



Public Disclosure Authorized

Public Disclosure Authorized

Public Disclosure Authorized

Public Disclosure Authorized

Uganda Systematic Country Diagnostic Update 2021



WORLD BANK GROUP

© 2021 International Bank for Reconstruction and Development/International Development Association or
The World Bank Group
1818 H Street NW
Washington DC 20433
Telephone: 202-473-1000
Internet: www.worldbank.org

This work is a product of the staff of The World Bank with external contributions. The findings, interpretations, and conclusions expressed in this work do not necessarily reflect the views of The World Bank, its Board of Executive Directors, or the governments they represent.

The World Bank does not guarantee the accuracy of the data included in this work. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of The World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

Rights and Permissions

The material in this work is subject to copyright. The World Bank encourages dissemination of its knowledge, so this work may be reproduced, in whole or in part, for noncommercial purposes as long as full attribution to this work is given.

Any queries on rights and licenses, including subsidiary rights, should be addressed to the Office of the Publisher, The World Bank, 1818 H Street NW, Washington, DC 20433, USA; FAX: 202-522-2422; e-mail: pubrights@worldbank.org.

Photo credits: Rachel Mabala, Apt Media, Morgan Mbabazi, Sheila Gashishiri and www.freepik.com

Design/Layout: Print Innovations & Publishers Ltd

Additional material relating to this report can be found on the World Bank Uganda website (www.worldbank.org/uganda).



**UGANDA SYSTEMATIC COUNTRY
DIAGNOSTIC UPDATE 2021**

A large, solid teal silhouette of the map of Uganda is centered on the page. The title text is overlaid on this silhouette.





Table of Contents

ABBREVIATIONS.....	VI
ACKNOWLEDGEMENTS.....	IX
EXECUTIVE SUMMARY.....	X
1. INTRODUCTION.....	1
2. ECONOMIC, POVERTY AND SUSTAINABILITY TRENDS SINCE THE 2015 SCD.....	5
2.1 Economic performance.....	5
2.2 Poverty, shared prosperity, and inequality of opportunities.....	12
2.3 Foundations for sustainability.....	19
3. CURRENT FOCUS AREAS FOR UGANDA'S DEVELOPMENT.....	27
3.1 Improving fiscal sustainability through raising tax revenues and enhancing PIM.....	28
3.2 Improving agricultural productivity, developing agro-processing industries, and creating jobs.....	36
3.3 Enhancing human capital and women's empowerment.....	46
3.4 Strengthening household and community resilience.....	57
4. STRENGTHENING THE FOUNDATIONS TO ACHIEVE SUSTAINABLE PROGRESS.....	63
4.1 Governance and institutions.....	63
4.2 Environment and natural resource management.....	68
5. PRIORITY AREAS FOR ACTION.....	73
REFERENCES.....	81
ANNEX A: SUMMARY OF CONSTRAINTS TO GROWTH, INCLUSION AND SUSTAINABILITY FACING UGANDA FROM 2015 SCD (NOT RANKED).....	89
ANNEX B: PRIORITY AREAS AND PROPOSED ACTIONS IDENTIFIED IN 2015 SCD (NOT RANKED).....	90
ANNEX C: SELECTED SOCIO-ECONOMIC INDICATORS.....	91
ANNEX D: FINDINGS AND IMPLICATIONS OF STAKEHOLDER CONSULTATIONS.....	93
ANNEX E: EVOLUTION OF 2015 SCD PRIORITY AREAS.....	95



Abbreviations

AFIC	Africa Freedom of Information Centre	GER	Gross Enrolment Ratio
AGRA	Alliance for a Green Revolution in Africa	GFN	Gross Financing Need
APA	Annual Performance Assessment	GHG	Greenhouse Gas
CAADP	Comprehensive Africa Agriculture Development Programme	GKMA	Greater Kampala Metropolitan Area
COVID-19	Corona Virus Disease 2019	GoU	Government of Uganda
CoE	Centre of Excellence (PIM)	GPI	Gender Parity Index
CIT	Corporate Income Tax	GPP	Government Procurement Portal
CPI	Consumer Price Index	GVC	Global Value Chain
CSA	Climate-smart Agriculture	HCI	Human Capital Index
CSO	Civil Society Organization	HGA	Host Government Agreements
DC	Development Committee	IBP	Integrated Bank of Projects
DCRM	Displacement Crisis Response Mechanism	IC	Information and Communications
DGF	Democratic Governance Facility	IFIMS	Integrated Financial Information Management System
DRC	Democratic Republic of Congo	IFTRP	Intergovernmental Fiscal Transfers Program
DRDIP	Development Response to Displacement Impacts Project	IG	Inspector General
DRF	Disaster Risk Financing	IGC	International Growth Centre
DRMS	Domestic Revenue Mobilization Strategy	IMF	International Monetary Fund
DSA	Debt Sustainability Analysis	IPV	Intimate Partner Violence
DU	Delivery Unit	KIPPRA	Kenya Institute for Public Policy Research and Analysis
EABI	East African Bribery Index	LIC	Low Income Country
EAC	East African Community	MAAIF	Ministry of Agriculture, Animal Industry and Fisheries
EC	European Commission	MDA	Ministries, Departments and Agencies
EIU	Economist Intelligence Unit	MDG	Millennium Development Goal
EMIS	Education Management Information System	MDALG	Ministries, Departments, Agencies, and Local Governments
FAOSTAT	United Nations Food and Agriculture Organization (Data)	MMEIG	Maternal Mortality Estimation Inter-Agency Group
FDI	Foreign Direct Investment	MoFPED	Ministry of Finance, Planning and Economic Development
FIA	Financial Intelligence Authority	MoLG	Ministry of Local Government
FID	Final Investment Decision	MSME	Micro Small and Medium Enterprises
FY	Financial Year	MTEF	Medium Term Expenditure Framework
GAPR	Government's Annual Performance Report	MWE	Ministry of Water and Environment
GBV	Gender Based Violence		
GDP	Gross Domestic Product		



NAPE	National Association of Professional Environmentalists	SCD	Systematic Country Diagnostic
ND-GAIN	Notre Dame Global Adaptation Initiative	SCG	Senior Citizens Grant
NDP	National Development Plan	SDG	Sustainable Development Goal
NEA	National Environment Act	SGR	Standard Gauge Railway
NEMA	National Environment Management Authority	SLM	Sustainable Land Management
NFA	National Forestry Authority	SSA	Sub-Saharan Africa
NGO	Non-Governmental Organization	SSCBT	Small Scale Cross Border Trade
NRM	National Resistance Movement	TFP	Total Factor Productivity
NSR	National Single Registry	TFR	Total Fertility Rate
NUSAF	Northern Uganda Social Action Fund	TSA	Treasury Single Account
OAG	Office of the Auditor General	TVET	Technical Vocational Education and Training
OLF	Out of the Labor Force	UA	Umbrella Authority
O&M	Operations and Maintenance	UBOS	Uganda Bureau of Statistics
OOP	Out of Pocket	UEU	Uganda Economic Update
OPM	Office of the Prime Minister	UgIFT	Uganda Intergovernmental Fiscal Transfer
OWC	Operation Wealth Creation	UHFPS	Uganda High-Frequency Phone Survey
PAYE	Pay As You Earn (Tax)	UNCHR	United Nations High Commissioner for Refugees
PBS	Program Based Budgeting System	UNDP	United Nations Development Programme
PDR	(Lao) People's Democratic Republic	UNHS	Uganda National Household Survey
PEFA	Public Expenditure and Financial Accountability	UNICEF	United Nations Children's Fund
PERC	Partnership for Evidence-Based Response to COVID-19	UNPS	Uganda National Panel Survey
PES	Payments for Ecosystems Services	UNRA	Uganda National Roads Authority
PFM	Public Finance Management	URA	Uganda Revenue Authority
PIM	Public Investment Management	USh	Uganda Shilling
PIP	Public Investment Plan	US\$	United States Dollar
PIT	Personal Income Tax	USMID	Uganda Support to Municipal Infrastructure Development
PPDA	Public Procurement and Disposal of Public Assets Authority	UWA	Uganda Wildlife Authority
PPP	Public Private Partnerships	VAT	Value Added Tax
PPPH	Public Private Partnerships in Health	WHO	World Health Organization
RTI	Research Triangle Institute	WDI	World Development Indicators
		WGI	Worldwide Governance Indicators



Acknowledgements

The Uganda SCD Update was prepared by a multi-sectoral team led by Richard Walker (Senior Economist) and Nobuo Yoshida (Lead Economist). Carolina Mejia-Mantilla (Senior Economist) led the development of the Concept Note and initial sections of the Update. Core team members included Tihomir Stucka, Aziz Atamanov and Cara Myers. The full team is listed below.

Global Practice/Cross-cutting Solution Area	Team Members
Poverty	Nobuo Yoshida, Carolina Mejia-Mantilla, Aziz Atamanov, Cara Myers
MTI	Richard Walker, Tihomir Stucka, Rachel Sebudde, Moses Kajubi
IFC	Dan Kasirye, Stephan Dreyhaupt, Hans Shrader, Sudha Bala Krishnan
MIGA	Jessica Wade
Governance	Barbara Magezi, Timothy Williamson, Zubair Bhatti
FCI	Moses Kibirige, Paul Turner, Michael Wong, Leyla Castillo, Brian Akimanzi
Jobs	Dino Merotto
Health	Rogers Ayiko, Collins Chansa, Julia Mensah
Education	Diana Sekaggya-Bagarukayo, Kirill Vasiliev, Joanna Juzon, Julia Liberman
Urban	Martin Onyach-Olaa, Stephen Ajalu
Social Protection	Fatima Naqvi, Michael Munavu
Gender	Margarita Puerto Gomez, Daniel Kirkwood
Water	Harriet Nattabi, Alexander Danilenko, Gabriella Izzi
Energy	Federico Querio, Raihan Elahi
Agriculture	Pushina Kunda Ng'andwe, Joseph Oryokot
Environment	Ruxandra Floroiu, Christine Kasedde, Ross Hughes, Lesya Verheijen
Climate Change	Kanta Kumari Rigaud
Transport	Ivan Mwondha, Pratap Tvgssshk
Digital Technologies	Luda Bujoreanu, Qursum Qasim
Social Development	Boyenge Dieng
Trade and Regional Integration	Jean-Christophe Maur, Vicky Chemutai, Aleksandar Stojanov, Paul Brenton
FCV	Benjamin Reese, Zewditu Haile
Disaster Risk Management	Ana Campos Garcia
Minerals and Extractives	Susana Moreira
Procurement	Grace Munanura

The SCD Update was prepared as a joint product of IDA/IBRD, IFC and MIGA. The work was carried out under the supervision and guidance of Keith Hansen (Country Director, AECE2), Jumoke Jagun-Dokunmu (Director, CAFEO), Antony Thompson (Country Manager, AEMUG), Pierella Paci (Practice Manager, EAEPV), Vivek Suri (Practice Manager, EAEM1), Abebe Adugna (Regional Director, EAWDR), and Camille Nuamah (Manager Operations, AECE2).

The team is grateful for the insightful advice and comments from Albert Zeufack (Chief Economist, AFECE), Vinaya Swaroop (Economic Adviser, AFEDE), Philip Schuler (Lead Economist, EAEM1), Carolin Geginat (Country Manager, ECCAR), Allen Dennis (Program Leader, EAEDR), Franklin Mutahakana (Senior Operations Officer, AEMUG), Eva Lescauwaet (Senior Operations Officer, AEMUG), Anne Bakilana (Program Leader, HAEDR), Ragini Dalal (Sector Leader, SAEDR), Peter Taniform (Senior Transport Specialist/Program Leader, IAEDR), and Alexandru Cojocar (Senior Economist, EPVGE and member

of the SCD Advisory Committee). Sincere appreciation to peer reviewers Raju Singh (Lead Economist, EAWM2) and Tom Bundervoet (Senior Economist, EECPV).

The team also received valuable feedback from the Country Team and Country Management Team consultations in April 2021, as well as the external stakeholder consultations in March 2021. Barbara Katusabe (Program Assistant, AEMUG), Esther Ampumuza (Team Assistant, AEMUG), Keziah Muthembwa (External Affairs Officer, ECRAE), Josephine Karungi (Consultant, ECRAE), Martin Buchara (Program Assistant, EAEPV), and Damalie Nyanja (Senior Program Assistant, AEMUG) provided very valuable operational and administrative support.



