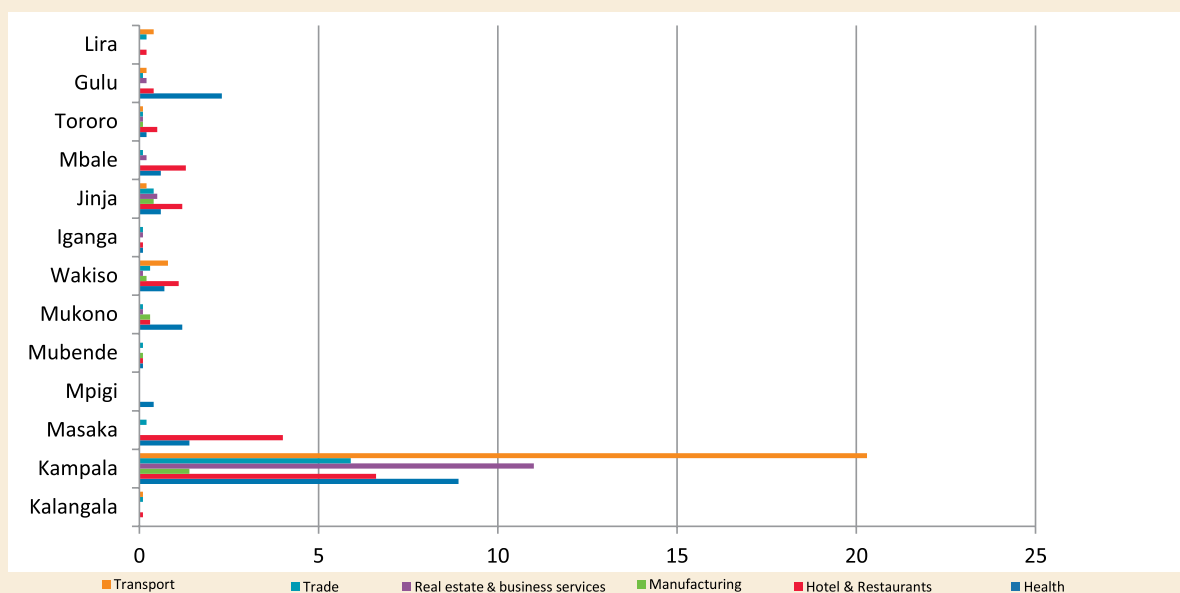
¹⁸ Koola and Ozden (2010) undertook a simulation exercise based on econometric analysis of UNHS data for 2005/06, which showed that similar households (size, composition, education) do better when they migrate to urban areas, and generally intra-district migrant households do better than inter-district households in the receiving district.

Increasingly, production facilities are concentrated in large cities to benefit from greater access to markets.

By 2006, a high degree of spatial concentration in business services (finance and insurance) and in manufacturing was already observable (see Figure 24).¹⁹ Analysis confirms that manufacturers also placed considerable economic value on the location of production facilities in large cities.²⁰ The concentration of these facilities in larger cities promotes information sharing, process and product innovation and the development of producer amenities such as business services, finance, logistics, banking, advertising, and legal services. At this stage of Uganda's development, the range

of supporting producer and consumer amenities valued by business enterprises are only found in a few major cities, and most particularly in Kampala. With regard to specialization within specific industries, location within Kampala has a disproportionately larger impact than any other location with respect to producer amenities.²¹ For example, the representation of real estate and business services in Kampala is 11 times the overall average across districts, while it is 20 times for transport services. Similarly, Kampala has a higher level of specialization in health services and hotels. By contrast, most districts have low levels of specialization in most areas of economic activity.

Figure 25: Concentration across economic activities and across space (location quotient) - Kampala has most concentration for most products



Source: World Bank staff calculations using Uganda Business Registry data

With the concentration of business enterprises in large cities, the proportion of the country's non-agricultural and higher productivity jobs in these cities has also increased.

Evidence from data collected in the period from 2001 to 2010²² suggests that while the Ugandan economy experienced an overall increase in the number of business enterprises and jobs, the bulk of this increase occurred in cities. Over this period, the number of jobs in large cities more than doubled, from 191,000 workers to 395,000 workers, accounting

for 36 percent of overall job growth. Other urban centers and secondary urban areas also doubled jobs creation, with their overall number increasing from about 150,000 to over 300,000 jobs, contributing 29 percent to overall job growth (see Figure 26). However, this rate of job creation could not match the rate of growth of labor force, hence leaving many people to find employment in rural areas. Consequently, overall share of jobs in rural areas increased from 25 percent in 2000 to 30 percent in 2011.

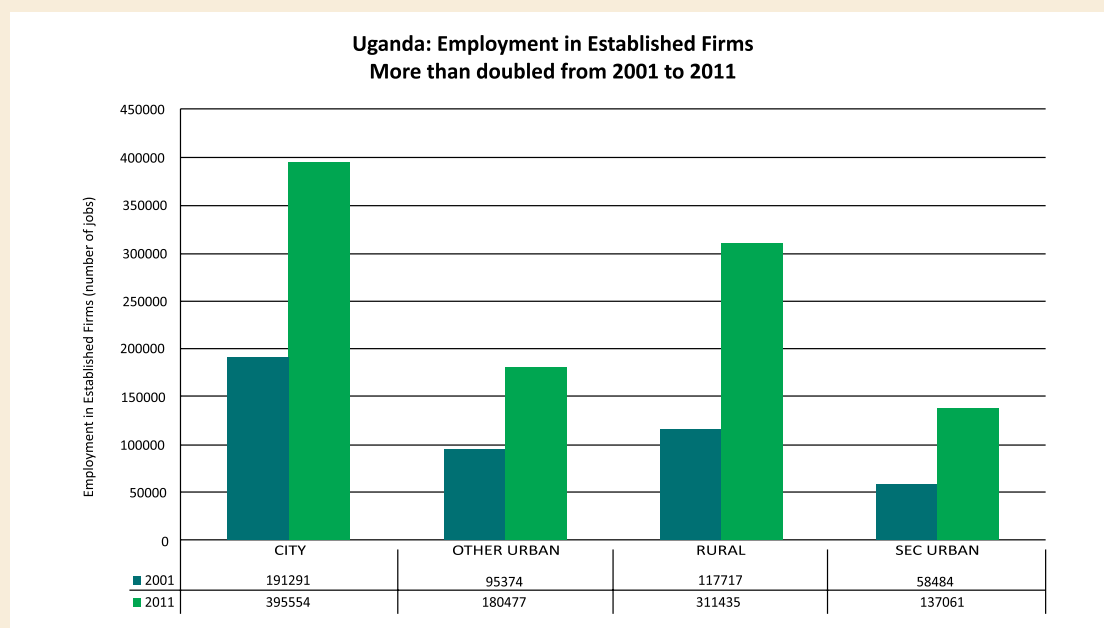
¹⁹ Analysis based on the Uganda Census of Businesses 2006/07, used the Herfindahl -Hirschman Index that measures the degree of concentration. The index ranges between 0 if all firms are scattered equally across space, and 1 with the extreme concentration where all firms of the same category are in the same place.

²⁰ Lall, Schroeder and Schmidt 2009

²¹ Location quotient measures the relative specialization of a city in specific industries (defined as a ratio of a location's share of an industry's employment relative to the industry's share of national employment). Values above one indicate that the location is relatively more specialized in the specific industry vis-a-vis the national average, and vice versa.

²² Uganda Census of Businesses 2001 and 2009/10, Uganda Business Inquiry 2002 and 2010, both conducted by Uganda Bureau of Statistics

Figure 26: The spatial distribution of employment changes between 2001 and 2011



World Bank staff papers (Merotto and Blankespoor, forthcoming)

3.3 The not so good news - low productivity, unemployment, congestion, and housing shortages in cities

While increased urbanization can drive increased economic growth, things can go terribly wrong if cities do not provide the right environment for business enterprises to prosper and for residents to live decently. Despite the potentially positive impact

of urbanization, it must also be recognized that the process creates significant challenges that must be addressed if cities are to drive economic expansion to create productive employment opportunities. To what extent are Ugandan cities meeting this challenge?

3.3.1 Uganda's cities not yet competitive to produce internationally tradable goods and sufficient productive jobs

In order to expand the country's markets, Ugandan cities have to produce more tradable goods.

According to the prevalent development paradigm linking urbanization and structural transformation, urbanization occurs as a consequence of productivity increases in the manufacturing and agriculture sectors. Productivity increases in the manufacturing sector enable higher wages and attract labor from rural areas, while productivity increases in the agricultural sector (agriculture revolution) frees workers in rural areas to move to cities to seek employment in tradable production in so-called "production cities." However, Ugandan cities

have achieved a far higher level of success in the production of non-tradable goods to supply the domestic market than in the development of an internationally competitive export sector able to supply international markets.

In the period from 2001 to 2011, 80 percent of growth in non-agricultural employment in Uganda came from the non-tradable sector.²³

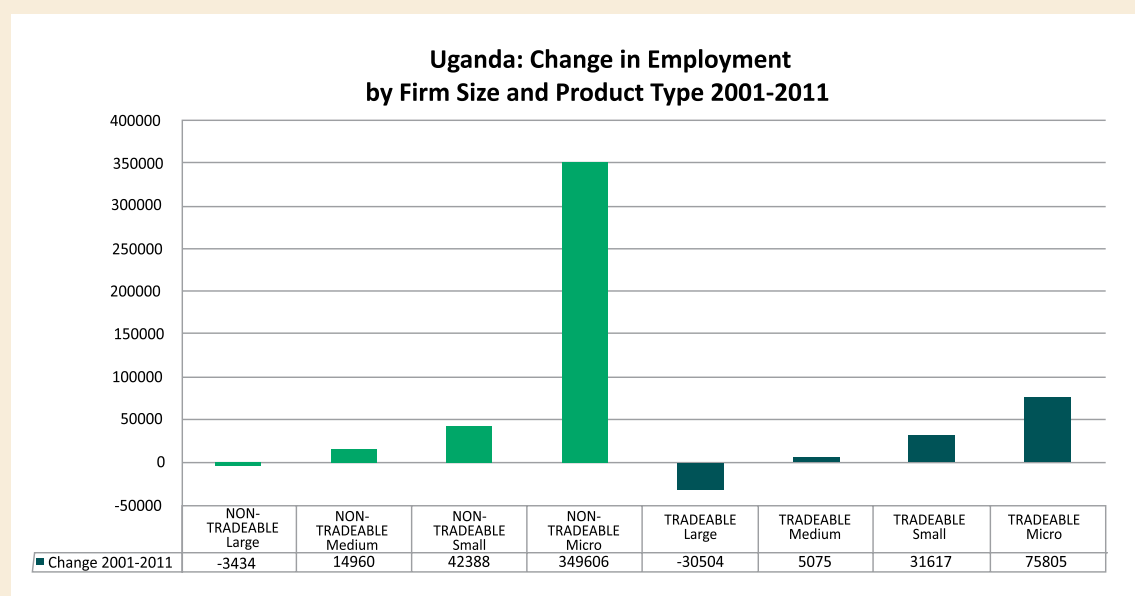
The fast growth of jobs across all sectors has been a welcome development. In fact, some jobs within the non-tradable sectors, such as the construction and finance sectors, are more productive than those in

²³ Tradables include Agriculture, Fishing, Forestry, Mining & Quarrying, Manufacturing, and Transport and communications. Non-tradables include all other major ISIC sectors

the manufacturing sector. However, only 15 percent of the new employment opportunities in Kampala were in tradables (see Figures 27 and 28). This follows a broader national pattern in which tradables are not agglomerating into cities, with the disproportionate creation of new employment opportunities in non-tradable services. In fact, in the major cities, 54 percent of new employment opportunities were created in the wholesale and retail trade, transport and storage, hotels and restaurants, and social and personal

services sectors. In smaller cities, these sectors accounted for 72 percent of employment growth. Furthermore, among tradable sectors in cities, the proportion of those employed in large firms declined by 53 percent, while the proportion of those employed by small enterprises grew by 112 percent. This limited growth of the tradable sector partly explains Uganda's limited labor mobility and why large cities have not yet attracted workers and their families from the rural areas and other smaller towns to a greater extent.

Figure 27: Majority of jobs created in non-tradable sectors



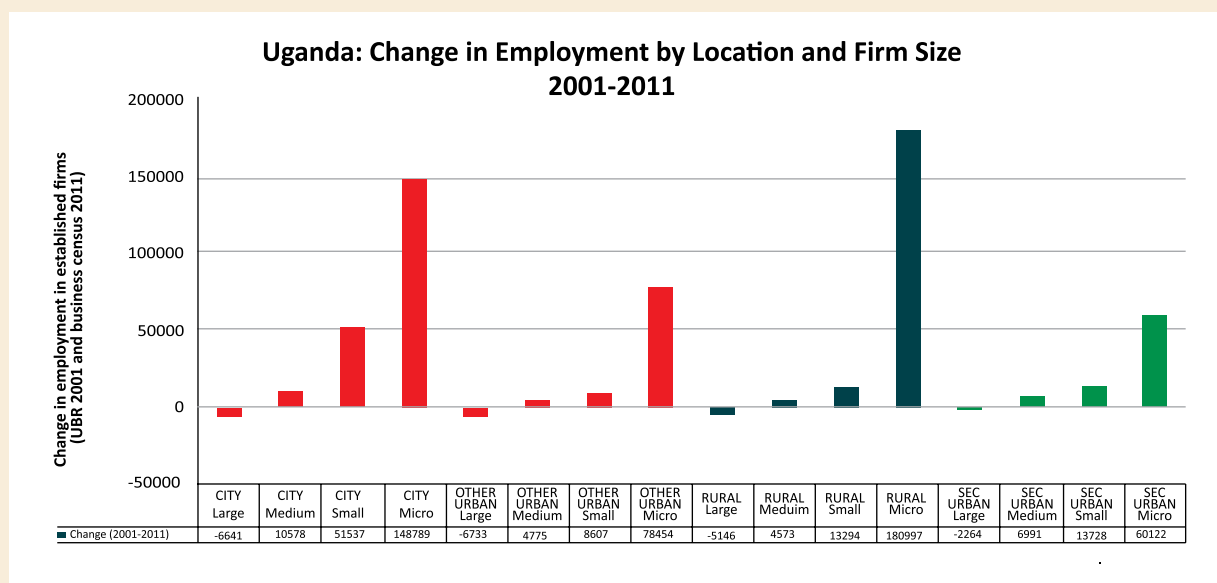
Source: Merotto and Blankespoor, forthcoming

In urban areas, the number of job opportunities in the formal sector is not growing at a sufficient rate to provide employment to all members of the growing labor force. Thus, a large proportion of migrants take up employment in informal jobs that provide low incomes. Most of the increase in employment opportunities has been driven by the emergence of 182,700 micro-firms that on average employ 1.7 workers (average of 1.5 workers on entry in 2010). Approximately 70 percent of businesses with a fixed location operate in the informal sector. Of course, appropriate support needs to be provided to these businesses to improve their access to reliable financial services, to attain skills, and to operate in a conducive working environment. However, such small sized firms may not be able to exploit economies of scale to the same extent as medium sized and larger firms, which

are able to employ many people and to provide higher incomes. Medium and larger scale businesses must therefore be supported to create a sufficient number of employment opportunities to absorb the expanding labor force as the population of urban areas increases.

The limited growth of the tradable sector partly explains Uganda's limited labor mobility and why large cities have not yet attracted workers and their families from the rural areas

Figure 28: Majority of urban jobs created in micro enterprises



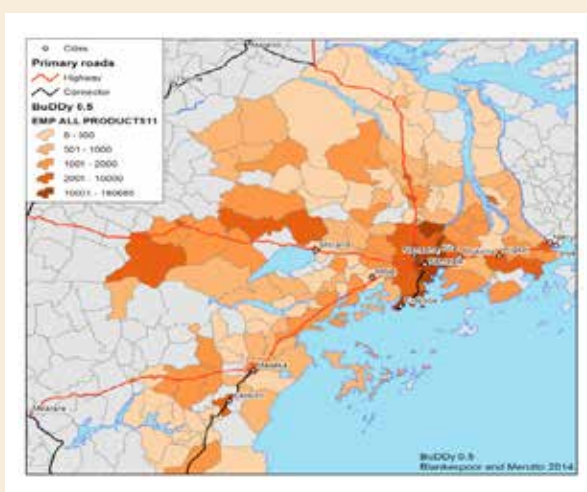
Source: Merotto and Blankespoor, forthcoming

In Kampala and within the central region, the pattern of job creation in non-tradable sectors is more evident. In addition to concentration in and around Kampala, clusters are also forming around the transport corridors connecting the capital with Masaka and Kalisizo in the South and with Mukono and Jinja in the East (Figure 29). Nonetheless, few of these jobs are in the tradable sector as demonstrated

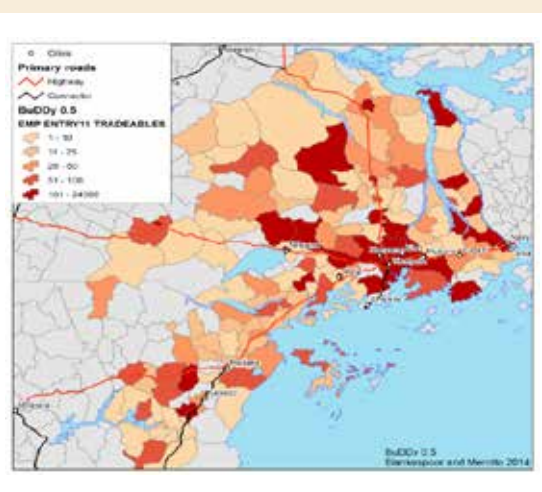
by the few clusters around the center, Entebbe and Mityana. Therefore, even for the central region, the rate of creation of jobs in the tradables sector is not as fast as the overall rate of jobs creations. The lack of transition from production of non-tradables to tradable goods and services in Uganda could be linked with the physical form and infrastructure layout of its cities (see Box 7).

Figure 29: Spatial distribution of jobs within the central region: 2011

Employment in tradable sectors by 2001



Employment in tradable sectors by 2011



Source: Merotto and Blankespoor, forthcoming

Box 7: The two way link between tradables and city form

The transition between the production of non-tradables and tradables is partly linked to the physical form and infrastructure layout of a city. In this framework, the nominal urban wage (measured relative to the price of internationally tradable goods) can increase with city size to compensate for marginal commuting costs, which also increase with size.

Within this framework, for a city that specializes in the production of non-tradable goods produced for consumption in the city or perhaps more widely in the domestic economy, the (nominal) wage and city size is determined by the level of demand for these goods, productivity, and commuting costs.

The rate at which commuting costs rise depends on urban form, which in turn is determined by the density and efficiency of city structure and infrastructure. Increases in commuting costs raises pressure on nominal wages and potentially the wage exceeds the productivity of labor in tradables. Thus, it becomes unprofitable to start such activities. In contrast, a decline in commuting costs reduces the nominal wage, which in turn enables the production of tradables.

Therefore, a large improvement in urban infrastructure is required to move the city out of the non-tradables trap and to drive an increase in the volume of production of tradables.

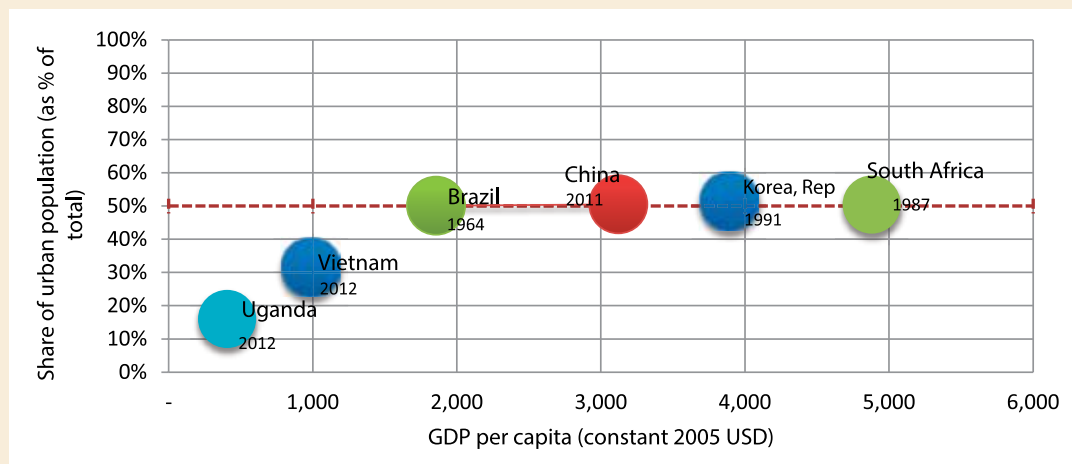
Source: Venables 2014

3.3.2 Uganda's cities not coping with fast rising infrastructure and housing needs

The current pace of urbanization in Uganda is already revealing its limited level of capabilities, given the country's income levels and lack of planning. Uganda has an average annual per capita income of less than US\$ 800. At these levels, it can be inferred that it is five times poorer than the average Asian country at a point when 50 percent of the population of those countries was living in

urban areas. In comparison with Latin America, income levels are approximately half of what they were at a similar point (see Figure 31). The net result is that Uganda has not yet fully developed the institutional and investment capabilities to implement the appropriate plans or ought to develop the infrastructure needed to support urbanization.

Figure 30: Urbanization is happening earlier and faster than in any other region



Source: World Bank's World Development Indicators 2014

Ugandan cities have not been able to deliver improved living standards for all residents of urban areas, despite significant improvements in access to social services. Uganda has made good progress in providing access to basic services such as water, sanitation, and health in large urban areas. However, smaller urban settlements and rural areas still often have very limited access to basic services. By 2013, it was estimated that 45.8 percent of residents of Kampala had access to piped water, compared to 24.2 percent in other big cities, and 10.2 percent in small towns. The level of access in rural areas was a woeful 0.3 percent. Similarly, 79 percent of residents of Kampala had access to electricity for lighting, compared to 41.3 percent of residents in other big cities and 24.7 percent of residents in all towns. Overall, not only are there significant differences in the level of access to basic services between rural and urban areas, there are also significant differences between Kampala and other urban areas.

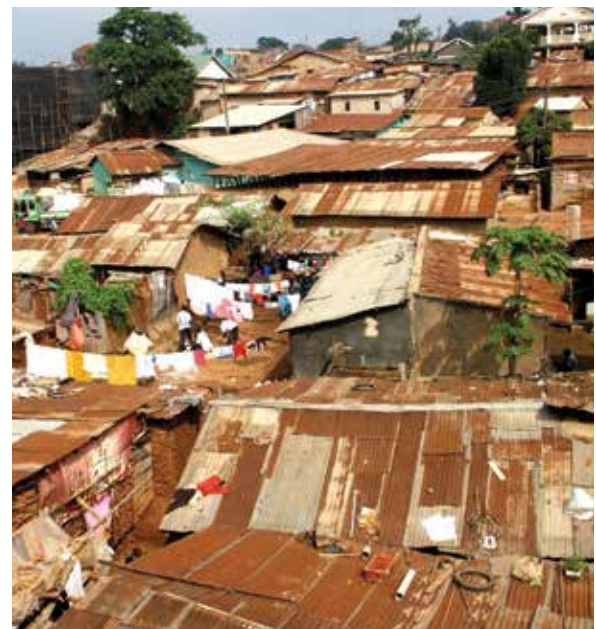
With high rates of spatial expansion and unplanned growth; the lack of integration between sectoral and spatial planning; the inadequate provision of basic services; the weak urban management capacity and significant fiscal constraints, congestion diseconomies are already afflicting Uganda, limiting the ability of its towns and cities to exploit agglomeration economies. With the proliferation of informal housing and sprawling slums, congestion is increasing rapidly, creating chaotic conditions and resulting in a deterioration of the physical and social environment.

The increasing pace of urbanization, combined with low levels of investment capabilities, has generated housing shortages in many urban areas, forcing many residents, particularly new migrants, to live in squalid housing conditions. Many cities, including Kampala, have expanded beyond their original spatial plans, with the expansion of services and housing lagging severely. Comprehensive spatial planning is implemented only sporadically and poorly, with urban areas being surrounded by vast sprawling unplanned settlements. The private sector, which generates most of the city's housing facilities, has only been able to meet a small proportion of the demand. The state-owned developer, the National Housing

and Construction Company (NHCC), is producing only approximately 77 units per year, a completely inadequate figure.

Some of the major challenges faced by low income earners include the problem of accessing land to develop housing facilities, limited access to basic facilities (bathrooms, toilets and kitchens), and challenge of accessing building materials of sufficient quality in adequate quantities and at affordable costs. The housing challenge is exacerbated by the complex land tenure system prescribed by the Constitution, which vested land ownership to residents, with urban authorities no longer holding statutory leases.²⁴

With such shortages, many urban dwellers are forced to take up residence in informal settlements. It is estimated that 85 percent of the city's low income population lives in slums, a level that is much higher than most East African countries. Within these unplanned settlements, dirt roads make up a large percentage of the road network, with the few tarmac ones full of pot holes. There are no street lights, drainage channels are inadequate and silted, scattered waste (both organic and inorganic) contaminates water



Mulago Katanga housing low income workers in the city. *Digital Media Network Ltd (2014)*

²⁴ The Constitution provides for the following four land tenure systems – Mailo land tenure, Freehold land tenure, Customary land tenure, and leasehold land tenure systems.

sources when they overflow during the rainy season, and water and sanitation services are poor or non-existent, with the majority of houses not connected to either piped water or to public sewers.