Executive Summary

Key updates

1. Since the 2015 SCD, some economic progress had been shared and progress in poverty reduction was achieved, but the COVID-19 crisis has in part reversed these developments.

The Ugandan economy had begun an economic transformation characterized by a reduction in the workforce employed in on-farm agriculture from 71 to 62 percent, a take-off in industrial production (largely in agro-processing), an expansion of the services sector, and a rapid increase in access to digital technology. At the same time, poverty declined between the 2017 drought and the COVID-19 outbreak in March 2020. However, the COVID-19 shock prompted widespread firm closures, permanent layoffs in industry and services, a rapid slowdown of activity – particularly in the urban informal sector – and a movement of labour back to farming. In parallel, household incomes have fallen. The latter is of concern considering the high levels of vulnerability to poverty, limited social safety nets, and the impact this might have on human capital development.

2. Uganda's broad development narrative has not changed significantly since the 2015 SCD, with the COVID-19 crisis further aggravating the existing challenges.

The growth trend remains inadequate for Uganda's lower middle-income status ambitions, especially when considering the country's high population growth rates and the medium-term ramifications of the COVID-19 shock. Furthermore, given the impact of the pandemic on the economy, and particularly on the non-farm sector, the growth trajectory over the next five years seems insufficient to absorb the growing number of labor market entrants driven by rapid population growth and sizable refugee inflows. Although poverty was declining prior to the COVID-19 crisis, inequalities and vulnerability to poverty had become more pronounced. The poverty headcount rate fluctuated as a result of Ugandans' vulnerability and inability to cope with negative shocks. Most of the population still lives off subsistence agriculture or is

engaged in small informal enterprises with generally low productivity and little prospects for growth. If anything, developments over the last five years have made many of the existing challenges identified in the 2015 SCD more salient, with the COVID-19 crisis aggravating them further.

3. Improvements in economic developments have slowed over the past five years compared to peers, with a particularly sharp deceleration in real per capita GDP growth.

Real GDP growth averaged close to 8 percent per annum during the decade prior to 2012 and has since decelerated to around 5 percent, as the effects of the first generation of pro-market and public sector reforms have dissipated. The COVID-19 crisis has caused a further sizable deceleration with possible longer-term consequences. Economic growth has barely kept up with population growth (averaging 3.7 percent per annum since the 2015 SCD). As a result, the country's real per capita GDP growth rate – averaging 1.1 percent between 2015 and 2019 – has increasingly lagged peers in East Africa such as Kenya, Tanzania, Ethiopia and Rwanda, and has halved compared to outcomes between 2010 and 2014. Uganda's economic development relies heavily on its natural resources, which have also been depleted at an increasingly unsustainable rate since 2015. Furthermore, the development of the oil sector, which is considered a promising pillar of Uganda's economic development and an important source of fiscal revenue, has still not taken off as expected, and is unlikely to materialize before 2024-25 at the earliest. Given the population pressures, Uganda will need to elevate and sustain even higher levels of economic growth to ensure better jobs for all and an equitable and sustainable economic transformation.

4. Addressing the inequality of opportunities, which is pervasive in Uganda, is key for the post-COVID recovery. The economic transformation prior to COVID-19 was concentrated in the richest 40 percent



of the population. Most of the poor remained in the agricultural sector and continued to be vulnerable to weather shocks and climate change. Their incomes became increasingly volatile as the frequency of shocks rose. Along with Uganda's rapid population growth, this inequality of opportunities has weakened the impact of growth on poverty reduction and is not limited to the poor. The persistent gender inequality severely constrains women's productivity and income generation capacity. Improving Uganda's human capital, particularly among the youth and the poor, and women's empowerment is key to achieve more inclusive growth and accelerate poverty reduction during the post-COVID recovery.

5. Uganda is the third largest refugee hosting country in the world, and refugee numbers (primarily from the DRC and South Sudan) have more than doubled since 2015 to almost 1.5 million. Uganda has received international recognition for implementing the Global Compact on Refugees and is one of the few countries to have adopted an integrated service delivery approach whereby refugees enjoy the right to work, move freely, own property, and have equal access to social services like nationals. Nevertheless, the large number of refugees have incrementally increased pressure on the local environment, which is already facing significant land degradation and woodland loss. In areas with larger concentrations of refugees, mainly in the northwest, this has also placed additional pressures on service delivery, and in some instances, caused tensions with the local host communities.

6. Weak governance, inadequate environmental and social risk management, low tax collections, urbanization challenges and rising political tensions have become more apparent since 2015. Control of corruption, already among the bottom 20 percent of countries, has consistently deteriorated. With the majority of the poor and those in the bottom 40 percent being dependent on agriculture, sustainability of the natural environment in Uganda is crucial. Low tax collections, spending pressures, poor public investment management (PIM), and commercial external borrowing could, if unchecked, jeopardize Uganda's hard-earned macroeconomic stability. This is particularly salient given the upcoming plans for the start of oil production in the near term. Public debt has risen considerably from 22 percent of GDP in FY13, to an expected 50 percent in FY21, and interest payments are increasingly reducing fiscal space. The challenges associated with rapid urbanization are becoming more apparent and threaten to derail the expected benefits of agglomeration economies. Political tensions and uncertainty persist following the elections in January 2021. A narrowing of civil society space has drawn negative attention from the international community and resulted in a difficult environment for development partners to engage in.



Key recommendations for the way forward

- 7. Raising revenues and using public resources more efficiently to maximize returns on investments are critical for improving fiscal and debt sustainability.** Better project prioritization and more efficient PIM are necessary to build more impactful and better quality infrastructure at a faster pace, with less resource waste and delays, and therefore at a lower effective cost. This will improve total factor productivity and thereby enhance economic growth, which will feed into higher revenues if systems are in place to capture the growth dividend. Thus, separate measures – as prescribed in the Domestic Revenue Mobilisation Strategy (DRMS) – need to be implemented to increase tax revenues. Furthermore, budget planning and credibility must improve, which are being increasingly undermined by the growing use of supplementary budgets, and with a large share going to classified expenditures.
- 8. Innovative solutions exist to help address governance constraints, build strong coalitions focused on service delivery, and achieve results in a low accountability and difficult governance environment.** Since the 2015 SCD, the deterioration in per capita financing of basic service delivery (e.g. in health and education) continued and has only recently been halted – although the fast expansion in cost of public administration, through subdivision of administrative units, is making progress very difficult. At the same time, decision-making has become increasingly centralized, despite often limited capacity and corruption remaining a major issue. Yet, innovative solutions exist to help close the underlying governance constraints. These include broadening partnerships across government entities, developing institutional capacity of local government and agencies, enhancing citizen engagement, leveraging digital technologies for better service delivery, and deeper collaboration amongst development partners. Furthermore, great potential exists where political objectives can be achieved and constraints to service delivery addressed simultaneously. Results-based approaches can also strengthen the link between service delivery performance and financing.
- 9. Uganda needs to invest in human capital so that youth in all income groups have the capacity, skills and health necessary to be fully productive and contribute strongly to more inclusive economic growth.** Uganda is entering a pivotal stage of its development path, as its population is projected to increase by 60 percent in the next 20 years. Yet, the country has been underinvesting in its human capital, and children in Uganda do not reach 40 percent of their human capital potential. For Uganda to benefit from the demographic dividend, the country will require not only substantial resources to serve a larger population and achieve significant improvements in quality, but even greater resources if the current poor access to, and quality of, services are to be elevated. Furthermore, providing equal access to human capital development is key to addressing the inequality of opportunities and making future growth more inclusive. Given that the COVID-19 crisis is not yet over, containing the currently unfolding resurgence of cases will also be critical.
- 10. Stronger efforts are needed on women’s and girls’ education, empowerment and their access to better employment opportunities.** Ugandan women and girls face significant structural, institutional and societal barriers to the access of economic opportunities on equal terms compared to men and boys. This has been exacerbated by the COVID-19 pandemic, which has had a serious impact on women’s economic empowerment. Many women bear the brunt of the increasing poverty, job losses, school closures, and food insecurity that have accompanied the COVID-19 pandemic, as well as the associated policy measures. Educating girls, empowering women, enhancing access to reproductive health services, and employing women are four crucial pillars to accelerate human capital development, reap the demographic dividend, and ensure more inclusive growth.
- 11. Ensuring the sustainable management of environmental resources is vital for growth and poverty reduction, especially with growing population pressures and increasing effects of climate change.** Although Uganda is endowed with

an abundance of renewable natural resources, they are being rapidly depleted and polluted, which is threatening sustainable growth and poverty reduction. Climate change is already exacerbating the strain on these natural resources and threatening agricultural productivity, which heightens the imperative to invest in greater resilience. Given increasing climate variability and pest outbreaks in Uganda, it is vital to increase the resilience of agricultural systems and rural livelihoods. To this end, farmers should be encouraged to adopt climate-smart land, water and livestock management practices, irrigation infrastructure, and access to climate and disaster-risk information and mitigation tools. This can be complemented by more effective implementation of Uganda's well developed and progressive environmental policies and laws, as well as strengthening institutional capacity and coordination. Uganda's forests and biodiversity underpin a large share of the country's tourism offerings, and therefore ensuring their sustainable management and conservation can play a crucial role in rejuvenating the sector post-COVID. Indeed, the path forward from the current COVID-19 crisis presents an opportunity to invest in green recovery approaches that generate jobs, support livelihoods, help build resilience through protecting ecosystem services, and generate environmental/climate change co-benefits.

12. Household and community resilience needs to be strengthened to reduce vulnerabilities to shocks and ensure a sustained improvement in equity and poverty outcomes. A large portion of the population, including refugees and internal climate migrants, remains vulnerable to poverty and significant welfare setbacks in the wake of a shock. Climate shocks, such as droughts and floods, were the main driver of the poverty increase between 2012 and 2016. Uganda is now also facing severe impacts from the COVID-19 pandemic, which are being felt differently to past climatic shocks and have pushed many more households into poverty. The current response to COVID-19 and other shocks in Uganda has, however, shown that social protection programs are inadequate to respond quickly to such crises, including effectively targeting those affected by shocks and providing adequate support. Yet, social protection is vital for building resilience and supporting households to invest in children and the youth. Given

government's limited fiscal envelope, it is essential to improve the targeting and shock responsiveness of these programs.

13. Agricultural commercialization depends on enhanced agricultural productivity and reliability of primary production. Therefore, access to and the adoption of high-quality agro-inputs is essential, which requires a strengthening of regulatory measures and their full implementation, land tenure security, enhanced input quality controls, and full implementation of ongoing extension reforms to increase knowledge transfer. At the same time, access to stable prices and market opportunities must be enhanced, so that farmers are incentivized to invest and buy improved inputs. Producer arrangements and integration into agri-food value chains should be supported to increase farmers' access to finance and markets and to enhance the competitiveness of the sector more broadly by enabling value addition. Ensuring that food-safety standards are upheld through enhanced sanitary and phytosanitary (SPS) controls is essential for Uganda's survival in established high income export markets and to penetrate new markets. Reaping the full benefit of observed sector trends will also require strengthening institutional processes and stakeholder coordination, as well as steering public agriculture investments towards the provision of public goods such as research, extension, and infrastructure.

14. One of the most promising prospects for both inclusive and equitable economic growth and expansion in job opportunities lies in the development of small and medium-scale agro-industrial firms. This is particularly important for advancing the agenda of women's economic empowerment, given the important linkages between access to economic opportunities and women's greater voice and agency. COVID-19, however, is a significant threat to the emerging economic transformation in Uganda and puts the prospects of large-scale non-farm job creation in danger. Restarting and sustaining the economic transformation will require support for existing SMEs, leaner and more efficient firms going forward, rapid adaptation to new market conditions and the use of digital technologies, the capacity to identify new markets and sources of demand (particularly for new and exporting firms), and the

provision of new loans and, potentially, products in the market. This will need to be underpinned by continued improvements in the business environment, given the significant challenges with obtaining a business and investment license, regulatory enforcement, contract enforcement, and the public-private interface, to mention a few.

15. Implementing well-designed urbanization policies is also critical for the recovery of the non-farm sector and to support economic transformation.