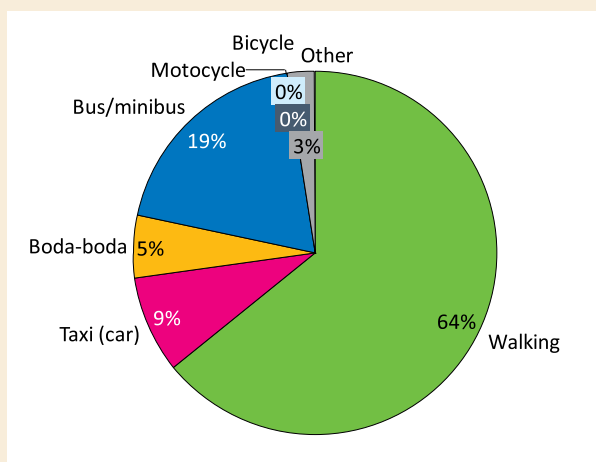
Thus, informal settlements in Uganda are often characterized by squalid living conditions. They lack basic waste management facilities; have poor drainage and sewerage; use unhealthy sources of energy; and have no access to affordable and reliable sources of water and sanitation facilities. In these places, roads are unpaved, narrow and poorly structured, while social services and recreational facilities such as gardens and play grounds either do not exist or are grossly inadequate to support a sense of neighborhood in a community. Under such conditions, studies have indicated that as much as 80 percent of low income earners in urban areas live in slums with a high disease and morbidity burden.

A related challenge in Uganda’s rapidly expanding cities is to maintain labor mobility while ensuring that land and property prices remain affordable for the majority of households. Currently, public

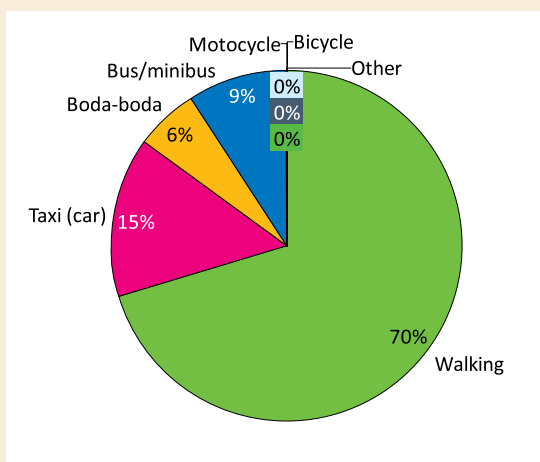
transport is unaffordable to many at current income levels. According to the UNHS data collected in the 2010, 64 percent of urban dwellers walk to work, with the figure reaching up to 70 percent in Kampala (see Figure 32). As cities in Uganda grow in size, the limited ability of those without access to motorized transport restricts labor market opportunities for those who live further away from economic centers. The lack of access to such transport may even exacerbate the formation of slums, as many people will accept extremely low quality housing in order to be close to jobs or to offset commuting costs. Typically, the choice of transportation mode is determined by incomes, with number of trips increasing with incomes. The limited data available shows that households in Kampala pay US\$ 13 per month on transportation, which is equivalent to approximately 8 percent of the household budget. While this is consistent with global estimates of what people pay for transport, transport fares are particularly high for the poor. In fact, households in the bottom quintile spend up to 41 percent of their incomes on transport. This is consistent with the situation in many African cities.²⁵

Figure 31 How people get to work?

All urban areas



Kampala



Source: UNHS 2010

In Addis Ababa, 70 percent of trips are by walking and public transport is estimated to cost not more than 37 percent of household income, with average distance walked at 5 km. In Nairobi, it is 4 km, where 48 percent of trips are by non-motorized transport, including walking – and the poor pay 34 percent of

their incomes on transport. And in Dar es Salaam, the average distance walked is 2.2 km and the share of non-motorized transport is 45 percent, with transport expenditures for the poor accounting for 53 percent of incomes.²⁶

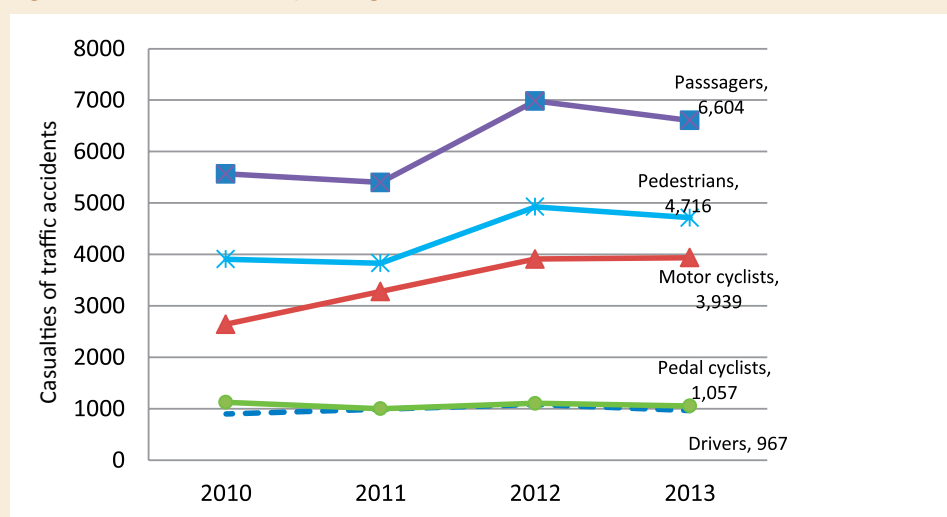
²⁵ AICD, stuck in traffic.

²⁶ SSATP 2002 and AICD

Developing an urban transport strategy is therefore an essential part of the comprehensive response to planned urbanization, and wide availability of mode of transport is an essential feature of such a responsive strategy. In the short term, it is important to enable the availability of a wide range of service levels and modes at different prices to meet the varying needs of the residents of urban areas. At the very bottom of these options is a system of mass transport, such as rapid bus transport systems that allows more efficient mobility and reduces congestions, while at the same time reduces the cost to users. It is also vital to invest in sidewalks

to reduce pedestrian fatalities as a result of traffic accidents. In an environment where the majority of people walk to work, there are hardly any facilities or safety standards to protect pedestrian road users (see Figure 33). Improving sidewalks and street lights and implementing other measures to protect pedestrians should be an important priority in the development of an urban transport strategy. In the longer term, policies to tax motor vehicle use (possibly through the imposition of increased gasoline taxes) and increased supply of public transport options will be necessary components to ensure the development of a functioning urban environment.

Figure 32: Pedestrians and passengers affected most in road accidents



Source: Uganda Bureau of Statistics, Statistical Abstract 2014

4. Can Uganda reshape its cities to become more competitive, produce more and better jobs and be more livable?

In the future, Uganda's citizens will take up residence in urban areas at an even faster rate than has occurred in the recent past. As discussed above, Uganda's urban population is projected to increase to fast as people move out of the agricultural sector into higher productivity and higher paying work. In anticipation of this development, it makes very good sense to make the appropriate investments required to ensure that cities drive equitable growth.

Ugandan policies need to implement policies to build cities that are competitive, productive, innovative, and livable. Evidence from today's developed and rapidly emerging countries shows that productive cities are engines of economic growth, with their growth correlated with the rate at which countries transition into middle income status, attracting and galvanizing entrepreneurs and productive capital.²⁵ However, a lot depends on the quality of infrastructure

and services that these cities offer and how they are managed. Through their density, cities also enable the cost effective delivery of crucial services to the poor. For example, providing piped water costs an average of US\$ 0.70-0.80 per cubic meter in urban areas, but US\$ 2 in sparsely populated areas.²⁶ Education and health care services can be delivered more efficiently and at scale in dense environments, with associated facilities being located close to where people actually live.

²⁷ World Bank, 2008

²⁸ Kariuki and Schwartz 2005

Both Uganda’s Vision 2040 and the draft Second National Development Plan recognize that properly conceived, planned and implemented, urbanization can drive equitable growth.

Recognizing that appropriately planned urbanization is vital in order to transform cities into engines of economic growth, the Ugandan Government is formulating a National Urban Policy which will enable the urban sector to play a critical role in the development of the nation’s economic growth. The policy is intended to provide a framework to guide government agencies and other stakeholders in the planning, implementation and effective management of urban growth. In addition, the policy should address negative consequences associated with the rapid urbanization process, including urban poverty, poor solid waste management, unemployment, pollution, urban crime, environmental degradation, urban disasters, the limited availability of housing for the poor, congestion, inadequate infrastructure services, and poor urban governance. The policy should be guided by smart growth principles that aim to enhance the quality of life, to improve

competitiveness, to optimize land use, to preserve the natural environment, and to save money over time. A good National Urban Policy should therefore be able to guide the development of an integrated framework to facilitate the transformation of urban centers to ensure that they are competitive, livable, sustainable and able to serve as a catalyst for social economic development.

The core goal should be to make Uganda’s cities more competitive, so that they can better play their expected role as a driver of economic growth.

International experience suggests that building economic density and improving connectivity between and within cities should be the top priority. Achieving this will require planning and the creation of institutions that can implement these plans. This update ponders a number of aspects that supported the growth of competitive cities in other parts of the world. For Uganda to build more competitive cities to bolster its engines of growth, it needs to respond to the key policy questions highlighted below.

4.1 Is physical planning supporting an efficient urbanization process in Uganda?

Many of the challenges facing Uganda’s urban areas today have arisen due to lack of planning and lack of enforcement of existing regulations.

The physical planning function was decentralized to the local authorities by the Local Government Act 1997. The Physical Planning Act 2010 provides for the establishment of a National Planning Board, establishment of District and Urban Physical Planning Committee, making and approval of physical development plans and applications for development permission. Nonetheless, some district and urban councils do not have plans to guide the development of supplements with the provision of the necessary associated infrastructure. Given the financial constraints that some of local authorities face, in many cases, they are not able to recruit the necessary staff to this responsibility. Despite this, developments are taking place in these urban centers with little or no enforcement of existing regulations. The result has been the uncontrolled expansion of informal settlements. Physical planning and development is also complicated by inter-jurisdictional coordination

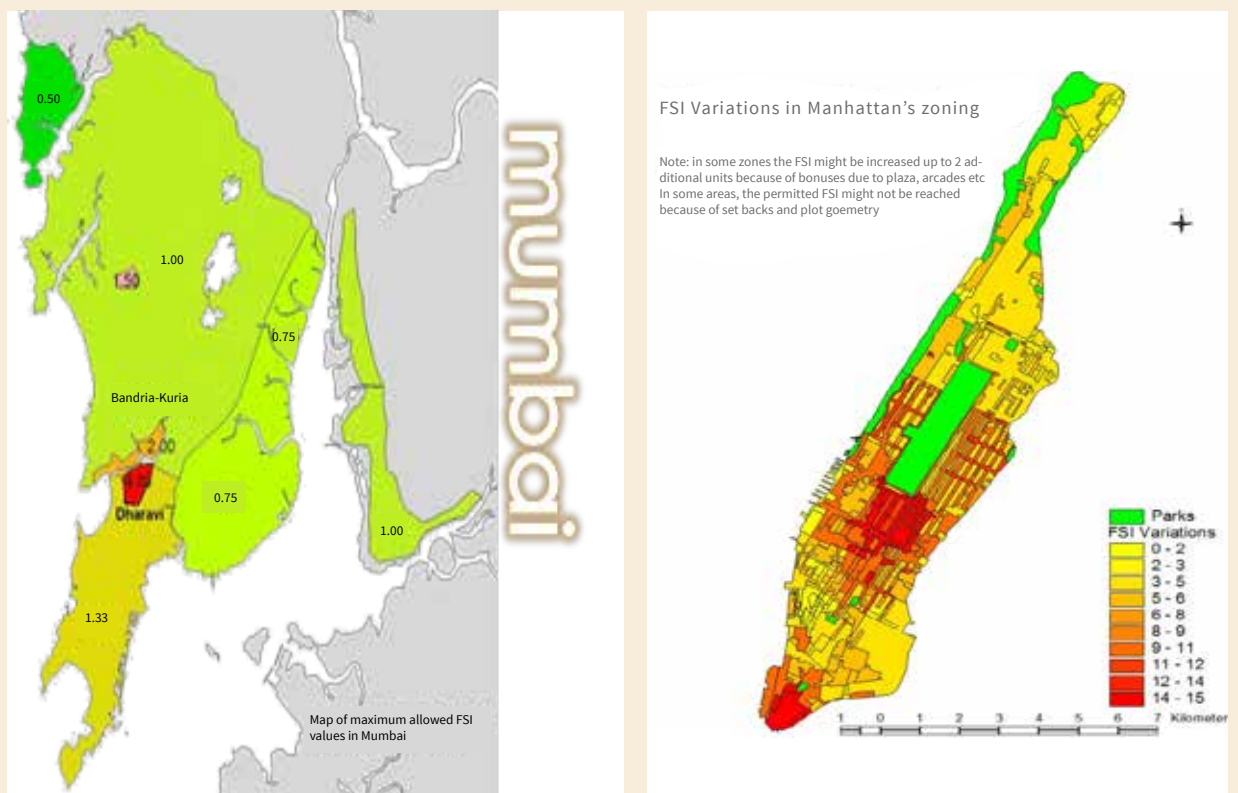
challenges that result from the proliferation of local governments and from the inadequate coordination between the various institutions and offices that are involved in physical planning. Many local political leaders do not seem to appreciate the need for physical planning or for the required prioritization in terms of funding, implementation and enforcement.