The pre-pandemic economic transformation was driven largely by an expanding services sector. As the share of agricultural employment declined, the share of the services sector increased from 18 to 26 percent between 2015 and 2019. This non-farm sector is heavily concentrated in urban areas, particularly in GKMA.

However, GKMA has experienced challenges related to overcrowding, inadequate planning and coordination, underemployment and informality, poor infrastructure and insufficient basic services, and limited capacity for disaster risk management. The same challenges are emerging across secondary cities, and the COVID-19 crisis has accentuated some of these issues. To maintain positive urban agglomeration effects, it will be critical to improve transportation, ensure effective land markets, and improve the amenity of urban areas. Developing secondary cities/towns and applying a growth corridor or spatial strategy to development will also reduce the pressure and over-concentration of existing business and industrial hubs in the larger cities.





Priority areas for action

16. To resume a path of inclusive growth and poverty reduction over the medium term, Uganda needs to: *create sufficient and quality jobs by accelerating a sustainable and inclusive economic transformation*. This intermediate goal is in line with the findings of the 2015 SCD and has become increasingly relevant given the developments of the last five years.

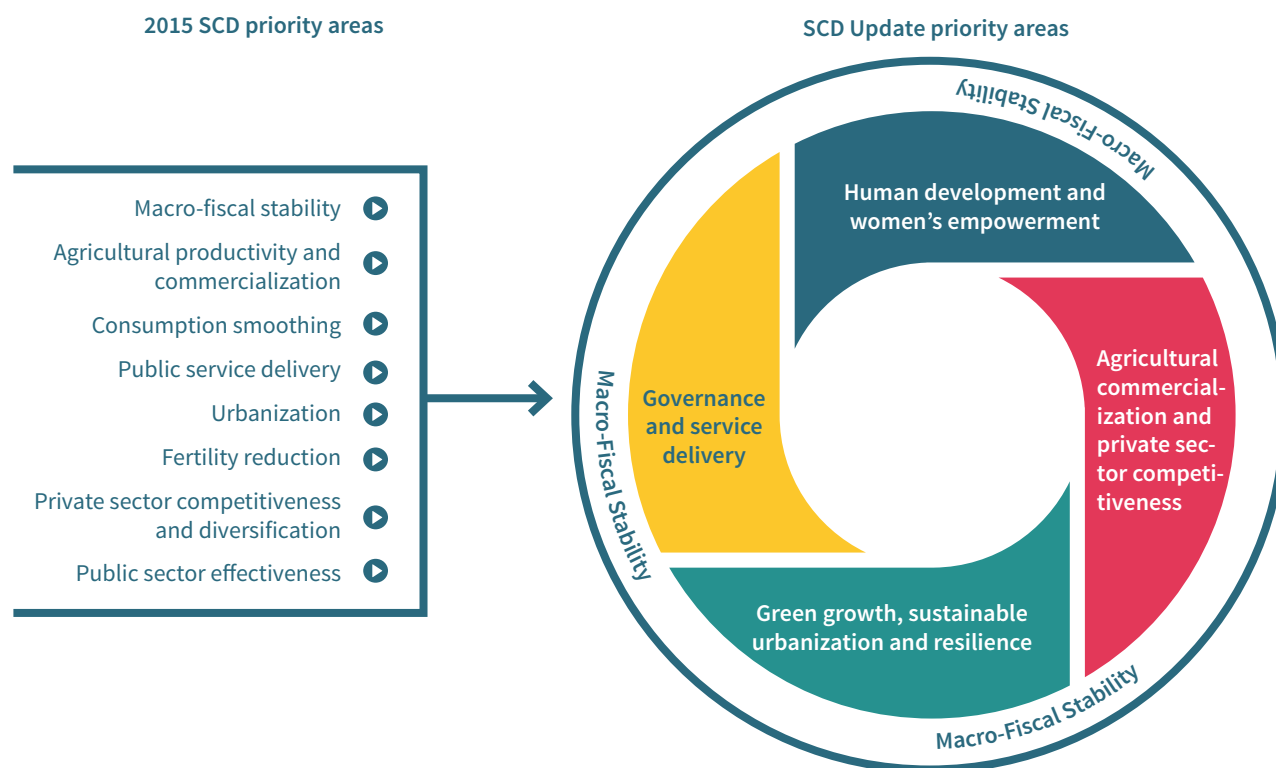
17. The SCD Update revisits the priority areas and actions for Uganda today, based on the latest developments and analysis of constraints. Prioritization in the SCD Update is based on three criteria: i) level of impact on Uganda's intermediate goal of creating jobs and accelerating economic transformation; ii) issues with large or important complementary effects (i.e.

would generate benefits beyond one dimension of inequality, growth or sustainability); and iii) area/action is validated in the consultation process (see Annex D).

18. Applying these criteria, the prioritized areas and actions from the 2015 SCD are initially considered and then adjusted, enhanced and streamlined. As detailed in Annex E, there has been progress in certain priority areas from the 2015 SCD or certain aspects of a priority area, whilst in others there has been limited progress. This has provided updated information for prioritization and necessitated some revision and streamlining in the SCD Update of the priority areas and key actions (see Figure I and Table I):

- Three priority areas – *macro-fiscal stability, agricultural productivity and commercialization, and private sector competitiveness and diversification* – are largely maintained given their sustained importance for Uganda's development.
- *Agricultural productivity and commercialization and private sector competitiveness and diversification* are, however, merged into a single priority area that recognizes the close interrelation between the agricultural sector and the non-farm sectors in providing job opportunities and stirring Uganda's economic transformation to improve productivity and business opportunities.
- Two priority areas – *public service delivery and public sector effectiveness* – are merged into one priority area – *governance and service delivery* – that more explicitly addresses governance and implementation issues and provides a basis to work within a weakening governance environment.
- A priority area on *human development and women's empowerment* is introduced given the marked deterioration in human development outcomes since the 2015 SCD, its critical role in addressing the inequality of opportunities and fostering economic transformation, and to give prominence to issues that have become more significant as a result of the impact of the COVID-19 pandemic. Furthermore, the original priority area of *fertility reduction* addressed only a narrow aspect of a bigger context, which is better encapsulated by a broader priority area around *women's empowerment*.
- A priority area on *green growth, sustainable urbanization and resilience* is introduced to give increased prominence to issues that have become more significant since the 2015 SCD. The SCD Update considers these as priorities to ensure more inclusive and sustainable growth. Actions related to *consumption smoothing* specified in the 2015 SCD are incorporated under this priority area, particularly in relation to building the resilience of households and communities to shocks.

Figure I: Summary of updated priority areas



19. The SCD Update priority areas and actions will also better prepare the economy for the start of oil production and help limit negative spillover effects to other sectors of the economy. Although Uganda's oil sector was identified as an opportunity in the 2015 SCD, given the delays and ongoing uncertainty in the sector, the priority areas and actions in the SCD Update do not explicitly support developments in the sector. An economic strategy today that relies on oil as a major driver of economic development is an increasingly risky one and may not be as conducive to sustainable development as a diversified strategy with more emphasis on other economic drivers. As a result, there is more focus in the SCD Update on building

and strengthening other sectors of the economy (e.g. development of the agriculture and broader private sectors) ahead of a potential oil bonanza. This will put the domestic economy in a better position to benefit from the oil investments and revenues to come (e.g. through improved governance and public service delivery), but also ensure it is sufficiently diversified and resilient to withstand potential shocks associated with an oil economy (e.g. macro-fiscal stability). The priority areas and actions could also help address and limit the various impacts when oil investments and production finally take off, by trying to improve environmental sustainability (e.g. green growth).

Table I: Proposed key actions under each priority area

Priority Areas	Proposed Key Actions
Macro-fiscal stability	<ol style="list-style-type: none"> 1. Improve domestic revenue mobilization, including institutional framework for managing oil revenues, and strengthen public debt management 2. Strengthen budget processes, credibility, and compliance with existing PFM regulations, and enhance PIM and modernize public procurement
Governance and service delivery	<ol style="list-style-type: none"> 1. Improve the demand side of good governance by promoting the voice and accountability of citizens 2. Enhance the capacity of public institutions to provide services, including through leveraging digital technologies 3. Improve the adequacy, equity and effectiveness of financing and oversight, management and delivery of local government (LG) services 4. Continue to integrate refugees into national development systems and strengthen LG's ability to provide services more effectively to refugees as part of the host population 5. Improve access to electricity, internet connectivity and digital technology infrastructure and solutions 6. Encourage private sector participation (through appropriate and effective models) to deliver critical services and complement public sector provision
Human development and women's empowerment	<ol style="list-style-type: none"> 1. Continue to promote prevention measures against COVID-19 and prepare a well-designed distribution plan for COVID-19 vaccines 2. Increase public health, education and water supply/sanitation expenditures with efficiency and quality improvements, and with a focus on educating girls and enhancing access to reproductive health and childcare services 3. Promote technical and vocational training through partnerships and targeted programs for youth and women 4. Implement laws and policies that promote women's economic participation, entrepreneurship, and land ownership, empower women's role in the household, and reduce gender-based violence
Green growth, sustainable urbanization and resilience	<ol style="list-style-type: none"> 1. Strengthen implementation and coordination of environmental policies and laws, and incorporate climate adaptation policies into sector policies, laws and development plans 2. Prevent and reverse further land degradation, deforestation, and wetland destruction and develop the productive sectors (e.g. tourism and commercial forestry) that rely on the sustainable use of natural resources 3. Expand sustainable land, water, and livestock management practices, and incentivize the private sector and landowners to adopt such practices 4. Improve urban policy and legal frameworks, urban planning and institutional capacity, urban land administration systems, housing availability, and coordination among LGs to address urban congestion and pollution issues 5. Increase road maintenance, improve district and rural roads, enhance urban transport systems, invest in the Southern, Eastern and Albertine trade corridors, and develop multimodal connectivity along the corridors and around Lake Victoria 6. Expand a national-level shock-responsive social protection system that has a dynamic single registry and flexible digital payment system, improve access to financial services for resilience (e.g. savings and insurance), and enhance disaster risk management capacities
Agricultural commercialization and private sector competitiveness	<ol style="list-style-type: none"> 1. Increase farmers access to markets (i.e. reliable commercialization opportunities) – including through better post-harvest handling, storage facilities, rural feeder roads, use of digital technologies and SPS measures – and adoption of high-quality agro-inputs 2. Increase low-cost access to finance for firms, informal sector and farmers, including loans for short-term COVID-19 recovery and longer-term finance 3. Strengthen land tenure security, rental markets, and institutions for land administration, and reduce administrative costs associated with business activities 4. Strengthen agricultural research and extension services, including through adoption of digital technology solutions 5. Promote vertically integrated agri-business operations and the development of small and medium-scale agro-industrial firms 6. Develop secondary cities/towns, by applying a growth corridor or spatial strategy, and add value and diversify export products (particularly higher value) and markets





1. Introduction

1. Uganda's broad development narrative remains largely in line with that outlined in the 2015 Systematic Country Diagnostic (SCD): *Boosting Inclusive Growth and Accelerating Poverty Reduction* (see Box 1).¹ The growth trend remains inadequate for Uganda's lower middle-income status ambitions, especially when considering the medium-term ramifications of the COVID-19 shock. The growth trajectory over the next five years is also insufficient to absorb the growing youth bulge and new job seekers resulting from one of the world's highest population growth rates. Although poverty declined since 2015 leading into the COVID-19 crisis, large regional disparities persist and vulnerability to poverty has

become more evident, with the poverty headcount rate fluctuating as a result of Ugandans' inability to cope with negative shocks. Furthermore, while there has been some economic transformation, it remains limited and has been partially reversed by the effects of the COVID-19 shock. Most of the population still survives off subsistence agriculture or is engaged in small informal enterprises with low productivity and little prospects for growth. If anything, developments over the last five years have made many of the previously highlighted challenges more salient, and the COVID-19 crisis is aggravating them further.

Box 1: Findings of the 2015 SCD

While the poverty rate in Uganda more than halved to 31 percent (between 1993 and 2013) – driven by good economic performance – the initial reform dividend was starting to fade. During this period, real growth averaged around 6 percent; although real per capita GDP growth rate fell to 2.1 percent during 2011-2014 from 3.6 during 1987-2010. Nevertheless, Uganda was successful in reducing the proportion of the population living in poverty (i.e. under US\$1.25 per day) considerably, from 71.9 percent in 1993 to 30.6 percent by 2013. Within an enabling environment of macroeconomic stability and peace, most of this progress on the twin goals was attributable to higher agricultural incomes. By 2013, however, the impact of the initial spurt of reforms started lessening and gave way to policy slippages, aid disruptions and climate shocks.

The SCD identified two main challenges to achieving further progress on the twin goals in Uganda. Firstly, vulnerability to poverty remained high – around 43 percent of Ugandans were insecure non-poor in 2013. Secondly, spatial inequality in poverty rose over the decade leading up to 2015, explained by regional disparities (particularly urban and rural) and conflict in Northern and Eastern Uganda. The waning reform dividend underpinned constraints to broad-based growth, including weak growth-poverty linkages and low levels of human and physical capital accumulation, especially for women and girls.

Four main areas were identified in the SCD as opportunities to accelerate growth: i) developing the extractives sector, particularly Uganda's oil reserves; ii) promoting trade, investment and regional integration, by reducing trade barriers, improving infrastructure to lower transport costs, and increasing competitiveness in key commodities, including agricultural products; iii) tapping new information and communication technologies, which can help increase jobs, improve public service delivery, and spur productivity; and iv) harnessing a more organized urbanization process, which – through agglomeration effects – can boost economic growth.

However, to take advantage of these opportunities, the SCD established six key constraints: i) infrastructure gaps, particularly rural roads and electricity access; ii) low access to finance, which is critical for non-farm firm growth; iii) inadequate human capital, including poor quality and access to health and education; iv) unsustainable management of natural resources, particularly in light of climate change; v) ineffective public sector management, highlighting the risk of Dutch disease with the prospects of oil revenues; and vi) regional instability, especially in light of the large and rising young population and low coverage of social safety nets.

The prioritization of constraints in the 2015 SCD was based on the impact of the constraints on the twin goals of reducing poverty and boosting shared prosperity. The prioritization process resulted in the identification of the following eight priority areas: (a) macro-fiscal stability, (b) agricultural productivity and commercialization, (c) consumption smoothing, (d) public service delivery, (e) urbanization, (f) fertility reduction, (g) private sector competitiveness and diversification, and (h) public sector effectiveness. That said, the priority areas and related 36 actions were not ranked in order of importance. Furthermore, the SCD did not differentiate between short and medium-term actions and their sequencing.

1 World Bank (2015)



2. Improvements in economic and social developments have slowed over the past five years compared to peers. Economic growth has barely kept up with the rise in population (averaging 3.7 percent per annum since the 2015 SCD)² as the effects of the first generation of pro-market and public sector reforms have waned. As a result, the country's real per capita GDP growth rate, averaging 1.2 percent between 2015 and 2019,³ has increasingly lagged behind peers in East Africa such as Kenya, Tanzania, Ethiopia and Rwanda, and has halved compared to outcomes between 2010 and 2014 (Box 1). Furthermore, the development of the oil sector, considered a promising pillar of Uganda's economic development and an important source of fiscal revenue, has still not taken off as expected, and is unlikely to materialize before 2024-25 at the earliest. However, investments into this sector are likely to pick up over the next few years, which will positively impact the economic growth outlook.

3. Since the 2015 SCD, some economic progress has been shared and progress in poverty reduction was achieved, but the COVID-19 crisis has in part reversed these developments. The economic transformation was characterized by a reduction in the workforce employed in on-farm agriculture and a take-off in industrial production, largely in agro-processing. However, following the COVID-19 shock (see Box 2), there have already been widespread firm closures, permanent layoffs in industry and services, a rapid slowdown of activity particularly in the urban informal sector, and a movement of labor back to farming. At the same time, household incomes have fallen, which is of concern considering the high levels of vulnerability to poverty, limited social safety nets, and the impact of this on human capital development and Uganda's capacity to benefit from its demographic transition. Furthermore, the regional gap in human capital and living conditions persists, with the Northern and Eastern regions lagging despite progress observed in the North. The number of refugees in the country (primarily from the DRC and

South Sudan) has more than doubled since 2015. This has exacerbated a range of ongoing environmental concerns, including land degradation and woodland loss. It has also placed additional pressures on service delivery and infrastructure in some of the poorer regions and has, in some instances, caused tensions with the local host communities.

4. Weak governance, inadequate environmental and social risk management, poor public investment management and rising political tensions have become more apparent since 2015. Uganda has shifted from being favored by development partners and benefiting from sizable budget support in the period prior to 2015, to a position where this support is limited due to weak governance. This is due to more frequent instances of the misuse of donor funds⁴ and breaches of social and environmental safeguard agreements.⁵ Political tensions and uncertainty persist following the elections in January 2021. Repeated arrests of opposition leaders and supporters, abductions and human rights violations, violent handling of protests, and a narrowing of civil society space have drawn negative attention from the international community and resulted in a difficult environment for development partners to engage in.

5. The Uganda SCD Update will review and streamline the priority areas and proposed actions from the 2015 SCD. The 2015 SCD identified 36 actions in *eight priority areas* (see Box 1 and Annex B).⁶ The reprioritization in the SCD Update is based on the analysis of the most recent poverty and growth trends, an assessment of the initial and projected impacts of COVID-19, and diagnostics produced since 2015 in four key focal areas: i) *fiscal sustainability*; ii) *agricultural productivity, agro-industrialization and jobs*; iii) *human capital and women's empowerment*; and iv) *household and community resilience*. The Update will build on the analysis conducted in the 2015 SCD, while at the same time providing a fresh perspective to assessing the

2 UN Population Projections

3 According to official data from UBOS

4 EC, DFID, WB IEG, and Irish Aid (2015, May)

5 In FY17, a DPF aimed at supporting fiscal decentralization and improving service delivery was not sent to the Board due to a country portfolio freeze at the time, associated with safeguard issues in the Transport Sector Development Project.

6 World Bank (2015).



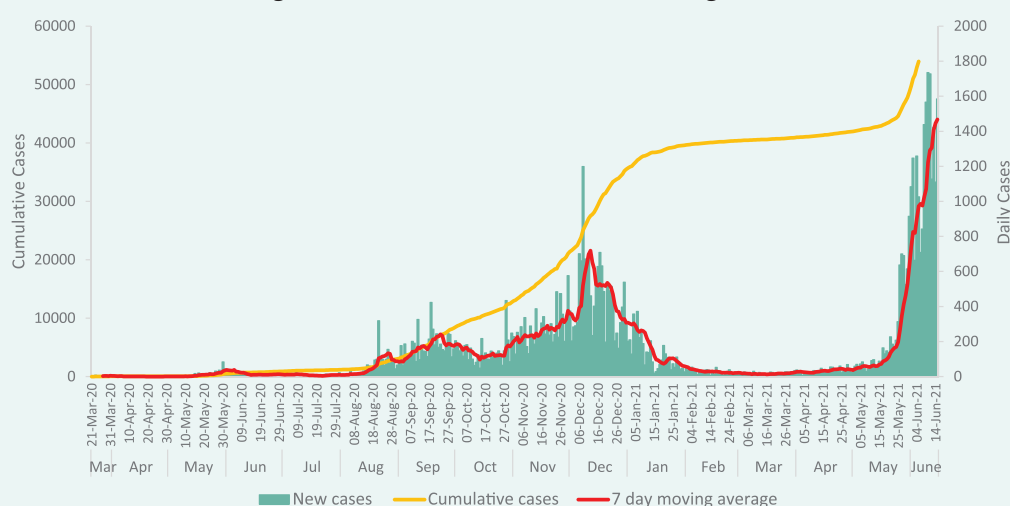
development challenges and opportunities in Uganda over the next five years. Section 2 will start with a review of the trends since the 2015 SCD. Section 3 and 4 will take a deeper look, respectively, at the four focal areas

and two key foundations for sustainable growth. Section 5 will then conclude with a streamlined set of priority areas for action.

Box 2: Evolution of the COVID-19 pandemic in Uganda

The Ugandan authorities reacted swiftly to the COVID-19 crisis in March 2020 by locking down the economy and introducing various public health and social distancing measures. This seemed to have reasonable success in 2020 as cases grew slowly and only peaked during an extended first wave in December (as shown in Figure B1).

Figure B1: Evolution of COVID-19 cases in Uganda



Source: World Health Organization (2021, June)

Given the relaxation of some of these measures in 2021 and the further opening of the economy, cases started rising again in May 2021, leading into what is now a more severe second wave. By June 12, 2021, the cumulative number of recorded COVID-19 cases in Uganda had risen to 63,100. In the first wave, a total of 40,367 cases were reported over the period of a year. In the second wave since March 2021, an additional 22,733 cases (or 56 percent of the first wave) have been reported in just over three months.⁷ This increase was particularly apparent at the end of May and early June – over the three weeks leading up to June 12, 2021, the daily number of people testing positive increased from well below 100 to over 1,700.⁸ Testing capacity continues to be constrained, however, by high costs for PCR test kits, although other options (e.g. rapid diagnostic tools) are being progressively used. With the general population not keen on abiding by the preventive social distancing measures⁹, a resurgence could result in government re-instating more mobility restrictions, and thereby negatively affecting the economic recovery.

Significant uncertainty remains on the evolution of the COVID-19 pandemic and its effects in Uganda, relying largely on the success of the vaccination effort. So far, the vaccination program launched in March 2021 has progressed slowly, having reached only 834,271 out of the targeted 21.9 million people, which translates into less than 4 percent of the targeted population. The percentage of the population that has been vaccinated will probably only rise gradually though, due to both a limited supply of vaccines and reluctance by some people to vaccinate.¹⁰ A stronger vaccination effort is expected to take place in the second half of 2021 and well into 2022, with over US\$120 million budgeted for purchases and administration of vaccines in FY21/22. However, until then, the limited vaccine coverage, alongside the relaxed adherence to public health and social distancing measures, could lead to progressively worse waves of the pandemic in Uganda and more stringent mobility restrictions.

7 World Health Organization (2021, June)

8 This daily increase is quite a jump from the seven-day daily average of 719 cases during the initial peak in mid-December 2020 and the drop to 17 daily cases in mid-March.

9 Government of Uganda, Ministry of Health (2021, May)

10 Recent rounds of the UHFPS show that approximately 80 percent of Ugandans are willing to receive the COVID-19 vaccine.





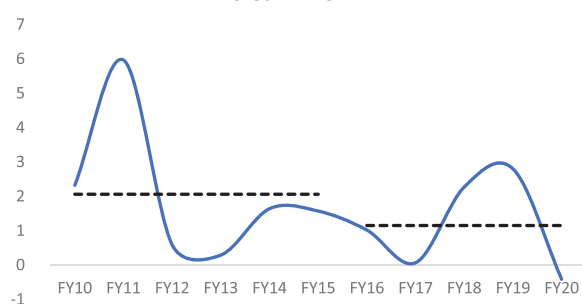
2. Economic, poverty and sustainability trends since the 2015 SCD

2.1 Economic performance

6. Real per capita GDP growth decelerated considerably from 2015 to 2019 and is further aggravated by the COVID-19 crisis. Although real output growth recovered in FY18 and FY19 to above 6 percent (Annex C, Figure A1), trend output growth has slowed since 2012. While a growth comparison for the periods 2010-14 and 2015-19 reveals a modest average slowdown, the deceleration is striking in per capita terms. Specifically, real per capita GDP growth, on average, roughly halved since 2015 to 1.1 percent compared to the 2010-15 period, when it amounted to 2 percent (Figure 1). This per capita growth reduction is sizable even without considering the tremendous impact of the COVID-19 crisis that upended growth starting in the second half of FY20 – and with an expected gradual, U-shaped recovery going forward. Over the past five years, the population in Uganda rose annually

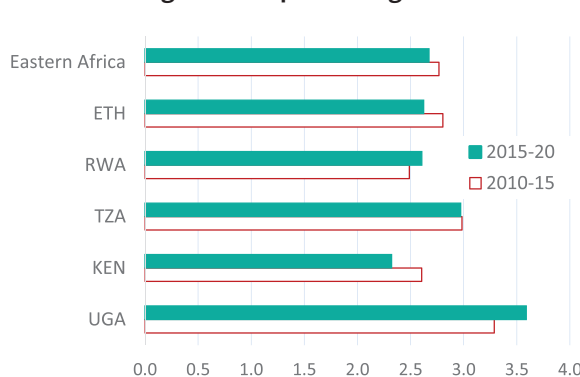
from 3.3 percent in 2010 to an estimated 3.6 percent in 2019, the highest rate in eastern Africa and among sub-Saharan peers. In other words, Uganda's population growth rate exceeded those of its African peers by about a whole percentage point annually during 2015-2020, with the exception of Tanzania (Figure 2). In absolute terms, such high population growth rates mean that since the last SCD in 2015, the population has grown by 6.2 million to 45.7 million in 2020. By 2030, the country is projected to have a population of close to 60 million, or 15 million more compared to 2020, with each year about one million youth entering the labor market. As a result, given these significant levels of population growth, Uganda will need to elevate and sustain higher levels of economic growth to ensure better jobs for all and an equitable and sustainable economic transformation.