Improved coordination between investments in infrastructure, the implementation of regulations that allow an increase in density, and improved public housing allocation can help cities to maximize the benefits of agglomeration, effectively connecting people to jobs while reducing congestion and sprawl. Regulations to govern building height or density regulations are often put in place to conserve an existing infrastructure. However, planners often misjudge the extent and reach of the regulations they implement and end up setting these limits much below what would best serve the needs of the urban population and support agglomeration. This has been the case in Mumbai,

where city regulation had resulted in markedly low densities compared to those recorded in other high population cities, such as New York, which benefit from more flexible rules. Mumbai's low levels of density are pushing economic activity and housing to the fringes of the city, which has significantly weakened the potential benefits of agglomeration and density while at the same time creating urban sprawl.

Each of Uganda's cities must have a plan or a vision that meets its own specific circumstances. If the authorities do not formulate a clear vision to guide them, it will be difficult to identify the right reforms and to coordinate them appropriately. All successful cities have developed and effectively implemented plans. In short, the absence of planning and effective implementation incurs a very large, and often irreversible, cost.

Figure 33. Stringent regulations on building height or density regulations weakened the potential benefits of agglomeration in Mumbai, but not in New York.



Source: World Bank.

Regulations to govern building height or density regulations are often put in place to conserve an existing infrastructure. However, planners often misjudge the extent and reach of the regulations they implement

4.2 How effective are the institutions for urban development?

Although Uganda's legal framework creates provisions for urban administration and governance structures, both at the national and local government levels, the governance structures are scattered and poorly coordinated, which in many cases results in a conflict of mandates and roles. This has resulted in the predominance of weak institutions that cannot manage and enforce laws and regulations for the appropriate management of urban areas. In addition, very frequently, urban institutions are not adequately staffed. These institutions lack the necessary management systems and tools to enable their staff to perform their duties to achieve the desired effect. In order to ensure effective urban development, there is a need to develop appropriate systems and tools for urban management. This calls for a focus on institutional development for urban development and management rather than on individual capacity building. The Uganda Support to Municipal Infrastructure Development (USMID) program is piloting such an approach, with a focus on two results areas, these being: (i) municipal institutional strengthening; and (ii) improved core urban infrastructure. In addition, the Kampala Institutional and Infrastructure project (KIIDP1&2) aims to strengthen Kampala City Council Authority in the areas of urban development and management.

In the absence of strategic planning to accommodate long term growth, cities will face challenges in coordinating, acquiring, planning and developing land for infrastructure or for public use in general. The weak fiscal capacities of local governments exacerbate the problems of

compensating landowners at market rates. Own source revenues are derived from trading licenses, cultural heritage, property rates, occupation permits, administrative fees such as parking fees, livestock and abattoir fees, and market dues. Urban local governments also receive revenues through professional levies, fines and penalties, graduated tax compensation from the central government, statutory transfers from central governments (unconditional grants, conditional grants, and equalization grants), fees from building permits, local service tax, ground rent and premiums, and the rental of urban council facilities (halls, buildings and compounds) for private functions. With the exception of Kampala City, which raises about 50 percent of its budget from own source revenues, all other urban councils in Uganda depend heavily on central government transfers to finance development programs.

While the provision and financing of urban roads are the responsibility of urban local governments, their limited finances do not allow them to acquire land or to maintain existing road networks. As a consequence, the main arteries in urban areas, particularly in Kampala, are rapidly becoming highly congested. The congestion challenge is compounded by the Government's decision to divest itself from the provision of public transport. The predominant form of public transport in Uganda is now privately owned 14-seater minibuses. With the lack of an adequately functioning public transportation system, there has been an explosion in the number of private motor vehicles, with a number of such vehicles estimated to be growing at 11 percent per year. Traffic snarls are



Lubigi channel - City planners at work to provide drainage in the city. *Sheila Gashishiri (2013)*

an increasingly significant problem, particularly in Kampala, which receives one million commuters into the city each day. Transport experts suggest that the public transport system in Kampala could be improved by: (i) signalization at major junctions

and the conversion of some streets to one way traffic flow (traffic management); and (ii) the widening of some streets and making provision for a bus rapid transit system to expand capacity.

4.3 How effective are the land markets and how do they affect land use?

More efficient land use, increased urban density, the modernization of agriculture, and a more equitable income and wealth distribution between rural and urban areas all require more efficient and equitable utilization of land.

Well-functioning land markets can improve the efficiency of land use by increasing the compensation rural residents receive from land conversion in rapidly urbanizing countries. Land reforms can also lead to increased urban density, which would reduce the level of energy intensity and car use in cities, thus improving environmental sustainability. As a negative example, in countries such as China and Ethiopia, land acquisition and conversion for industrial use has been particularly inefficient because it has been driven by administrative decisions rather than market demand. In both cases, the incentives for local governments to expand the city rather than to develop existing underused urban land are strong. In China, the acquisition of rural land and its sale for commercial and residential purposes results in large windfall gains for city finances. In contrast, the acquisition of urban land is more expensive and cumbersome, because urban residents have stronger property rights. Furthermore, national regulations that protect farmland from conversion have the unintended consequence of fragmenting the urban periphery because available land for conversion is often not adjacent to the core city.

While tenure security would greatly improve investment and productivity, the lack of clear property rights in Uganda has removed a large proportion of land from the market. By 2006, only 18 percent of private land was titled. Indeed, land registration is not a necessary condition for land tenure security, but global evidence suggests that it enhances land tenure security by defining the nature

and content of land rights, availing all information on land ownership in a public record (the land registry) for inspection and having its correctness assured by the state.²⁹

In Uganda, unclear property rights and land-related conflicts have had a number of consequences on levels of productivity and on rates of urban expansion. Data from the UNHS 2010 show that 37 percent of land could not be sold, 34 percent could not be rented, and 44 percent of land could not be used as security for a loan. This is partly attributed to the predominance of the mailo land tenure system, which is beset by overlapping land rights between those who are registered owners and the lawful or bona fide occupants, with this system regulated by the Uganda Land Act of 1998. Overlapping property rights on mailo land have created investment disincentives and reduced levels of productivity by up to 25 percent.³⁰ There has also been a deterioration in land rental markets following the implementation of the 1998 Land Act and the 2010 Land Amendment Act, which increased the powers of tenants over landlords through the introduction of the concept of “bona fide” occupants, making it very difficult for landlords to evict tenants. On the other hand, in the western, eastern, and northern regions, customary land tenure systems restricts the sale of land to individuals from outside the community. Limited fluidity of land also contributes to the low economic density of most urban centers in Uganda as they can only expand horizontally, and not vertically through the construction of high rise multipurpose buildings. Moreover, the urban authorities do not have the land required for the necessary public works and social infrastructure and cannot afford the high compensation rates for privately owned land.

²⁹ Deininger, Klaus 2003. Land Policies for Growth and Poverty Reduction. A World Bank policy research report. Washington, DC: World Bank Group.26 Kariuki and Schwartz 2005

³⁰ World Bank, 2012. Uganda Promoting Inclusive Growth – Transforming Farms, Human Capital and Economic Geography.

Institutions for land management are weak. The district land boards are provided for at the district level and the law establishes their mandate to handle planning and land management issues. The current structure does not respect the mandate, autonomy and responsibility of urban councils, especially in the case of municipalities that are supposed to be autonomous, as provided for by the Local Government Act (2007). In some cases, district land boards have allocated land in urban centers, which is not in sync with the land use plan of that particular urban local government.

For land to serve as a transformative asset to support the achievement of increased productivity and improved spatial planning, the current system of land rights must be streamlined. This will eventually reduce the conflicts and overlapping land rights on mailo land; reverse the decline in land rental market activity; and encourage the emergence of land rental markets in areas where systems of communal land ownership prevail, such as northern Uganda, thereby enabling these areas to attract investment. To address land security, reviewing the existing laws and strengthening institutions with a mandate to address land management issues and land related disputes and conflicts should be a top priority. Reforms specifically aimed at improving the efficiency of these systems

in urban areas is critical, with necessary reforms including the design of an urban land tenure system that supports investments and service delivery in urban areas, including the healthy development of satellite towns. A law to better regulate the land market needs to be put in place to improve management of land and infrastructure financing. Housing policies need to be reviewed in the light of market failures to address the need for housing by low income earners.

In addition, Uganda needs to implement measures to improve urban planning and zoning; to facilitate downtown improvements and readjustment; and to reform systems of agricultural land management.

It also needs to strengthen the capacities of land administration institutions. In the medium to longer term, such measures will help prepare Uganda in the establishment of a system to value land (including an integrated land management and registration system), to manage land transactions (including the setting of levels of compensation for land acquisitions), to settle land related disputes, and to review regulations that govern land transactions. International experience shows that highly urbanized countries such as South Korea established the institutional foundations for fluidity in land transformation at incipient stages of urbanization (see Box 8).

Box 8: Sequencing policies to make land markets flexible : Learning from South Korea

Incipient	<ul style="list-style-type: none"> Establishing land management and ownership Adopting building permits, urban planning districts, and zoning Project bases: Land Acquisition Act, Downtown improvement program (redevelopment), Land readjustment program(new development) Agricultural land reform after Korean Independence
Intermediate	<ul style="list-style-type: none"> Expanding urban planning districts Adopting Floor Area Ratio regulations('70) Land use change permit, Regulation of appropriation of agricultural and forest lands ('72) Project bases: Industrial base development through land acquisition by complete purchase('80) Long-term planning National land development plan, urban comprehensive plan
Advanced	<ul style="list-style-type: none"> Integrating land use management systems in urban and non-urban areas Adopting a regional metropolitan plan system
Future plans	<ul style="list-style-type: none"> Land management for preventing chaotic development and ensuring social equity Reasonable, efficient, and cooperative planning system Urban policies focused on urban region

Source: Park et al (2011): Korea Urbanization Review case study.

4.4 Is the business environment conducive for high productivity activities in the cities?

Beyond infrastructure and land markets, a regulatory framework that promotes the development of formal and informal enterprises and that facilitates the development of human skills to match the labor market needs will also be critical.

Uganda is ranked 150th out of 189 countries across the world in terms of ease of doing business. While the country is making progress in some areas, a major effort is still need to establish a good framework for trade across borders, for the issuance of construction and business permits, and for the provision of reliable supplies of electricity. According to the 2013 enterprise survey, while there seems to have been a notable improvement in terms of the provision of reliable supplies of electricity to business enterprises, lack of access to such supplies remains one of the most commonly cited significant constraints on doing business in Uganda, followed by access to finance and informal competition.

The development of solid, properly functioning institutions needs to be aligned with strategic investments in transit, waste management systems, and other basic infrastructure. At the same time, systems of urban governance need to be strengthened through the development of the appropriate financing systems to fund maintenance and operations.

As this report makes clear, a large proportion of job opportunities in Uganda are generated in low

productivity sectors. In part, this is because of the human skills input into the production processes.

At the current stage of industrialization, the demand from employers is concentrated on relatively unskilled labor as industries aim to take advantage of the existing cheap labor, a key comparative advantage. According to the 2009 Investment Climate Assessment, Uganda firms that are less skills intensive and less capital intensive are also less concerned about worker education and skills. In contrast, higher productivity, more capital intensive firms are more concerned with the recruitment of well-educated and better skilled workers. Indeed, a significant number of firms import managerial and technical skills because of the lack of their availability locally.

To break a vicious circle characterized by low levels of demand, low skills, and low productivity, it is vital that the education system be reformed to better enable it to supply a literate and disciplined labor force. The action plan should be based on four complementary measures: (i) improving access and quality at the primary and secondary level; (ii) reducing the mismatch between the supply and demand of skills through closer coordination between the public and private sectors; (iii) taking steps to include the large proportion of youth left out of school; and (iv) making targeted interventions to help small and medium enterprises (SMEs) and household enterprises (HEs) and to reduce regional and gender disparities.



Marguerita Factories, contributing to the transformation towards higher productivity activities in the Kampala city. *Digital Media Network Ltd (2014)*

4.5 Are the existing transport system ensuring connectivity?

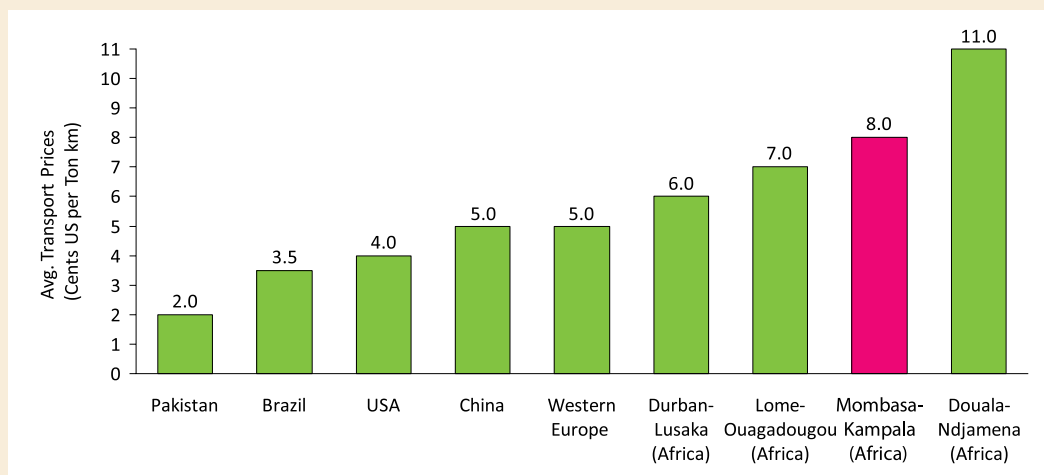
Improved connectivity between and within cities can benefit producers and consumers, both in urban and rural areas.