Figure 1: Per capita real GDP growth - FY10 to FY19



Source: WDI

Figure 2: Population growth rates



Source: UN World Population Prospects, 2019

2.1.1 Supply and demand side drivers of growth

7. On the supply side, the growth trajectory during 2015-19 was affected by the massive drought in 2016/17, with the recovery driven primarily by the industry sector. GDP was rebased in 2019, raising real per capita income by approximately 18 percent to US\$891.¹¹ The rebasing also highlighted the change in the sectoral drivers of growth – the share of industry

in GDP increased from about 26 percent to almost 30 percent during the period 2015-2019 (Figure 3), mainly because manufacturing doubled its share from almost 8 percent to over 16 percent of GDP. At the same time, the share of services diminished from about 58 percent to 46 percent following the rebasing, with the size of the information and communications (IC) sector shrinking from 12 percent to under 2 percent of GDP.

11 See World Bank (2020, January) for a full discussion of the rebasing exercise.

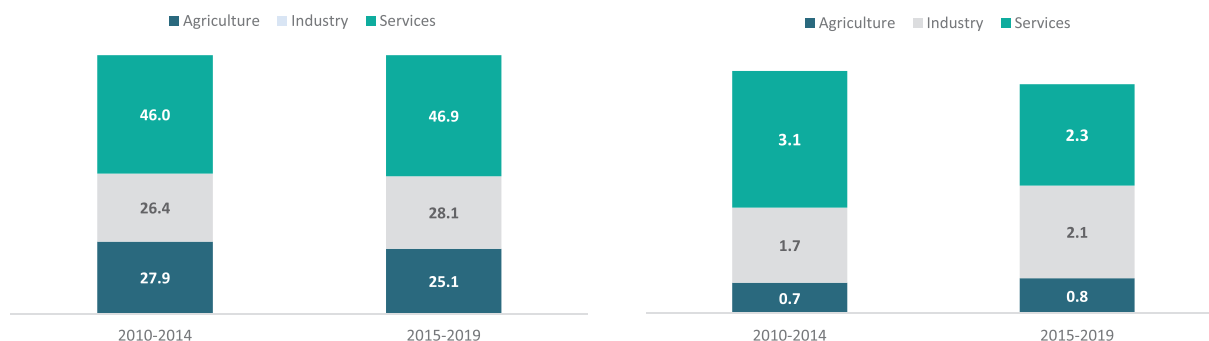


8. The share of the agriculture sector in GDP shrank during the last five years plagued by issues along the supply chain and inefficiencies in agricultural input markets (Figure 3). The latter is in part driven by ineffective government interventions such as distribution of inputs under the Operation Wealth Creation (OWC) program, as well as inadequate input market regulations, including a weak system for seed certification, and problems with counterfeit and adulterated fertilizers and chemicals. As a result, the agriculture sector has made relatively modest contributions to growth and provides unreliable supply for agro-processing companies. At the same time, volatile weather patterns have had a significant impact on agriculture productivity with only 7,000 ha of cultivated land under formal irrigation or 1.2 percent of an estimated irrigation potential of 600,000 ha.¹² The share of the largest sector in agriculture, the production of food crops, has declined by 2 percentage points in overall GDP to 12.5 percent, despite a doubling in output growth from 1.7 in 2010-2014, to 3.4 percent in 2015-2020. This downward tendency in the overall share applied to other agri-sectors as well. The exception was cash crops, such as coffee, tea, cotton, and tobacco, for which structural changes resulted in a growth U-turn; with these crops exhibiting an average growth rate of close to 6 percent during 2015-2019 compared to -1 percent from 2010-14. That said, the share of cash crops in GDP is just over 2 percent.

9. On the demand side, net exports and investment accelerated in FY15-19 and complemented private consumption which had been the key driver of economic growth in FY10-14 (Figure 4). The reversal in poverty reduction in 2016-17 that coincided with severe droughts led to a decline in average private consumption growth from 3.1 percent in FY10-14 to 2 percent in FY15-19. This meant an overall smaller contribution of private consumption to output growth of 38 percent in FY15-19, from 56 percent during FY10-14. As a result, a rebalancing of growth drivers on the demand side has taken place over the last five years. Net exports surged in FY15-19 and contributed 14 percent to growth – close to five times more compared to the previous five years. Investment, meanwhile, grew robustly at 6.1 percent per year in FY15-19, compared to 5.5 percent during the previous five years, which meant a 4 percentage points higher contribution to GDP growth at 38 percent.

10. A surge in government investment complemented robust growth in private investments over the past five years. Private investments accelerated to close to 7 percent during FY15-FY19 from an average of 4 percent over the previous five years, crowded in by a surge in public investments. Meanwhile, public gross capital formation, in real terms, rose on average 16 percent in FY15-FY19, more than twice the increase compared to FY10-FY14. This shift toward spending on infrastructure took place at the expense of investing in social sectors such as education and health, which experienced a decade-long decline in real per capita

Figure 3: Growth decomposition in value added by major sector: shares in GDP (LHS) and growth rates (RHS)



Source: WDI, WB staff calculations

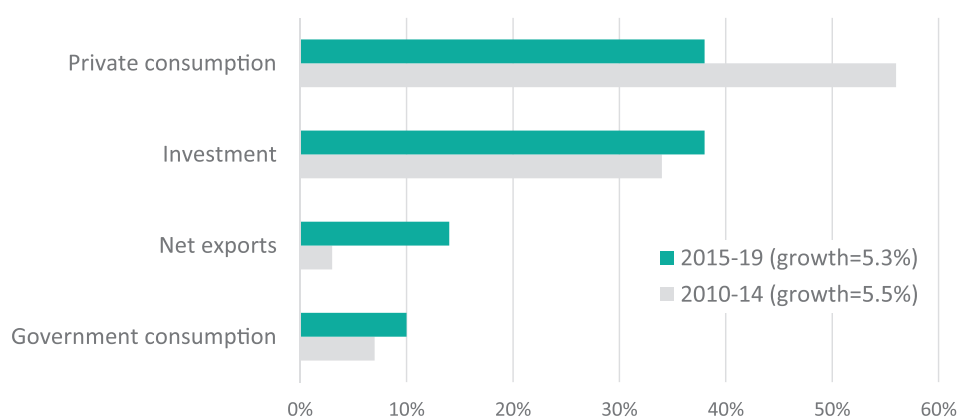
12 GoU – MAAIF, MWE (2017)



allocations, thereby impacting service delivery.¹³ The government has completed several large investment projects, such as two dams (Karuma and Isimba) as well as the motorway connecting Entebbe Airport with Kampala to mention a few. A range of other large investments are underway or planned in the area of

electrification, transport – such as the SGR railway connection to Kenya and oil well access roads – and the oil pipeline to Tanzania, worth an estimated \$3.5 billion.¹⁴

Figure 4: Contribution to change in real GDP growth



Source: WDI, WB staff calculations

11. Driven by a lower trade deficit and higher tourism inflows and remittances, the current account deficit has narrowed, on average, from 6.2 percent of GDP in 2010-2014 to around 5 percent in 2015-2019. With the real effective exchange rate appreciating around 1.2 percent on average in both periods, the trade deficit has shrunk to an average of 7.5 percent of GDP in 2015-2019 from 9.5 percent of GDP during the previous five years. At the same time, net travel (which includes tourism) and remittances rose together to an average of 6.7 percent of GDP from 5.1 percent of GDP in 2010-2014. Both trends helped strengthen foreign exchange reserve to US\$3.9 billion at the end of FY19/20 (Table 1), which is US\$1 billion more compared to the reserves five years ago. While the central bank allows full flexibility in the exchange rate, the exchange rate level is estimated to be slightly overvalued. The country's vulnerability to changes in global commodity prices is determined by

the increasing concentration in products with low value added in the primary sector of formal exports. The latter accounted for over 76 percent of total exports in 2019 and is predominantly based on unrefined agriculture products such as coffee, tea, cotton, fish, and maize.

12. Although Uganda's diversification of export destinations, product portfolio and participation in global value chains (GVCs) remain limited, there's been considerable growth in informal exports.¹⁵ The formal private sector tends to rely on a few existing markets and export growth occurs by exporting higher volumes of a limited number of products.¹⁶ Furthermore, the probability of Ugandan export relationships surviving past the first year is less than 30 percent, and the probability of maintaining that relationship for more than two years is less than 20 percent.¹⁷ Meanwhile, participation in GVCs, a key vehicle for creating jobs

¹³ Non-wage recurrent transfers per capita declined by 51 percent in primary education and 65 percent in health from their peaks in the 2000s. Three years ago, the government embarked on reforms to start reversing this trend, increasing fiscal transfers to local governments (LGs) for non-wage recurrent and capital spending in education and health.

¹⁴ Biryabarema, E. (2021)

¹⁵ World Bank (2020, September)

¹⁶ Estimates based on Hirschman-Herfindahl Index.

¹⁷ World Bank (2020, September)

in manufacturing, has deteriorated since 2010 and is on average lower than in its peer countries.¹⁸ Despite recent reforms such as the construction of a one-stop border post en route to Kenya (Busia Electronic Single Window), poor transit and transport infrastructure remain the main constraints to trade growth. Furthermore, transport costs are high despite the existence of untapped and underdeveloped rail and waterway routes that could help address these issues. At the same time however, small scale cross border trade (SSCBT) exports have played a significant role for Uganda's regional trade growth, accounting for about

30 percent of total regional exports (formal and SSCBT) since 2015. In some years, SSCBT exports have reached up to 50 percent of total exports to the DRC, South Sudan, and Tanzania. The rise in SSCBT provides jobs for many border dwellers, mostly women and the rural poor and, thus, contributes to reducing poverty and increasing welfare in border towns. At the policy level, it is therefore important to consider the challenges of small-scale traders, including gender issues, especially during the post-COVID recovery period.



¹⁸ Since the primary sector, mainly composed of processed and non-processed agricultural goods, is the main engine of growth in Uganda, the level of GVC participation is expected to be lower than some of its regional peers such as Ethiopia, Rwanda and Tanzania that have taken the path toward light manufacturing and agribusiness. See World Bank (2020, September).