Improved connectivity would give producers better access to inputs (including labor) and output markets. It would expand consumers' options and, in many cases, exert downward pressure on prices. In fact, spatially integrated labor and product markets enhance the economic efficiency of cities. The spatial extent of urban areas and the efficiency of the urban economy is reduced with diseconomies from congestion. In Uganda and in most of East Africa, cities face significant mobility constraints. Motor vehicle ownership is on the rise, with more than 100,000 vehicles registered every year, compared to 11,000 in 2002, and the number of motorcycles increasing

almost three times as much.³¹ While the pace of motorization may appear alarming, these trends are only going to accelerate as incomes rise and the cost of vehicles declines. The challenge is to manage private vehicle use appropriately as is done in other big cities to minimize congestion.

The level of connectivity between Kampala and other cities is constrained by high transport costs. The cost of transport is considerably higher along the Kampala-Mombasa corridor compared to transportation costs between major cities in other countries. Transport prices are US 8 cents per km between Mombasa and Kampala, compared with US 6 cents between Durban and Lusaka, US 5 cents in China and 4 cents in the United States (see Figure 34).

Figure 34: High transport prices along the Mombasa – Kampala corridor



Source: UNHS 2010

Variable costs contribute to the level of transport costs. Despite poor efficiency factors such as the low yearly vehicle utilization rates; the aging vehicle fleet, which lead to higher fuel consumption; poor road conditions; and unbalanced trade; trucking companies can still charge high prices and have a relatively high profit margin along some corridors. In fact, profit margins along Mombasa-Kampala corridor are 86 percent, much higher than the margins in Southern Africa, where the average profit margins are around 18 percent. Poor road conditions may not be the most critical factor driving transport costs up,

market regulation is likely to be a more significant factor. In fact, truckers have reported that 86 percent of the corridor between Mombasa and Kampala and 75 percent of the corridor between Kampala and Kigali is in good condition. Strategic investments in connective infrastructure (roads, railways) and in smart policies (public transportation, security) will be critical to improving mobility within cities, while greater mobility between cities will promote intercity trade and trade between rural and urban areas. It will also result in increased flows of remittances and improved access to regional and global markets.

³¹ Uganda Bureau of Statistics, Statistical Abstract 2014

4.6. Are urban entities funded sufficiently?

At the incipient stages of urbanization, large outlays of capital are needed to finance the construction of transport, provision of water, management of solid waste, sewage removal and treatment facilities. These essential outlays often far exceed the budget of any city government. So, the question is: *How will Uganda's policymakers bridge the gap between readily available resources and investment needs to accommodate urbanization and to develop densities? What sources should they tap?* Of course, one option is to utilize oil revenues to develop urban infrastructure. However, for this to be an effective use of available resources, a number of additional steps need to be taken. These include reviewing and adopting fiscal policies which will enhance own source revenues for urban authorities; reviewing the current intergovernmental fiscal transfer architecture (IGFT) to support urban development; and facilitating the development of strong, strategic public-private partnerships for the financing of selected urban infrastructures.

Local authorities generally lack financial independence, with these entities being overly reliant on the central government through the existing IGFT. The prevailing IGFT limits the development of urban centers since it predominantly involves conditional transfers. Urban local governments tend to have access to the least profitable, most burdensome sources of revenue ("nuisance revenue sources"), while control over the more productive revenue sources is retained by central government. As a result, there

are concerns regarding horizontal and vertical fiscal imbalances. While unconditional grants are supposed to be "unconditional", as their name implies, they are predominantly used to pay staff salaries rather than for capital development. This obviously limits the ability of urban managers to provide critical services to urban residents. A widely prevalent view among urban managers is that unconditional grants should be entirely unconditional and that the Public Service Ministry should directly pay all staff salaries. In addition, compared to other local governments, urban local governments are still not treated by the central government as a priority funding area.

Uganda is one of the few countries in the world which exempts owner occupied residential units from paying property taxes. Property rates is one of the most reliable and lucrative sources of revenue for urban authorities in many parts. Although Uganda has one of the most progressive pieces of rating legislation, it has also decided to exempt owner occupied residential units from paying taxes. The Government passed the LGs (Rating) Act 2005, which provides for the imposition of rates on property by local governments within their areas of jurisdiction, the valuation of property for the purpose of rating, and the collection of rates. This may enhance the own source revenue capacities of urban local governments, especially relating to the exemption of the owner occupied residential units from payment of the property rates which has been a long standing issue (see Box 9).

Box 9: Rent not equivalent to Property rates

The Government has exempted owner occupied residential units from property rates on the grounds that they should not pay on their own residences. However, rent is the amount paid for occupying and using a property and the money goes to the landlord, whereas a property rate is the amount levied on the net annual rental value of a property and the money goes to the local government where the property is located.

The LG (Rating) Act 2005 provides for the money collected from the property rates to: (i) be deposited in a property rate account; and (ii) be used for provision of services such as road construction and

maintenance, street lighting and anti-malaria drains, garbage collection, physical planning and such other services required by the rate payers within the areas. Furthermore, the Act stipulates that property owners and occupants should form rates payers association to oversee the provision of the delivery of services from the property rates fund.

The amount of rate for any property in any financial year shall not exceed 12 per cent of the rental value of the property. If the annual rental value of a property is UGX100,000, the rate payable will not be more than UGX12,000 per annum.

Source: Park et al (2011): Korea Urbanization Review case study.

Greater coordination between the national policy³² and legal³³ frameworks is needed to address the increasing challenges and realities of the urban sector. The existing policies such as the National Land

Use Policy and the Decentralization Policy need to be reviewed and harmonized so that they take care of emerging issues related to urbanization.

4.7. Concluding Remarks

Can Uganda implement the smart policies that can ensure that its cities are both competitive and livable? Yes, but this will require a comprehensive set of actions that will establish the necessary business environment required to create productive jobs; to provide a conducive working environment for workers; to develop good quality buildings for housing; to improve the quality of infrastructure; and to ensure good access to social services, particularly health and education services. Failure to unlock the potential of cities may result in a deceleration of growth and

the emergence of dysfunctional slum cities in which people live in appalling conditions. Appropriate investment in the development of the country's cities is vital if Uganda is to prevent urbanization from resulting in dysfunctionality and diseconomies of scale. While this will require an efficient public investment program, the participation of the private sector is also vitally necessary. In the medium term, the revenues expected to be derived from the exploitation of oil can help finance the development of the necessary infrastructure.



³² Policies relating to urban development include the National Land Use Policy, Decentralization Policy, Health Policy, National Environment Management Policy, National Land Policy, Water Policy, among others

³³ The legal framework regulating the urban sector includes the Local Government Act, Cap 243; the Public Health Act, Cap 281; the National Environment Act, Cap 153; Access to Road Act, Cap 350; the Land Act, Cap 227; the Condominium Property Act, 2001; the Physical Planning Act, 2010; the Water Act, Cap 152; the Market Act, Cap 94 among other laws.

Statistical Annex

Table A1: Macroeconomic Indicators

Indicator	Unit measure	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13	2013/14
Population	Millions	27.6	28.6	29.6	31.0	31.9	32.9	33.9	34.9
GDP	USD	11,903	14,440	15,596	17,933	17,947	24,034	24,642	26,505
Per capita GDP	USD	431	506	527	579	562	731	727	759
GDP growth	%	8.4	8.7	7.2	5.2	9.7	4.4	3.3	4.5
Gross Domestic Savings	as % of GDP	16	15.9	12.2	19.7	19.5	19.4	22.6	22.6
Gross Investments	as % of GDP	23.6	23	23.5	12.5	12.3	12.6	15.4	15
Inflation (period average)	%	6.8	7.3	14.2	9.4	6.5	23.4	5.8	6.9
Exchange Rate (end-year)	UGX/USD	1778	1696	1905	2283	2623	2472	2593	2581
External Sector									
Exports - Goods and Services	Million USD	2,085.96	2,755.73	3,145.66	3,470.14	3,827.87	4,671.97	4,992.29	5,317.60
Imports - Goods and Services	Million USD	-3,322.19	-4,633.06	-5,394.54	-5,757.24	-6,828.51	-7,665.32	-7,530.10	-7,868.71
Current Account Balance	Million USD	-286.32	-865.11	-1,220.09	-1,510.47	-1,751.00	-2,014.00	-1,716.03	-1,743.03
Balance of Payments (overall balance)	Million USD	703.9	563	-45.7	210.9	-579.0	747.3	338.0	378.5
Foreign Reserves	Million USD	2090.8	2684.4	2442	2385	2044	2644	2912	3418
External Debt	Million USD	1466.8	1687	2046.4	2343.4	2904.9	3254.1	3825.2	4288.6
Foreign Direct Investment	Million USD	718.28	760.6	785.22	692.72	719.08	1261.11	1008.63	1153.97
Tourism Earnings	'000 USD	449	590	564	752	824	1057	1105	1415
Monetary Sector									
Average Deposit Rate	%	2.2	2.2	2.1	2.0	2.6	3.3	3.0	3.1
Average Lending Rate	%	16.9	18.2	18.8	18.2	19.2	24.6	24.8	22.1
Growth in Money Supply	%	17.4	31.1	25.0	31.7	25.9	15.7	6.6	14.1
Government Finance									
Total Domestic Revenue	as % of GDP	12.6	12.8	12.5	10.5	13.6	11.2	11.5	11.9
Tax Revenue	as % of GDP	11.9	12.3	11.8	10.3	13.4	10.3	11.2	11.7
Non Tax Revenue	as % of GDP	0.7	0.5	0.7	0.3	0.2	0.2	0.3	0.2
Total Expenditure and net lending	as % of GDP	18.6	17.9	17.3	16.7	19.1	15.6	16.5	16.7
Recurrent Expenditure	as % of GDP	11.5	11.8	10.9	10.5	12.7	9.1	9.1	9.8
Development Expenditure	as % of GDP	6.1	5.6	5.6	6.1	6.1	6.1	6.6	7.0
Grants	as % of GDP	4.5	2.7	2.6	2.1	1.9	1.9	1.5	1.0
Fiscal Balance (overall)	as % of GDP	-1.5	-2.4	-2.2	-4.0	-3.6	-2.5	-3.5	-3.8

Table A2. Growth and Structure of Uganda's Economy

Economic Activity	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13	2013/14
Real GDP Growth Rates (%)	8.4	8.7	7.2	5.2	9.7	4.4	3.3	4.5
Agriculture	0.1	1.3	2.9	3.2	2.9	1.1	1.8	1.5
Industry	9.6	8.8	5.8	7.8	11.4	3.1	4.3	4.3
o/w manufacturing	5.6	7.3	10.0	4.5	7.8	2.7	-2.5	2.8
o/w construction	13.2	10.5	3.7	12.6	15.0	3.9	10.8	5.7
Services	8	9.7	8.8	5.9	12.4	4.9	4.0	4.2
GDP at market prices (%change)	16.7	15.5	22.9	5.2	9.7	4.4	3.3	4.5
GDP Shares (% of nominal GDP)								
Agriculture	22.3	21.4	23.1	26.2	24.7	26.5	25.3	24.8
Industry	25.2	25.8	24.7	18.1	20.4	21.3	20.8	20.6
o/w manufacturing	7.1	7.3	7.9	8.5	10.2	10.9	10.0	9.3
o/w construction	13.1	13.6	12.3	5.8	6.7	7.1	7.4	7.8
Services	47	46.9	46.4	48.5	47.7	45.5	46.8	47.1
FISM and net taxes	5.6	6	5.7	7.2	7.2	6.8	7.1	7.6
GDP Shares by expenditure type (% of nominal GDP)								
Final Consumption Expenditure	89.7	84.7	88.2	83.2	84.2	86.6	84.8	80.7
Households	76.9	73.5	78.1	73.8	74.6	73.9	76.6	72.8
Government	12.7	11.2	10.1	9.4	9.6	12.7	8.2	8.0
Gross Capital Formation	23.7	23	22	27	27	28	28	30
Gross fixed capital formation	23.4	22.7	21.7	26.6	26.5	28.1	27.9	29.1
Charges in inventories	0.2	0.2	0.3	0.4	0.3	0.3	0.4	0.4
Net exports	-13.3	-7.7	-10.1	-10.1	-11.0	-15.1	-13.0	-10.3
Gross domestic saving (% of GDP)	16	15.9	12.2	12.5	12.3	12.6	15.4	15.0
Public	-0.8	-0.1	0.9	2.9	3.3	2.9	3.6	4.2
Private	16.8	16	11.3	9.6	9.0	9.7	11.9	10.8