Table 1: Macro indicators FY17/18 to FY20/21

	2017/18	2018/19	2019/20	2020/21e
Output, prices, and exchange rate				
		(Annual percentage change)		
Real GDP	6.3	6.4	3.0	3.3
Headline inflation (period average)	3.4	3.1	3.0	4.7
Core inflation (period average)	2.7	3.8	3.1	5.7
Exchange rate (Ugandan Shilling/US\$)	3.7	2.1	-0.6	-
Real effective exchange rate ("-" = depreciation)	4.2	-2.8	-3.6	-
Money and credit				
Credit to non-government sector	10.8	13.6	8.8	10.6
Bank of Uganda policy rate	9.0	10.0	7.0	7.0
M3/GDP (percent)	18.9	18.5	21.5	23.3
NPLs (percent of total loans)	4.4	3.8	6.0	5.3
Central government budget		(Percent of GDP, unless otherwise indicated)		
Revenue and grants	12.7	13.5	13.2	14.6
o/w grants	0.6	0.9	0.8	1.5
Expenditure	16.8	18.4	20.3	24.5
Of which: capital expenditure	6.3	7.6	8.6	10.4
Primary balance	-2.2	-3.0	-5.0	-7.1
Overall balance	-4.1	-4.9	-7.1	-9.9
Public Debt	34.8	35.2	40.8	50.2
External Sector				
Current account balance (including grants)	-5.3	-6.7	-5.8	-9.2
Exports (goods and services)	15.1	15.0	12.0	15.4
Imports (goods and services)	21.6	22.3	20.2	27.2
Gross international reserves				
In billions of US\$	3.1	3.2	3.9	3.8
In months of imports of goods and services	3.8	4.3	4.4	4.0
<i>Memorandum items</i>				
GDP at current market prices				
US\$ billion	32.9	35.4	37.6	39.1

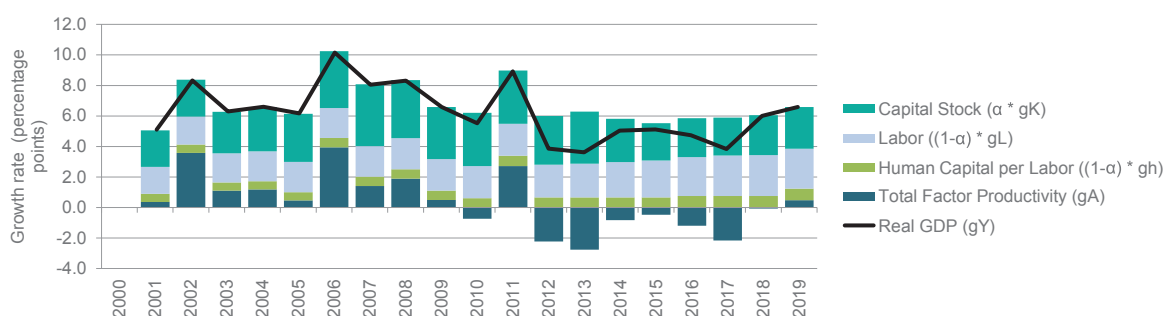
Source: UBOS, World Bank and IMF ECF program document, June 2021

2.1.2 Growth accounting: the total factor productivity challenge

13. Economic growth in Uganda has been driven by factor accumulation. Labor force growth has increasingly complemented capital deepening as the primary driver of GDP growth from 2015 to 2019, with a limited contribution from human capital (Figure 5). The expansion of the labor force, averaging around 4.4 percent¹⁹ from 2015 to 2019, implies a contribution rate of 50 percent²⁰ and reflects the consequences of one of the highest population growth rates in the world. This extraordinary growth in the labor force complemented the expansion in the capital stock as the single most

important contributor to growth: the capital stock rose on average 6.5 percent from 2015 to 2019, contributing 49 percent to growth. This represents a deceleration from the 8.1 percent compounded annual growth rate of capital stock recorded during the period 2010 to 2014. The strong increase in factor accumulation against moderate economic growth rates over the last decade implies that, on average, total factor productivity (TFP) has been negative. This could in part be explained by the mismatch between the growth of the mainly unskilled labor force and capital inputs, as well as the frequent supply shocks, mostly in the form of droughts.

Figure 5: Growth accounting – contributions to growth



Source: WDI and WB staff calculations

Notes: Growth rates are weighted according to the income share of capital, which is assumed to be 40 percent

14. The recent contribution of TFP to GDP growth in Uganda has been, on average, negative, and lags its comparators. Although TFP made a positive contribution to growth during the period 2000 to 2010, productivity outcomes since 2010 have been, on average, negative (Figure 5). Specifically, during 2010 to 2014, TFP’s contribution to GDP growth averaged about -0.8 percentage points. This improved marginally during the period 2015-2019 to -0.7 percentage points. The decline in TFP can likely be traced to the waning of initial gains from and in some cases reversals of the pro-market and public sector reforms, and poor governance increasingly curbing the competitiveness

and productivity of the private sector. The negative growth of TFP possibly also captures in part the procyclicality of the measure. Deteriorating productivity is particularly pronounced in the agriculture sector (Annex C, Figure A2) due to lagging reforms compared to other East African peers (see Section 3.2), and the high population growth rate translating into rising numbers of subsistence farmers. Meanwhile, weak public investment management (PIM) and continued poor social risk management have resulted in slow progress in addressing the infrastructure deficit (see Section 3.1).

19 Compounded annual growth rate.

20 Growth rates are weighted according to the income share of capital and divided by the total growth rate.



2.1.3 *The negative impact of COVID-19 on Uganda's economy*²¹

15. Uganda's real GDP grew at 2.9 percent in FY20 – less than half the 6.8 percent recorded in FY19 – because of the COVID-19 crisis, and is expected to grow at a similar level in FY21. Economic activity stalled during the latter part of the fiscal year due to a domestic lockdown that lasted over four months, border closures for everything but essential cargo, and the spillover effects of disruption in global demand and supply chains due to the pandemic. This resulted in a sharp contraction in public investment and deceleration in private consumption, which hit the industrial and service sectors hard, particularly the informal service sector. On a calendar year basis, real GDP growth is expected to contract by up to 1 percent in 2020, compared to 7.5 percent growth in 2019, and, as a result, real per capita GDP growth is expected to contract by approximately 4.5 percent. Even if GDP growth rebounds strongly by 2022, the level of per capita GDP is likely to remain well below its pre-COVID trajectory.

16. Despite the reduction in tourism inflows and remittances, the economic slowdown has narrowed the current account deficit, with financing of the external shortfall shifting from FDI to government borrowing. The collapse in consumption and investment due to COVID-19 reduced imports and incomes earned by foreign investors, which narrowed the current account deficit to an estimated 5.9 percent

of GDP (US\$2.2 billion) in FY20 from 6.8 percent (US\$2.4 billion) the year before. Meanwhile, higher coffee, maize and gold exports helped offset some of the losses of export revenue caused by the halt in international tourism. Given the 21 percent decline in FDI in FY20, government borrowing replaced FDI in the financing of this external shortfall, which also boosted foreign exchange reserves to over five months of imports in August 2020 and stabilized the Ugandan shilling.

17. The COVID-related demand shock, together with tax and spending measures to manage the crisis, reduced revenues, increased current spending, and led to a significant widening of the fiscal deficit. At 7.2 percent of GDP in FY20, this is by far the highest fiscal deficit in the last decade and is a doubling of the average fiscal deficit of 3.6 percent of GDP in this period. This has led to a further deepening of fiscal vulnerabilities. Tax revenues, in GDP terms, are likely to take some time to return to an increasing trajectory, which is worrisome considering that Uganda's levels are already below the sub-Saharan Africa (SSA) average. Development spending once again undershot targets in FY20, with externally financed investment severely affected by the crisis, resulting in a decline, in real terms, of spending compared to FY19. Depending on GoU's ability to mobilize external financing, continued heavy reliance on domestic borrowing cannot be ruled out.

21 See World Bank (2020, December) for a full analysis.



2.2 Poverty, shared prosperity, and inequality of opportunities

18. Since 2012/13, which was the last dataset analyzed by the 2015 SCD, poverty had increased moderately by 2016/17, reversing the downward trend that had been observed until 2012/13. According to the Uganda National Household Survey (UNHS), between 2012/13 and 2016/17 (referred to as 2012 and 2016), the share of population living under the national poverty line increased moderately, from 19.7 percent to 21.4 percent – a 1.7 percentage point deterioration that resulted in around 1.4 million Ugandans slipping into poverty (Figure 6a).²² Based on the international poverty line (US\$ 1.90 PPP 2011 a day), the reversal was more pronounced at around 6 percentage points, which pushed the poverty rate to 41 percent by 2016 (Figure 6b). Under this measure – and compared to its peers – poverty in Uganda is higher than in Lao PDR (10), Ethiopia (31), and Kenya (37), while still lower than in Rwanda (56), and Tanzania (49) (Figure 6b).

19. Drought was the main driver of the poverty increase between 2012 and 2016. This was mainly due to the severe droughts that affected the income of agricultural households (see Annex C, Figure A3a and A3b). Households engaged in agriculture accounted for about three quarters of the poverty increase. Other contributing factors were the overall economic slowdown and widening in regional inequality observed since 2012.²³

20. Multi-dimensional poverty is more pronounced than monetary poverty due to high degrees of deprivation in non-monetary dimensions. Almost 60 percent of the Ugandan population is considered deprived in at least one of the following wellbeing dimensions: monetary poverty (under the international

poverty line of US\$1.90 a day), education and/or access to basic infrastructure (Figure 6e).²⁴ As in most countries, multidimensional poverty in Uganda is higher than monetary poverty (at 41.7 percent), mostly explained by deprivations in terms of access to basic infrastructure: 77 percent of the population did not have access to sanitation and around 61.7 percent did not have access to electricity. According to preliminary results from the UNHS 2019/20, no significant improvements happened with regards to population access to improved water (80 percent in 2016/17 versus 79 percent in 2019/20), secondary school net enrollment (29 percent in 2016/17 versus 27 percent in 2019/20), usage of electricity from the grid (22 percent in 2016/17 versus 19 percent in 2019/20).²⁵

21. The surge in poverty between 2012 and 2016 appears to have been a temporary phenomenon, with a significant reduction of poverty until the COVID-19 outbreak in early 2020. According to UNPS 2015/16 and 2019/20 data (referred to as 2015 and 2019),²⁶ household consumption expenditure per adult equivalent grew 4.5 percent annually between 2015 and 2019.²⁷ The growth rate specific to the bottom 40 percent of the income distribution, known as the shared prosperity indicator, was lower but positive at 3 percent (Figure 6c). Even this unequal consumption growth compares favorably to the 2012-2016 period when consumption declined by 2.2 percent for the bottom 40 percent and by 1 percent for the total population (Figure 6d). The findings on positive consumption growth after 2016/17 are consistent with the official national poverty numbers published by the Uganda Bureau of Statistics (UBOS) based on the UNHS 2019/20. According to the estimates, poverty declined from 21.4

22 Uganda's official poverty estimates are based on the UNHS, collected and estimated by UBOS (Ugandan Bureau of Statistics). The latest wave was collected in 2016/17 and made available in 2018.

23 World Bank (2019, July).

24 More specifically, a household is deprived in the education dimension if at least one school-age child up to the age of grade 8 is not enrolled in school or no adult in the household (grade 9 age or above) has completed primary education; similarly, it is deprived in terms of access to basic infrastructure if the household lacks access to a basic-standard drinking water ("limited-standard" with an added criterion of the source being within a round trip time of 30 minutes), or the household lacks access to basic-standard sanitation ("limited-standard" with an added criterion of the facility for the exclusive use of the household) or the household has no access to electricity.

25 There was a significant increase in usage of Solar Photovoltaic Systems in Uganda between 2016/17 and 2019/20 (18 versus 38 percent accordingly).

26 Uganda Bureau of Statistics (2016) and (2021)

27 Welfare aggregate is not spatially deflated.



percent in 2016/17 to 18.7 percent in 2019 before the COVID-19 outbreak.²⁸

22. The economic rebound between 2017 and 2019 corroborates with improvements in the labor market that were driven by the non-farm sector.

According to UNPS data, since the drought in 2017, both the employment rate and the labor force increased in rural and urban areas, implying that Uganda’s labor demand grew faster than its labor supply between 2015 and 2019, despite its high population growth (Figure 6f). The driver of this improved labor market performance was the non-farm sector. Employment in the industry and service sectors grew annually, on average 12.8 and 4.7 percent respectively during this period, while employment in agriculture shrank 0.4 percent (Figure 6i). As a result, the agricultural sector’s employment share declined from 71 to 62 percent up to the COVID-19 outbreak (Figure 6h).²⁹ With the reduction of the agricultural sector’s employment share, the share of wage employment increased from 18 percent to 25 percent. This economic transformation also positively impacted labor productivity by raising the country’s productivity by nearly 2.4 percent annually between

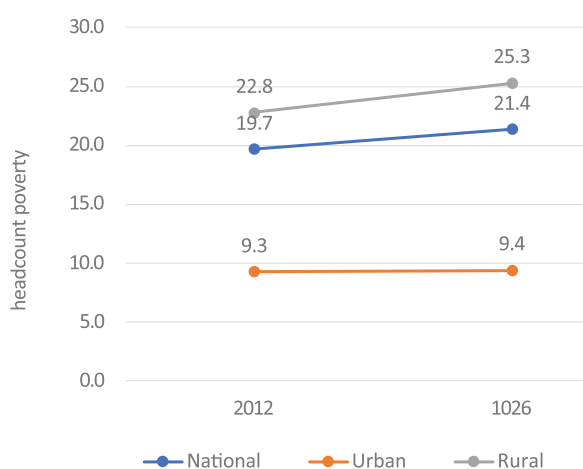
2015 and 2019 (Figure 6j). However, the reduction of productivity in the industry and service sectors is a concern because this likely implies the recent inflows of workers into the non-farm sectors are not as productive as before.

23. The link between economic growth and poverty reduction has weakened as Uganda’s population growth has accelerated.

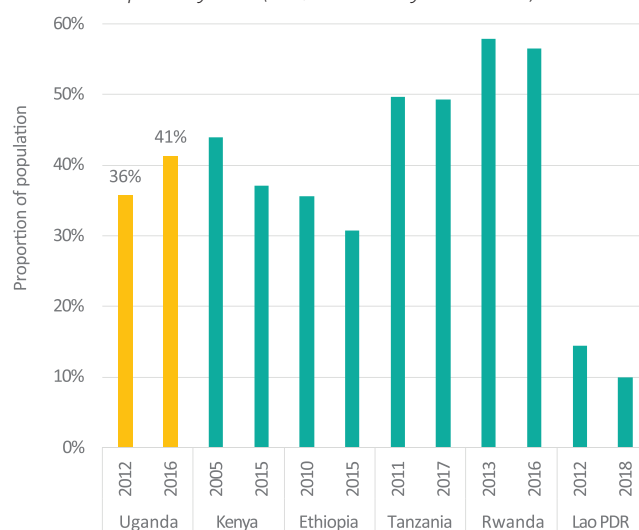
Despite real GDP growth averaging 4.5 percent between 2012 and 2016, Uganda’s poverty rate increased by 1.7 percentage points during the same period. The disconnect between economic growth and poverty reduction is in part explained by the country’s high population growth, which has accelerated since the 2015 SCD (see Annex C, Figure A3c). Over the last five years, Uganda’s population growth has been almost 1 percentage point higher than that for the SSA region and LICs, reaching 3.8 percent in 2018. These elevated levels of population growth reflect persistently high levels of fertility³⁰ and reduced mortality rates, both of which have created a significant population growth momentum. As discussed, this growth also means that progress in per capita terms is weak.

Figure 6: Poverty and shared prosperity – trends and comparisons

a. Headcount national poverty rate increased in 2016 and mostly in rural areas



b. Increase was more pronounced under the international poverty line (US\$1.90 a day 2011 PPP)

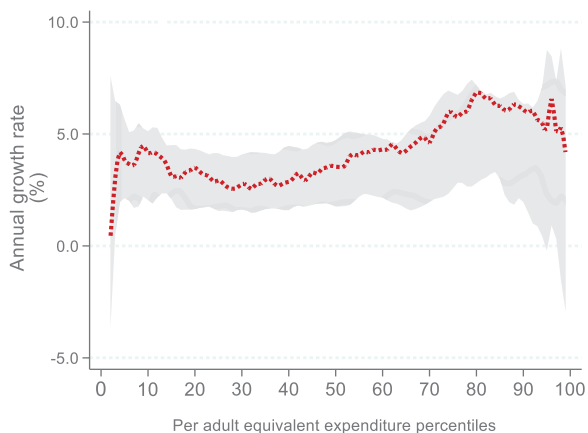


28 It is not clear though whether the increase in poverty observed after 2019 can be fully attributed to COVID-19 or was also related to other factors such as unfavorable weather conditions and so on.

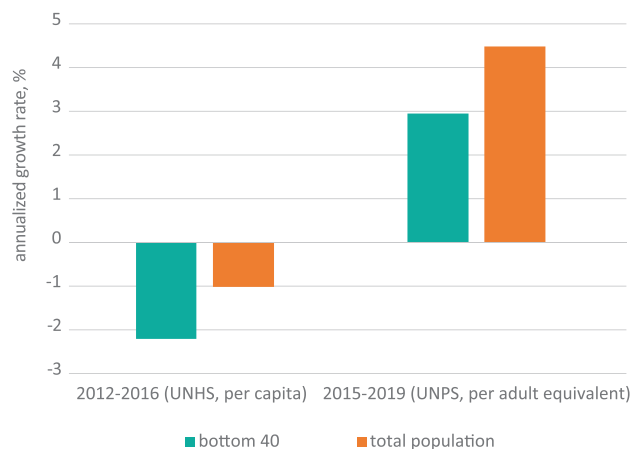
29 The declining trend of employment share of the agricultural sector since 2015 is seen in not only the UNPS series, but also the UNHS and Labor Force Survey series as well.

30 The TFR in Uganda is still slightly above 5 births per women, associated with early age at marriage and of childbearing.

c. Consumption per adult equivalent growth was positive between 2015-2019 using UNPS, but richest 60 percent were benefiting the most



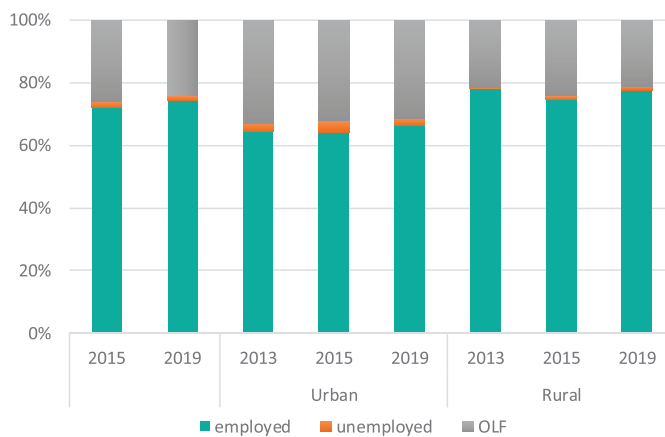
d. Shared prosperity, measured by annualized real consumption per capita growth of bottom 40 percent, improved significantly in 2015-2019*



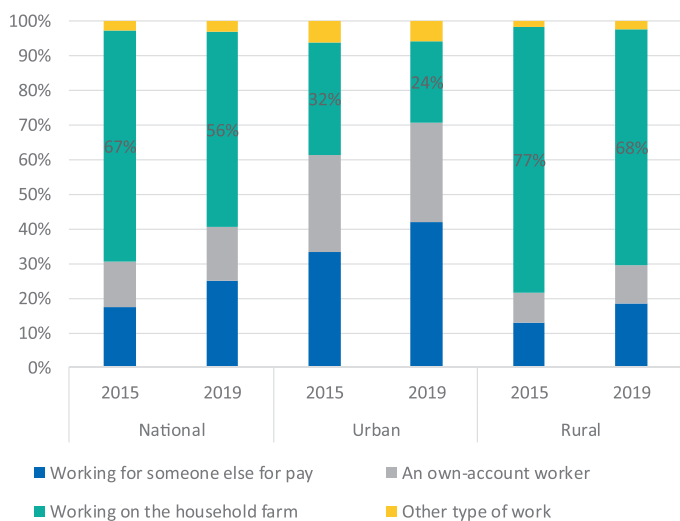
e. Multi-dimensional poverty in Uganda 2016

	% of the population
Multi-dimensional poverty	57.2
Monetary poverty	
Less than US\$1.90 per person	41.7
Education	
At least one school-aged child is not enrolled in school	14.0
No adult has completed primary education	34.8
Access to basic infrastructure	
No access to drinking water	22.9
No access to sanitation	77.6
No access to electricity	61.2

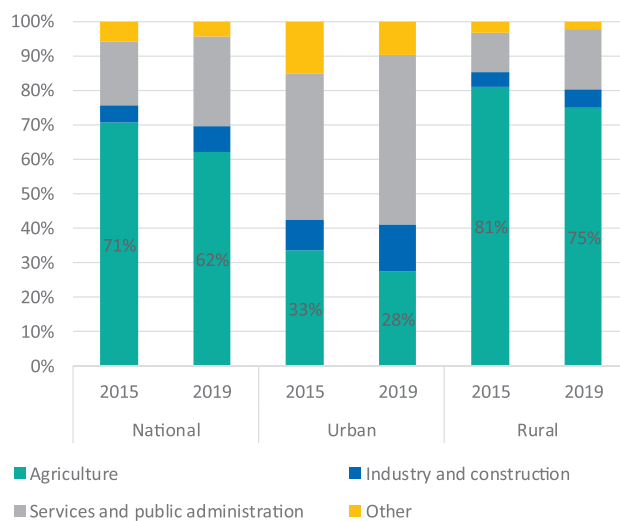
f. Labor market status in Uganda in 2015 and 2019 using UNPS, population (14+)**



g. Type of employment in 2015 and 2019 using UNPS, %

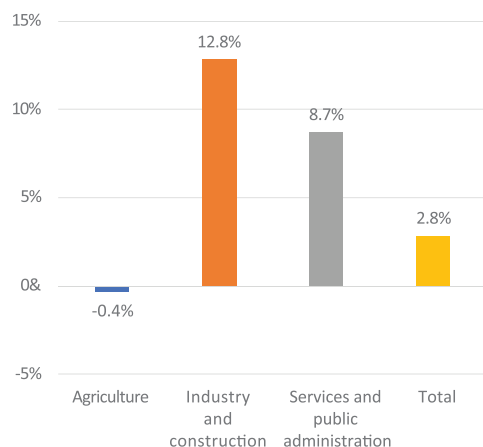


h. Sector of employment in 2015 and 2019 using UNPS, %

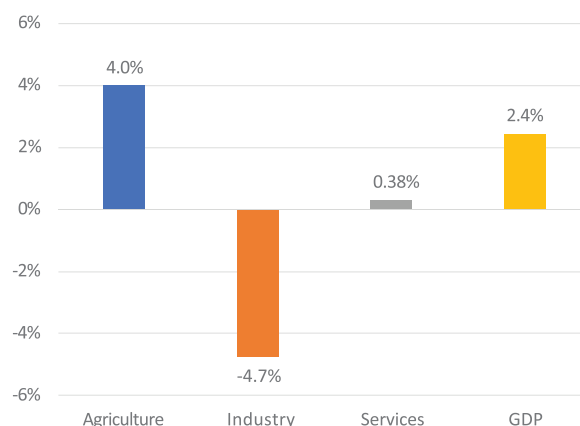




i. Annual growth in the number employed by sector between 2015 and 2019, using UNPS, %



j. Annual growth of value added per employee by sector between 2015 and 2019 using UNPS, %***



Source: a) UNHS, b) PovcalNet as of April 2021, c) UNPS and World Bank staff calculations using spatially adjusted by poverty line consumption per adult equivalent, d) UNPS, UNHS and World Bank staff calculations, e) UNHS and World Bank staff calculations, f/g/h) UNPS and World Bank staff calculations, i/j) UNPS for the number of employed and WDI for Gross Value Added by sector and GDP in constant prices in local currency units.

Notes: *Shared prosperity numbers are based on consumption per capita for UNHS and adult equivalent for UNPS. Consumption from UNHS was deflated using CPI values used to calculate the international poverty rate, while consumption from UNPS was deflated to be in 2005/06 prices using CPI values used to calculate national poverty rates and was also spatially adjusted using poverty lines. **Those who work on own farm are considered employed. Employment is based on 7-day recall. OLF stands for out of the labor force. *** Annualized numbers are calculated using geometric mean.

24. In addition to high population growth, the growth-poverty link is also weakened by the large proportion of Uganda's labor force employed in the agriculture sector, where growth has recently been moderate. Poverty reduction is not commensurate with real GDP growth as only a small proportion of the labor force derives income from the main sectors propelling economic growth. While close to 65 percent of the labor force in 2016 was engaged in the agricultural sector (the large majority in subsistence agriculture, which is rainfed and vulnerable to climate hazards), this sector only accounted for 15 percent of GDP growth that year (Annex C, Figure 3d). Furthermore, agricultural output has grown at about 3.9 percent per annum over the last five years, in real terms. This can be compared to agricultural output growth of 3 to 5 percent in other EAC members (WDI), yet with significantly lower population growth rates. Meanwhile, the industrial sector employed only 7 percent of the labor force, while contributing more than 25 percent of real GDP growth. Thus, while the industrial sector contributed significantly to output growth in recent years, few households benefitted directly from this growth. Finally, although the services sector accounted for about 60 percent of economic

growth in 2016 and employed almost one-third of the labor force, the majority engaged in this sector are working in informal and low-productivity activities. Although the employment share of the agricultural sector declined significantly between 2015 and 2019, the employment share of this sector increased again during the COVID-19 crisis.