Table A3: Fiscal framework (% of GDP)

as % of GDP	2006/7		2007/8		2008/9		2009/10		2010/11		2011/12		2012/13		2013/14		
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	
Total revenue & grants	17.4	17.1	17.1	15.5	17.2	15.1	16.6	14.7	14.7	15.3	15.6	14.8	13.1	15.9	16	12.9	13
Revenue	12.1	12.6	13.0	12.8	13.1	12.5	13	12.2	13.3	13.4	12.6	12.3	11.1	13.6	14.5	11.5	11.9
Tax	11.9	11.9	12.6	12.3	12.8	11.8	12.8	11.7	12.7	10.5	12.4	11.8	10	13.3	14.2	11	11.7
Nontax	0.2	0.7	0.5	0.5	0.3	0.7	0.2	0.6	0.6	2.9	0.2	0.5	1.1	0.3	0.3	0.5	0.2
Grants	5.3	4.5	4.1	2.7	4.1	2.6	3.6	2.5	2.3	1.9	2.9	2.6	1.9	2.3	1.5	1.5	1.0
Budget support	2.6	3.7	2.1	1.9	1.6	1.8	1.7	1.3	1.3	1	1.3	1.3	0.9	0.9	0.3	0.3	0.2
Project grants	2.6	0.9	2	0.8	2.5	0.9	1.9	1.1	1.1	0.9	1.7	1.3	1	1.4	1.2	1.2	1.0
Total Expenditure	20.1	18.6	19.3	17.9	20.4	17.3	20.3	19.6	22.8	18.9	19.8	19.5	15.6	20	21.6	16.4	16.7
Recurrent	11.2	11.5	11.1	11.8	10.5	10.9	10.3	12.3	15.3	12.7	10	11.3	9.4	10.2	10.6	9.1	9.8
Development	8.2	6.1	7.8	5.6	9	5.6	9.9	6.6	7.1	5.9	9.4	7.6	5.8	9.7	11	6.6	7.0
Overall balance																	
Including grants	-2.7	-1.5	-2.2	-2.4	-3.1	-2.2	-3.7	-4.9	-7.2	-3.7	-4.2	-4.7	-2.5	-0.4	-5.6	-3.6	-3.8
Excluding grants	-8	-6	-6.3	-5.1	-7.2	-4.8	-7.3	-7.3	-9.5	-5.6	-7.2	-7.2	-4.4	-6.4	-7.1	-5.1	-4.8
Financing	2.7	1.7	2.2	2.0	3.1	0.3	3.7	4.4	7.3	3.7	4.2	4.7	2.5	4.1	3.6	3.6	3.8
External financing (net)	2.5	3.3	3.1	2.5	2.1	1.7	3.0	2.2	1.4	1.2	2.4	2.7	1.9	2.3	2.3	2.3	1.3
o/w Budget support	1.2	1.9	0.8	0.9	0.6	0.8	0.7	0.7	0.6	0.5	0.7	0.8	0.3	0.5	0.0	0.5	0.0
Domestic financing (net)	0.2	-1.7	-0.9	-0.5	1.0	-1.4	0.6	2.1	5.9	2.5	1.9	2.0	0.6	1.8	3.0	1.3	2.5

Table A4: Balance of Payments (percent of GDP unless otherwise stated)

Variable	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13	2013/14
Current Account (incl transfers)	-2.9	-6.3	-8.1	-7.6	-8.7	-8.7	-7.0	-6.6
Exports of goods	12.4	14.4	14.2	11.5	11.3	11.5	11.8	10.2
Imports of goods	-21	-24.3	-26	-20.4	-23.1	-22.6	-20.4	-19.2
Services (net)	-2.3	-3.3	-2.8	-2.4	-3.0	-1.8	-1.7	-0.7
Trade balance	-8.6	-10	-11.8	-11.3	-14.8	-12.9	-10.3	-9.7
Income (net)	-1.9	-1.8	-2	-1.7	-1.7	-1.9	-2.7	-1.6
Current transfers (net)	9.9	8.8	8.6	-13.0	-16.5	-14.8	-13.0	-11.3
Capital and Financial Account	8.9	8.2	8.0	6.5	4.0	9.2	6.4	7.0
Capital account	28.8	0.0	0.0	0.0	0.0	0.1	0.1	0.3
Financial account	-19.9	8.2	8	6.5	4.0	9.1	6.2	6.7
o/w direct investment	6	5.3	5	3.4	3.5	5.4	4.1	4.4
Overall Balance	5.9	3.9	-0.3	1.0	-2.9	3.2	1.4	1.4
Gross International Reserves (million USD)	2,090.80	2,684.40	2,442.00	2,384.67	2,043.98	2,643.77	2,912.34	3,418.26
Gross international reserves in months of imports	5.6	6.0	5.1	4.7	3.6	4.1	4.4	4.7

Table A5: Value added (seasonally adjusted) by activity, at constant 2010 prices, percentage change, 2009/10 - 2014/15

Year	Quarter	Agric	Livestock	Fishing	Industry	Manufacturing	Electricity	Construction	Services	Trade & Repairs	Accommodation and food
2008/9		2.9	3.0	-7.0	5.8	10.0	10.6	3.7	8.8	9.7	4.5
2009/10		0.3	0.3	4.5	2.0	3.2	-0.4	1.6	4.6	2.6	11.0
2010/11		7.9	2.4	4.0	9.9	9.9	1.2	14.6	3.0	9.1	8.1
2011/12		4.5	10.3	2.3	3.8	4.0	17.0	2.4	4.1	3.2	4.4
2012/13		0.0	1.0	5.3	3.1	3.6	0.2	4.0	2.7	2.1	5.4
2013/14		1.8	-0.2	1.3	1.4	-1.0	1.0	4.2	1.8	-1.4	4.3
2007/8	Q4	1.0	4.5	-14.3	3.0	-1.8	5.1	5.5	4.7	4.8	7.3
2008/9	Q1	2.3	5.8	-11.9	3.1	7.0	4.1	0.8	6.5	8.2	5.3
	Q2	1.6	8.3	-9.3	2.1	3.1	10.1	1.6	5.5	4.1	4.3
	Q3	1.9	-1.7	-4.2	5.0	6.4	5.5	5.0	8.4	4.0	2.5
	Q4	5.8	0.2	-2.0	13.7	26.3	21.5	7.7	15.2	25.1	5.7
2009/10	Q1	7.0	5.9	6.4	5.6	0.8	3.5	7.5	7.0	3.4	34.9
	Q2	0.3	-3.5	1.9	0.4	1.8	-1.3	1.2	0.2	-1.9	3.0
	Q3	-0.5	1.6	5.9	7.1	12.3	-7.4	8.9	6.7	5.4	-3.9
	Q4	-5.8	-3.0	3.7	-5.0	-2.0	3.6	-11.4	4.6	3.6	9.9
2010/11	Q1	-0.4	7.5	8.8	12.1	15.7	1.9	10.1	2.6	-0.3	17.2
	Q2	7.2	0.0	17.8	7.9	9.6	1.8	9.1	-0.2	17.9	-5.3
	Q3	13.3	5.1	5.1	16.0	11.0	1.7	31.6	5.4	11.9	11.1
	Q4	11.3	-2.9	2.7	3.7	3.3	-0.6	7.7	4.1	6.8	9.4
2011/12	Q1	10.0	13.9	4.1	19.1	31.2	-3.1	7.7	9.6	15.9	14.0
	Q2	5.7	21.7	12.2	-0.6	-2.6	-4.9	2.9	2.4	0.1	-7.4
	Q3	-5.4	5.5	-3.5	-0.1	-7.8	76.2	0.1	2.2	-3.0	3.3
	Q4	7.6	0.0	-3.6	-3.1	-4.9	-0.1	-1.0	2.3	-0.1	7.8
2012/13	Q1	-2.6	-0.2	-3.4	2.0	1.8	1.2	1.4	3.5	0.1	17.1
	Q2	0.0	2.2	0.2	2.2	4.4	-0.3	3.2	2.4	0.6	-13.4
	Q3	3.9	1.5	9.2	1.7	1.5	-3.9	5.3	2.3	3.9	13.9
	Q4	-1.3	0.5	15.3	6.6	6.8	3.7	6.2	2.6	3.6	3.9
2013/14	Q1	2.1	4.7	1.9	-1.7	-6.6	0.8	2.0	1.6	-7.4	15.0
	Q2	1.9	-7.3	4.6	0.5	-3.3	-1.3	5.2	1.2	1.3	-9.3
	Q3	5.4	3.5	-2.3	2.2	4.8	0.9	0.0	2.4	0.9	15.3
	Q4	-2.4	-1.6	1.0	4.7	1.0	3.7	9.6	2.0	-0.5	-3.7
2014/15	Q1	1.3	4.9	5.7	0.5	1.2	2.4	-4.3	3.3	-1.3	7.0

Transport & Storage	Financial services	Real estate activities	Other business	Public administration	Education	Human Health & social work	Other services	FISIM	Taxes on products
14.3	25.4	5.7	12.4	5.5	4.3	-3.2	12.3	21.7	11.8
1.5	3.5	12.6		7.5	3.2	2.0	3.8		3.5
4.3	9.7	-3.8		5.3	3.5	2.3	3.9		4.2
5.9	4.2	4.2		4.0	5.5	4.5	7.8		3.7
4.1	0.7	4.7		1.3	3.6	5.5	4.2		4.3
0.2	7.7	3.1		3.0	4.6	5.0	2.2		2.4
28.6	-5.2	-0.7	7.0	8.8	-8.1	-12.3	8.1	-5.1	15.3
21.2	-9.3	-2.1	12.2	7.6	1.3	-5.0	12.3	-11.5	9.9
14.0	17.8	-0.6	9.7	2.5	2.9	-3.3	13.5	4.2	14.9
11.3	46.4	11.9	12.8	4.6	5.9	-7.7	13.2	54.6	12.4
11.3	50.5	12.4	14.8	7.5	7.4	3.7	10.0	68.5	9.8
2.8	1.5	39.9	16.7	19.6	-0.7	2.5	12.3	111.2	7.7
-0.4	-5.0	3.2	9.8	-1.0	3.6	1.4	-0.6	100.6	-2.6
4.3	10.8	5.1	15.2	5.1	6.6	0.9	5.0	52.7	5.4
-0.7	6.5	2.3	18.4	6.2	3.3	3.0	-1.5	37.7	3.6
0.8	10.0	-23.6	14.8	17.9	4.7	3.2	1.9	28.5	5.2
4.9	7.0	2.8	15.3	0.2	1.1	3.0	4.9	34.8	1.6
3.0	8.7	1.8	6.2	0.6	4.8	2.2	2.7	21.3	4.1
8.3	12.9	3.7	-0.8	2.5	3.3	0.7	6.2	30.3	5.8
7.5	6.3	2.8	1.7	5.0	4.4	1.4	17.1	1.1	6.5
5.8	11.4	5.1	1.4	8.2	0.2	-0.9	8.4	-14.6	2.1
6.9	4.2	4.1	0.3	-2.0	9.4	9.4	4.0	-11.8	6.6
3.5	-5.1	4.7	6.3	4.9	8.1	8.2	1.8	-12.3	-0.3
3.5	2.1	3.9	13.2	-0.9	8.4	6.7	5.7	-7.2	0.2
8.8	0.5	2.8	13.3	1.5	3.4	6.3	4.2	-5.8	4.2
-1.3	2.9	6.4		3.7	0.9	5.3	3.2		10.6
5.4	-2.6	5.6		0.8	1.7	3.5	3.7		2.0
1.6	1.6	2.1		2.8	10.2	2.1	0.9		1.0
2.4	0.5	2.0		3.7	2.8	2.2	3.8		-1.3
2.3	-0.3	4.2		5.3	2.7	9.2	3.3		6.4
-5.5	28.8	4.1		0.0	2.7	6.4	0.6		3.3
-0.7	0.7	1.9		-2.9	5.4	3.1	1.2		4.9

Table A6: Imports of Goods(in millions of US \$)

Nature of Imports	2013									
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Formal Private Sector Imports:										
Animal & Animal Products	1.47	1.37	1.22	1.31	1.78	1.58	1.45	2.11	1.84	2.41
Veg Pdts, Animal, Fats & Oil	34.17	39.45	28.91	36.69	33.09	43.92	24.43	27.07	28.40	33.19
Prep Foodstuff, Beverages & Tobacco	19.7	17.8	18.8	21.13	23.32	21.15	21.47	19.68	14.62	20.42
Mineral Products (excl oil products)	12.22	11.82	10.22	9.18	10.03	9.94	11.89	11.85	12.50	14.39
Petroleum (Oil) Products	88.57	87.07	95.77	78.87	81.38	85.41	84.96	82.82	83.30	83.67
Chemical & Related Products	38.52	39.62	33.02	36.30	44.71	33.24	65.69	39.45	40.18	38.70
Plastics, Rubber & Related Products	21.51	20.22	17.71	22.21	23.28	24.29	19.48	19.40	18.04	19.83
Wood & Wood Products	9.8	9.5	8.5	8.65	12.08	8.92	10.38	10.07	8.83	9.61
Textile & Textile Products	13.24	12.22	10.42	9.66	12.46	11.37	12.65	11.39	12.10	12.56
Miscellaneous Manufactured Articles	15.45	21.26	18.41	33.25	22.35	20.21	18.25	19.61	19.27	17.89
Base Metals & their Products	20.08	19.27	21.19	28.94	29.70	34.84	33.86	23.34	24.28	23.73
Machinery Equip, Vehicles & Accessories	90.37	76.88	92.73	91.02	106.31	93.73	111.46	109.78	95.69	93.32
Arms & Ammunitions & Accessories	0.01	0.00	0.01	0.01	0.00	0.00	0.00	0.00	0.00	0.00
Electricity	0.51	0.64	0.79	0.59	0.83	0.83	0.72	0.70	0.84	0.93
Subtotal (formal private sector imports)	365.6	357.1	357.7	377.8	401.3	389.4	416.7	377.3	359.9	370.6
Other Estimated Private Sector Imports	4.89	4.88	4.56	4.24	4.30	4.11	4.16	4.20	5.18	5.10
Government Imports	22.35	39.31	20.21	46.65	25.34	41.58	14.72	48.52	38.94	28.71
Total Imports (fob)	392.8	401.3	382.5	428.7	431.0	435.1	435.6	430.0	404.0	404.5
Total Imports (cif)	481.84	488.71	467.39	525.70	528.27	534.08	534.73	528.31	493.55	495.35
o/w freight	85.26	83.74	81.32	92.91	93.19	94.77	94.97	94.15	85.75	87.04
o/w insurance	3.76	3.70	3.59	4.10	4.11	4.18	4.19	4.16	3.79	3.84
freight as % of total imports cif	17.70	17.13	17.40	17.67	17.64	17.74	17.76	17.82	17.37	17.57
insurance as % of total imports cif	0.78	0.76	0.77	0.78	0.78	0.78	0.78	0.79	0.77	0.78

2014														
Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
1.70	2.08	1.98	2.07	1.93	1.95	2.35	1.95	2.18	2.09	2.41	2.26	1.62	2.35	
33.78	33.49	31.64	34.67	39.55	42.13	40.85	39.21	38.63	40.43	55.19	36.95	33.28	37.06	
20.51	23.18	21.98	18.19	22.1	22	21.31	18.59	13.62	13.66	17.83	15.59	18.59	13.58	
12.37	11.49	28.09	10.16	12.78	12.75	12.16	13.04	13.75	13.91	15.31	13.49	12.21	11.03	
84.54	77.23	76.90	112.58	94.27	98.63	101.85	92.78	80.74	83.09	101.51	95.09	75.94	75.62	
32.91	37.93	34.39	35.08	34.98	37.78	36.77	37.53	35.00	34.32	45.95	38.21	38.58	37.79	
22.55	21.24	22.04	16.72	21.02	21.05	25.05	23.00	25.43	24.28	25.26	25.33	25.70	24.19	
9.3	11.58	8.82	8.35	8.44	7.86	10.34	13.88	9.75	9	10.62	9.76	9.65	9.02	
13.66	16.68	13.76	13.96	12.87	13.77	12.97	14.15	14.46	12.57	12.76	14.50	16.58	15.21	
20.10	20.11	20.47	14.97	17.85	14.95	20.63	20.24	21.05	19.79	19.52	23.32	18.74	28.45	
28.41	26.23	27.26	26.63	26.20	23.92	26.68	25.31	26.71	23.98	30.13	31.65	27.11	27.16	
87.71	88.05	96.46	88.88	90.49	99.38	107.13	94.34	105.23	77.07	96.03	108.32	94.64	108.61	
0.00	0.00	0.00	0.00	0.00	0.01	0.00	0.01	0.01	0.00	0.00	0.00	0.01	0.00	
0.88	0.93	0.78	0.57	0.37	0.37	0.26	0.48	0.44	1.85	0.32	0.51	0.61	0.71	
368.4	370.2	384.6	382.8	382.8	396.5	418.4	394.5	387.0	356.0	432.8	415.0	373.2	390.8	
3.80	4.24	4.07	3.94	5.45	5.64	5.86	4.65	4.88	4.35	4.70	6.89	4.78	4.92	
37.00	45.04	7.40	39.10	22.05	14.05	53.66	11.79	18.91	13.34	10.16	10.74	7.84	46.78	
409.2	419.5	396.0	425.9	410.3	416.2	477.9	410.9	410.8	373.7	447.7	432.6	385.9	442.5	
499.22	512.99	484.46	522.71	500.34	508.44	585.46	502.98	501.35	453.82	545.65	528.15	470.24	540.29	
86.20	89.53	84.68	92.76	86.20	88.32	103.02	88.15	86.73	76.72	93.80	91.51	80.82	93.68	
3.81	3.95	3.74	4.10	3.81	3.90	4.55	3.89	3.83	3.39	4.14	4.04	3.57	4.14	
17.27	17.45	17.48	17.75	17.23	17.37	17.60	17.53	17.30	16.91	17.19	17.33	17.19	17.34	
0.76	0.77	0.77	0.78	0.76	0.77	0.78	0.77	0.76	0.75	0.76	0.76	0.76	0.77	
										356.03	432.85	414.97	373.25	390.77

Table A7: Exports of Goods (in millions of US \$)

Nature of Imports	2013										
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Formal Exports:	212.3	227.4	207.0	216.6	227.8	191.5	197.4	190.7	183.6	187.7	182.0
Manufactured/Semi processed goods	52.8	50.8	54.3	56.1	56.0	47.2	50.7	50.2	49.0	50.2	49.2
Base Metals & Products	9.19	11.06	11.17	11.96	11.87	11.67	13.97	12.10	11.72	12.15	11.27
Sugar	8.30	7.09	9.44	10.40	6.28	5.48	5.24	7.00	5.90	6.25	6.63
Fish & its products	8.76	7.87	9.21	10.01	12.65	8.51	8.30	7.62	7.59	8.72	9.39
Cement	7.17	8.62	9.70	8.06	9.28	8.97	9.18	9.37	9.35	8.44	6.67
Edible Fats and Oils	7.61	4.74	3.09	4.01	3.99	3.31	3.04	3.40	3.52	3.54	4.03
Soap	3.32	3.02	2.87	2.53	3.15	2.39	2.59	2.51	2.91	2.30	2.34
Plastic Products	3.18	2.49	3.11	2.92	3.39	1.99	3.63	2.67	2.75	3.21	2.77
Beer	2.34	1.88	2.02	2.40	1.99	1.64	1.67	2.00	1.92	1.77	2.10
Water	1.59	2.87	2.10	2.06	1.93	2.09	2.20	2.57	1.86	2.41	3.08
Baker's wares	1.35	1.19	1.57	1.77	1.46	1.13	0.91	0.93	1.48	1.41	0.96
Traditional exports	91.1	91.3	77.1	82.2	94.3	78.6	76.3	71.8	62.1	68.7	71.0
Coffee	42.62	42.29	38.04	30.50	48.27	42.77	45.07	35.94	24.99	22.74	26.71
Cotton	2.87	5.86	6.09	6.48	5.00	2.30	1.21	0.22	0.11	1.20	0.00
Tea	8.76	6.95	5.27	7.87	9.32	7.23	6.40	4.01	5.60	8.58	7.89
Tobacco	6.53	8.42	6.03	14.96	5.83	2.01	2.99	7.17	13.58	18.67	16.34
Maize	5.61	4.80	3.44	3.08	4.76	3.24	3.01	7.33	1.98	2.91	1.32
Flowers	4.55	5.19	4.44	3.10	6.26	6.17	5.14	4.93	4.70	4.36	3.96
Hides & skins	4.31	4.65	4.27	5.92	5.66	3.66	6.28	6.01	5.87	6.01	6.00
Cocoa Beans	6.84	5.49	4.07	4.97	3.26	6.05	1.91	2.61	2.60	2.63	4.09
Simsim	3.97	4.47	3.42	3.48	4.31	1.67	0.54	1.90	1.24	0.00	0.06
Beans	1.34	1.36	0.78	0.35	0.37	2.50	2.77	0.55	0.47	0.65	3.41
Fruits & Vegetables	3.65	1.82	1.23	1.47	1.26	0.97	0.95	1.15	0.94	0.94	1.22
Minerals	1.7	1.4	2.3	1.9	1.2	0.9	1.2	0.5	1.1	0.6	0.5
Cobalt	1.58	1.05	1.05	1.05	1.05	0.53	1.05	0.53	1.06	0.62	0.53
Gold	0.12	0.36	1.26	0.80	0.14	0.41	0.14	0.00	0.00	0.00	0.01
Other exports	23.17	22.6	29.0	26.0	26.9	28.2	21.6	24.5	24.0	22.2	21.4
Cellular Phones	2.78	4.38	10.31	4.80	5.34	6.39	1.99	4.06	4.38	1.45	1.43
Crude oil	4.80	4.83	4.26	5.90	4.31	4.20	3.89	4.37	4.02	4.51	3.55
Rice	2.93	2.15	2.26	2.88	3.73	4.98	2.47	2.70	3.54	3.27	3.23
Electricity	1.41	1.29	1.46	1.34	1.51	1.44	1.54	1.70	1.43	1.42	1.34
Oil re-exports	11.25	9.99	10.73	11.06	12.01	11.21	11.67	11.63	10.68	11.54	11.85
Other items											
Informal Exports (Cross Border Trade):	43.8	34.6	33.3	31.9	36.5	31.5	34.0	36.6	36.2	33.7	34.7
Industrial products	23.28	18.20	18.74	19.12	22.13	17.24	20.78	24.32	23.46	20.39	20.94
Maize	8.21	5.95	4.71	2.67	2.31	2.56	2.10	1.64	2.42	2.18	0.81
Fish	3.26	3.21	3.01	3.16	3.91	3.80	3.15	2.51	1.74	1.84	2.03
Beans	1.78	1.85	1.09	0.74	1.08	2.22	1.90	1.59	1.30	2.36	3.38
Other grains	1.06	0.64	0.74	0.71	0.59	0.49	0.35	0.22	0.25	0.47	0.26
Bananas	0.45	0.31	0.36	0.40	0.48	0.48	0.47	0.46	0.42	0.37	0.37
Other agricultural commodities	5.22	4.11	4.22	4.68	5.61	4.45	5.10	5.74	6.48	5.97	6.80
Sugar	0.47	0.29	0.32	0.36	0.31	0.15	0.10	0.06	0.03	0.06	0.08
Other products	0.10	0.07	0.07	0.09	0.13	0.12	0.09	0.05	0.05	0.04	0.00
Total Exports	256.1	262.1	240.3	248.6	264.4	223.0	231.5	227.3	219.8	221.4	216.7

2014												
Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
183.2	203.1	204.3	207.2	192.4	207.4	173.7	179.9	168.9	175.2	194.2	188.1	175.4
46.7	42.9	47.9	46.7	44.8	49.5	43.2	41.4	37.1	39.6	45.4	43.5	41.8
9.49	8.12	10.18	10.77	10.41	15.40	11.83	10.27	8.77	10.19	9.53	9.08	7.91
6.61	4.32	6.27	6.06	5.71	4.92	5.25	5.68	5.48	3.86	4.11	4.18	5.01
8.35	9.10	8.12	7.55	6.72	7.17	9.27	9.94	8.50	11.20	14.54	13.61	13.02
8.14	6.18	7.02	6.83	8.12	8.13	8.03	7.95	7.85	7.73	7.59	7.52	7.59
4.32	5.53	5.17	4.63	3.89	4.44	1.30	0.95	0.90	0.35	0.62	0.40	0.39
2.68	3.28	3.02	3.39	2.69	1.63	1.69	1.51	1.30	1.43	1.34	1.17	1.20
2.46	2.86	3.40	2.85	3.14	3.80	2.09	1.87	1.49	1.33	4.34	4.38	2.97
1.93	0.63	1.83	1.60	1.49	1.25	1.27	0.95	0.70	0.72	0.85	0.67	1.33
1.61	1.89	1.83	1.72	1.49	1.57	1.59	1.42	1.31	1.61	1.64	1.64	1.62
1.06	1.04	1.02	1.25	1.08	1.24	0.91	0.86	0.82	1.24	0.83	0.83	0.78
71.7	94.6	86.2	92.0	79.0	73.1	65.6	69.9	64.3	64.1	79.3	79.6	66.0
25.46	38.88	35.53	38.87	41.07	35.91	32.82	37.86	32.47	26.70	30.67	29.49	29.78
0.07	1.78	2.38	5.58	4.45	1.88	2.85	1.23	0.17	0.32	0.00	0.12	1.07
7.74	7.73	4.63	4.30	6.73	10.72	8.79	7.28	5.71	6.50	7.84	7.60	6.97
12.41	7.81	4.91	6.86	1.59	0.56	0.62	0.48	2.76	2.37	17.98	15.35	3.27
0.61	1.50	2.38	2.10	3.17	2.35	2.58	3.01	3.74	4.84	4.30	6.48	3.11
4.00	5.42	6.19	4.48	4.34	6.02	5.42	5.37	4.86	4.06	3.83	3.68	3.73
5.10	8.14	6.30	7.59	6.02	6.27	5.23	4.20	4.76	7.55	6.26	5.93	5.10
10.32	7.61	8.99	7.90	4.43	4.96	3.38	4.22	1.37	2.78	3.74	6.56	4.69
3.56	12.58	11.80	8.30	4.19	1.69	0.23	0.67	3.80	4.53	1.72	1.16	4.98
1.46	1.65	1.07	4.79	0.86	0.67	1.95	3.59	3.18	2.91	1.42	1.59	1.43
0.97	1.48	2.05	1.27	2.17	2.11	1.67	2.02	1.45	1.51	1.52	1.67	1.86
0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.02	0.00	0.08	0.03	0.03	0.00	0.02	0.04	0.02
21.8	21.9	18.3	22.4	21.1	23.1	20.2	22.2	21.5	23.6	23.7	18.9	19.4
2.01	0.73	0.22	1.05	0.20	1.28	0.51	1.49	1.07	0.14	0.79	0.25	0.22
2.39	4.12	4.27	4.36	4.22	2.08	2.99	3.04	2.20	3.39	2.90	2.30	2.24
2.81	2.28	1.71	1.97	1.88	2.17	1.64	2.07	2.43	3.58	3.92	2.17	1.81
1.39	1.40	1.20	3.08	3.73	6.02	2.89	2.93	2.68	3.81	2.86	1.92	1.68
13.17	13.31	10.89	11.97	11.07	11.56	12.21	12.65	13.11	12.72	13.27	12.29	13.44
34.4	30.2	26.1	29.4	29.8	34.5	36.7	32.6	33.0	32.5	36.7	34.1	34.5
20.71	17.76	15.11	18.10	15.46	18.61	17.34	17.92	20.74	18.52	20.03	19.77	19.44
1.29	1.91	2.53	1.51	1.73	2.54	3.16	2.56	2.74	3.48	3.78	3.33	3.53
2.39	2.20	2.00	2.52	4.69	5.35	5.45	3.93	1.85	2.09	2.23	2.06	2.13
3.01	2.03	1.06	0.89	0.75	0.85	3.57	1.88	1.26	0.87	2.60	1.58	1.68
0.32	0.32	0.32	0.34	0.60	0.44	0.50	0.56	0.49	0.49	0.44	0.47	0.47
0.38	0.37	0.37	0.51	0.38	0.39	0.42	0.40	0.38	0.43	0.36	0.39	0.39
5.87	5.30	4.49	5.21	5.91	5.80	5.88	4.99	5.14	6.10	6.48	5.90	6.16
0.23	0.17	0.10	0.20	0.21	0.44	0.30	0.25	0.31	0.42	0.67	0.47	0.52
0.21	0.10	0.10	0.13	0.04	0.10	0.12	0.09	0.04	0.13	0.16	0.11	0.13
217.6	233.3	230.4	236.6	222.2	242.0	210.4	212.5	201.9	207.8	230.9	222.1	209.9

Table A 8. Inflation Rates

Percentage Changes	2008/9		2009/10		2010/11		2011/12		2012/13		2013/14		2014/15	
	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY	H1	H1	
CPI (average)	14.2	9.4	6.5	23.7	5.8	6.7	2.4	6.7	5.8	6.7	2.4	2.4	10.2	-19.2
CPI (end of period)	12.5	7.8	6.3	18	3.6	5.0	1.8	3.6	3.6	5.0	1.8	1.8	-0.7	-0.7
Food (end of period)	27.9	16.5	9.3	12.8	-1.4	7.2	-1.9	12.8	-1.4	7.2	-1.9	-1.9	-9.7	-9.7
Core Inflation (end of period)	8.9	6.7	5.7	19.5	5.8	2.9	2.7	19.5	5.8	2.9	2.7	2.7	-1.6	-1.6

Table A9. Inflation rates (for selected items) 2011-2013

Items	2013												2014											
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan		
All items	3.4	3.7	3.6	5.1	7.3	8.4	8.1	6.8	6.7	6.9	6.8	7.1	6.7	5.4	5.0	4.3	2.8	1.4	1.8	2.1	1.8	1.8	1.3	
Food	-2.6	-2.1	-1.4	2.8	9.1	11.7	10.9	8.1	9.2	11.1	11.0	12.7	12.2	8.2	7.2	5.0	-0.2	-2.8	-2.7	-1.6	-1.6	-1.9	-3.3	
Food crops	-7.5	-5.2	-6.2	-0.2	12.9	16.2	14.3	7.7	12.7	21.3	25.2	28.3	25.4	17.6	17.2	12.9	1.5	-1.9	-0.8	0.8	0.8	-2.7	-6.5	
Non food	6.6	6.8	6.5	6.5	6.8	7.1	6.8	6.3	5.7	5.2	5.1	4.7	4.2	4.1	3.9	3.8	4.2	3.5	4.1	3.9	3.6	3.5	3.5	
Beverages and tobacco	13.7	12.3	12.3	13.0	13.9	14.6	12.3	13.1	8.7	3.4	2.7	1.0	0.8	-0.2	0.1	0.2	0.1	-0.2	0.2	-0.9	-0.3	1.9	1.9	
Clothing and footwear	-1.0	1.5	6.1	8.4	9.6	10.7	13.1	10.0	10.6	10.1	9.2	5.4	4.6	4.7	3.0	3.1	4.6	4.4	2.7	2.9	2.8	3.1	3.1	
Rent, fuel and utilities	4.8	6.4	6.4	5.9	5.3	5.8	4.1	4.7	4.8	3.1	2.2	3.1	2.0	1.8	2.2	1.6	1.9	2.2	5.2	4.6	4.3	3.6	3.6	
Household and personal goods	4.9	4.3	3.5	3.8	3.7	3.6	4.0	4.0	4.3	3.2	2.6	2.3	1.4	1.7	2.0	2.2	2.3	2.1	2.1	2.2	1.7	2.1	2.1	
Transport and communication	4.3	4.1	4.9	4.0	6.6	5.9	6.8	4.3	1.8	5.0	5.0	4.4	4.6	3.9	3.1	3.5	4.7	4.9	3.8	4.3	3.0	3.4	3.4	
Education	8.3	8.0	4.3	4.5	4.2	4.8	4.8	4.8	4.8	4.9	6.1	5.9	5.8	6.1	5.7	5.7	5.9	3.5	3.4	3.1	2.9	3.0	3.0	
Health, entertainment and others	9.0	8.0	8.5	8.5	8.6	8.9	8.7	8.1	8.0	7.5	6.9	6.5	6.0	6.6	6.3	6.1	6.5	4.8	5.6	5.7	5.5	4.9	4.9	

Table A10: Exchange rates and Interate rates (2011-2014)

Year	Month	Nominal	NEER	REER	Treasury bill rate (91-days)	Central Bank Rate*	Deposit (Local Currency)	Deposit (Foreign Currency)	Lending (Local Currency)	Lending (Foreign Currency)
		UGX/USD	Index	Index	%	%	%	%	%	%
2011	Jun	2,461	131.1	114.6	12.1	16.7	2.6	1.3	19.9	9.4
	Jul	2,587	137.8	118.4	13.1	13.0	2.8	1.3	21.7	9.7
	Aug	2,753	146	123	14.5	14.0	4.3	1.2	21.3	9.8
	Sep	2,814	145.9	115.4	15.6	16.0	2.5	1.1	23.3	9.7
	Oct	2,805	143.3	112.2	18.8	20.0	2.4	1.1	23.6	9.5
	Nov	2,582	132.5	104.1	19.6	23.0	3.1	1.6	26	10.3
	Dec	2,447	126.1	99.7	20.1	23.0	3.3	1.3	26.7	10.1
2012	Jan	2,414	124.3	99.4	20.3	23.0	3.4	1.3	27.3	10.3
	Feb	2,328	122	96.1	17.6	22.0	3.3	1.3	26.8	10.4
	Mar	2,485	129.7	102.6	15.7	21.0	3.4	1.3	27.6	10
	Apr	2,506	130.4	101.7	16.3	21.0	3.7	1.2	26.1	8.2
	May	2,479	127.4	99.8	16.4	21.0	3.5	1.4	26.7	9.3
	Jun	2,484	124.9	98.6	16.7	20.0	3.5	1.6	27.0	8.4
	Jul	2,474	120.7	110.4	16.7	19.0	3.6	1.2	26.9	9
	Aug	2,600	121.8	111.7	12.7	17.0	3.6	1.3	26.4	9.1
	Sep	2,593	123.8	112.8	10.7	15.0	3.1	1.2	25.7	8.7
	Oct	2,621	127.1	115.7	9.1	13.0	3.0	1.2	24.9	10.7
	Nov	2,625	128.2	116.3	9.3	12.5	2.9	1.2	23.7	10.4
	Dec	2,614	130.7	118.8	9.4	12.0	2.6	1.2	24.8	8.7
2013	Jan	2,684	130.9	119.8	9.2	12.0	2.8	1.4	24.2	9.8
	Feb	2,658	129	118.3	9.1	12.0	2.6	1.2	24.3	9.3
	Mar	2,637	127.4	116.1	8.8	12.0	2.8	1.4	24.0	9.9
	Apr	2,578	125	112.7	9.5	12.0	2.8	1.5	24.6	10.3
	May	2,586	124.8	112.3	9.4	12.0	2.9	1.5	23.5	9.7
	Jun	2,593	124.1	112.5	9.5	11.0	2.6	1.4	22.7	10.1
	Jul	2,589	122.9	111.7	9.4	11.0	2.9	1.3	23.1	9.2
	Aug	2,579	121.8	108.4	9.2	11.0	2.9	1.3	23.1	9.6
	Sep	2,569	120.7	106.4	9.4	12.0	3.0	1.3	22.5	9.7
	Oct	2,534	118.5	105.4	9.7	12.0	2.6	1.4	22.2	9.6
	Nov	2,523	117.1	105.2	10.2	12.0	2.9	1.3	22.7	11.4
	Dec	2,513	116.6	105.4	8.8	11.5	3.4	1.54	22.0	9.9
2014	Jan	2,450	115.5	104.6	8.4	11.5	3.3	1.46	21.8	9.4
	Feb	2,472	114.3	103.4	8.9	11.5	3.1	1.32	20.7	9.7
	Mar	2,534	117.7	105.8	9.4	11.5	3.1	1.34	21.9	9.4
	Apr	2,529.79	117.7	93.5	9.9	11.5	3.8	1.42	21.7	9.0
	May	2,532.39	118	95.1	9.5	11.5	3.0	1.53	22.0	9.7
	Jun	2,580.86	119.7	97.8	8.9	11.0	2.4	1.55	21.4	9.0
	Jul	2,633.52	122.1	100.4	9.1	11.0	2.8	1.34	21.5	8.1
	Aug	2,612.50	120.5	98.3	10.1	11.0	2.5	1.20	21.7	8.8
	Sep	2,618.80	119.6	97.2	10.0	11.0	2.6	1.37	21.1	9.7
	Oct	2,680.51	121.6	98.1	10.3	11.0	2.5	1.39	21.9	10.8
	Nov	2,734.22	122.9	100.4	10.4	11.0	2.8	1.33	22.1	9.3
	Dec	2,769	123.2	100.5	10.6	11.0	3.0	1.44	19.9	10.8
2015	Jan	2,860.71			10.7					

Source: Bank of Uganda

Table A11. Monetary indicators


Percentage Changes	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13	2013/14
Monetary Aggregates								
M3 as % of GDP	18.1	20.6	20.9	24	27	22.5	21.7	24.1
M2 as % of GDP	14.1	15.9	16.3	18.6	20.6	15.4	16.1	19
M3 growth rate (%)	16.4	31.1	25	33.2	25.7	7.2	6.6	17.4
M2 growth rate (%)	18.9	30.1	26.3	32.1	23.9	-4.2	15.7	14.1
Domestic Credit								
Total domestic credit (% of GDP)	4.6	7.9	10.5	14	19.3	14	14.4	16.1
Total domestic credit growth (%)	-17.6	97.3	64.1	54.7	54.1	-6.5	14.1	21.9
Private sector credit (% of GDP)	8.5	11.2	12	13.5	17.3	15	14.4	15.1
Private sector credit growth (%)	23.2	53.1	31.3	30.6	43.6	11.5	6.4	13.9
Interest Rates Structure								
Average TB rate (period average, %)	8.9	7.9	8.4	5.3	7.6	17.2	10.3	9.3
Average lending rate (%)	18.8	19.6	20.9	20.7	19.8	24.6	24.8	22.1
Average deposit rate (%)	2.7	2.1	2.1	2	2.1	3.2	3	3.1

Source: IMF, BoU

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