25. The fluctuation of poverty incidence underscores the high vulnerability of Ugandan households discussed in the 2015 SCD. The increase in poverty in 2016/17 was due to droughts and the subsequent acceleration in inflation. Droughts were spatially highly correlated with increases in poverty at the sub-county level in 2016 (see Annex C, Figure A3a and A3b). Low rates of commercialization and poor adaptation capacity with respect to climate-related hazards, likely worsened the impact of the 2016/17 drought.³¹ Households also struggled to cope with external shocks such as price shocks, with headline inflation rising to 5.6 percent, and food crop price inflation to 13 percent in 2017. The COVID-19 crisis is now causing a sizable adverse impact on the living conditions of Ugandan households and reversing



the economic transformation, which could have a longer-lasting impact on the economy. These shocks have particularly severe effects on households due to the insufficient coverage, design and scope of social protection programs, and households' limited access to finance and insurance.³² The inability to cope with shocks has been shown to be detrimental not only to monetary wellbeing, but also to child nutrition outcomes, with adverse spillover effects on human capital development.

26. COVID-19 has already had a profound negative impact on Uganda's labor markets, poverty, vulnerability, and human capital development, but with some signs of recovery. According to UBOS's latest estimates based on the UNHS 2019-20, the proportion of the poor in Uganda increased 3.2 percentage points since the outbreak of the COVID-19. This implies 1.3 million people fell into poverty since the COVID-19 outbreak. Following the mobility restrictions that were put in place in March 2020, about 17³³ percent of respondents stopped working in June according to the COVID-19 Uganda High Frequency Phone Survey (UHFPS). The rate of work stoppage was highest in urban areas (28 percent) and service sectors (33 percent). Female respondents were more likely to stop working than male respondents (23 versus 16 percent) and the gap was particularly pronounced in urban areas and among young respondents age 15-30. The employment rate also declined significantly from about 87 percent in March to 70 percent in June, before almost fully returning to pre-March levels by August, when it was recorded at about 86 percent. Since then, employment rates have been varying slightly around 86 to 89 percent between September 2020 and February 2021.

27. In contrast to the relatively quick recovery in employment, the recovery of household incomes appears slow (Figure 9). According to the UHFPS, the COVID-19 crisis negatively affected all sectors, with non-farm family businesses being particularly hard hit. During the initial lockdown in June 2020, 91 percent of households involved in non-farm family businesses suffered income losses (i.e. less or no earnings). Respondents were also asked in October/November to compare their current monthly income levels with the 12-month average they used to have before March 2020. For about 60 percent of households, their monthly non-farm family business income was below their pre-pandemic levels. The recovery of household incomes in other sectors has also been slow and a host of other work corroborates these findings.³⁴

28. The COVID-19 crisis has also reversed the positive economic transformation, resulting in increased vulnerability to poverty, at least in the short-run. Figure 8 shows a reversal of the economic transformation, with the employment share of agriculture having increased ten percentage points since its pre-COVID share prior to March 2020. There are several reasons for this: firstly, many more people in the non-farm sectors lost their jobs than in agriculture; secondly, there was a sizable shift among working respondents from non-farm sectors to agriculture because the agriculture sector was least affected by lockdown measures; and thirdly, 2020 was a year of mostly favorable climatic conditions. However, increasing dependence on agriculture is concerning given that the agricultural sector's growth and productivity have been low; the sector is highly vulnerable to climate shocks; and the COVID-19 crisis is also hitting this sector as well.

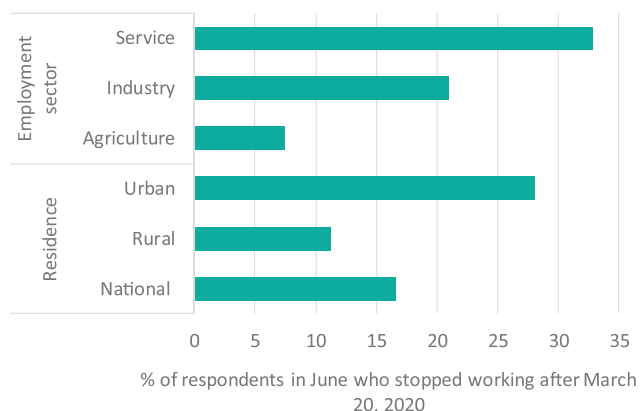
32 For a recent analysis of the Social Protection Sector, see the World Bank (2019a, June) and World Bank (2020, January).

33 This is equivalent to about 19 percent of respondents who worked before the lockdown.

34 The International Growth Center (IGC, September 2020) estimated that about 65 percent of Ugandans had faced significant income losses since the COVID crisis started, equal to about 9.1 percent of GDP. In a study undertaken by Bachas et al. (September, 2020) that included Uganda, they predict that less than half of all firms will remain profitable by the end of 2020 and firm exit rates are likely to double, compared to pre-COVID data. Partnership for Evidence-Based Response to COVID-19 data (August 2020) showed that a higher share of respondents in Uganda reported loss of income compared to any other AU Member State surveyed.



Figure 7: Share of respondents who had stopped working (% of total)



Source: UHFPS (different rounds)

29. In addition to impacts on the labor market, COVID-19 is likely to stall the progress Uganda had been making in improving human capital and, therefore, constrain the country’s capacity to benefit from its demographic transition. Access to basic services, including essential health services, has been disrupted by the COVID-19 crisis. As a result, the indirect health impact of the crisis could be substantial, with disruptions to suspected malaria cases, routine checkups, maternal and child health care, and HIV Treatment.³⁵ School closures have also substantially widened inequalities in access to education, especially in areas that do not have internet connectivity to support distance learning. Before the COVID-19 closure, the distribution of households with any child (age 3-18) enrolled in educational institutions was relatively equal across place-of-residence and income groups. Since the closure, however, the gap in the share of households with at least one child participating in any education or learning activities between rural and urban areas increased from 11 percentage points in June to 18 percentage points in September/October. Moreover, the gap in participation in any education and learning activities reached 33 percentage points in September/October between the poorest and richest children.

Figure 8: Sectors of employment among those working

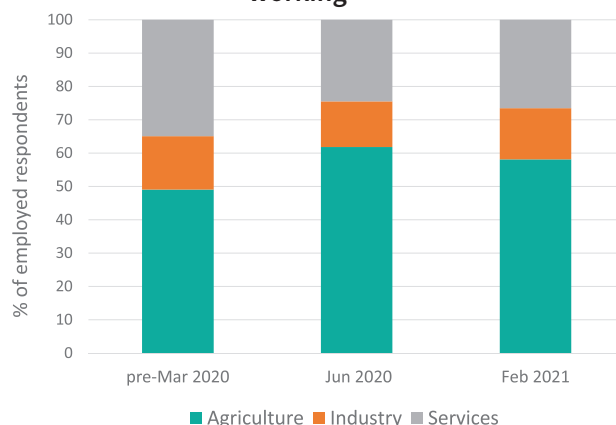


Figure 9: Household income before and after the lockdown in Uganda (%)



Source: UHFPS, different rounds.

30. **The future is still uncertain.** As some African countries started to receive COVID-19 vaccines, hopes were raised of an end to the pandemic in the near future. However, the situation remains uncertain because of the lack of effective treatment for COVID-19, the emergence of new variants of the disease across the world, concerns about the long-term immunity of vaccines, and uncertainty about the timely provision of vaccines and possible complications in the distribution of vaccines in Uganda.

31. **Inequality in economic opportunities has prevented Uganda's growth from being inclusive.** Inequality measured by the Gini coefficient was 42.8 percent in 2016/17, which was a slight increase since 2012/13, but still far lower than countries like South Africa (63 percent in 2014/15). Instead, the main issue for Uganda is inequality of opportunities. As mentioned, Uganda has enjoyed a positive economic transformation – the employment shift between the agriculture and non-farm sectors in the pre-COVID era. However, it was concentrated in the richest 40 percent of population. The employment share in the agriculture sector among the poorest 40 percent changed little, particularly among the poorest 20 percent of population. As a result, while the richest 40 percent's income grew fast and continuously since 2015, household expenditures of the poorest 20 percent grew slowly and fluctuated largely due to the 2017 drought. In other words, the poorest 20 percent of the population was largely left out of the positive economic transformation during the pre-COVID rebound and remained vulnerable to weather and climate shocks. The inequality of opportunities is not limited to the poor. Persistent gender inequality has also constrained women's productivity and income generation capacity severely.

32. **Addressing the inequality of opportunity in Uganda and making growth more inclusive in the recovery from the COVID-19 crisis are critical.** The inequality of opportunity directly and indirectly contributes to the preceding issues, such as the low growth-poverty linkage and high and persistent vulnerability. If Uganda keeps leaving the poorest out of the economic transformation process, the poor will remain in the agricultural sector, which is the sector with the lowest productivity and vulnerable to weather shocks. Also, if the inequality of opportunity is not addressed, the recovery from the COVID-19 crisis will likely only increase income inequality and have little impact on poverty reduction. To make the future recovery process more inclusive than the pre-COVID era, Uganda needs to improve the agricultural production process to enhance incomes of farmers, increase demand for jobs in the non-farm sector, accelerate human capital accumulation among the poor, and empower women.





2.3 Foundations for sustainability

33. **Governance in Uganda has remained broadly unchanged over the last five years.** Based on the governance indicators (Figure 10), no clear positive trend can be identified. Control of corruption, already among the bottom 20 percent of countries, has consistently deteriorated. The negative trends also apply to regulatory quality and government effectiveness although these are of much higher quality and placed around the 50th percentile. The latter largely reflects the strength of core government institutions involved in economic management and the justice, law and order sector. Nevertheless, even strong core government institutions have suffered over time from corruption. Overall, the political landscape and the distribution of power and resources is broadly unaltered, and the strengths and weaknesses in the public and private sector institutions and governance remain broadly similar. Furthermore, given the slowdown and delays in development of the oil sector since the 2015 SCD, this sector has not had a perceptible impact on the broader governance environment.

34. **Low tax collections, spending pressures and commercial external borrowing could, if unchecked, jeopardize Uganda's hard-earned macroeconomic stability.** Public debt has risen considerably from 22 percent of GDP in FY13, to an expected 45-50 percent in FY21. Total debt service has accelerated to an average of around 50 percent of government revenue since the 2015 SCD, compared to 35 percent in the five years prior to 2015. This rapid deterioration is due to weak tax collections and the surge in public debt. Additional liquidity pressures could arise if debt servicing of oil-related borrowing comes sooner than oil revenues themselves, as investments in the oil sector continue to be delayed. Furthermore, the macroeconomic impact of COVID-19 on the Ugandan economy has been significant (see Section 2.1.3), creating financing imbalances that will need to be addressed urgently. Apart from prudent borrowing, this highlights the importance of raising revenues, limiting recurrent spending once the impacts of COVID-19 have been managed, and addressing the implementation delays of investment projects.

35. **Uncertainties related to the start of oil production are weighing on the country's outlook, but recent progress has re-ignited expectations that the development phase could commence soon.** When the 2015 SCD was prepared, oil production was anticipated to start in 2018 and peak by 2025. Five years later, not only has oil production not started, but it is unlikely to begin before 2025.³⁶ Nevertheless, the oil sector continues to be a major focus of the government's development agenda, with large investments being made in preparation for the extraction, transport and processing of oil, and ongoing work to enhance the policy and institutional environment. Signing of key agreements, in the first half of 2021, related to the development of the EACOP oil pipeline are, however, decisive steps in concluding the final investment decision (FID) and commencement of construction work (Box 3).

36. **The inability to identify any large-scale commercially viable mineral deposits has also stalled government's resource-led industrialization strategy.**³⁷ Although government recently overhauled the mining sector's legal and regulatory framework (i.e. 2019 Mining and Mineral Bill), the small size of the domestic market, limited competitiveness of in-country transformation activities, and inadequate availability of proven mineral reserves has failed to attract significant private investment for the discovery and development of new mineral resources. In addition, the lack of clear rules governing state participation in exploration and mining companies, undermines the consistency and credibility of the 2018 Minerals and Mining Policy, creating uncertainty and disincentives for investors. As such, 90 percent of Uganda's minerals are produced by informal artisanal and small-scale miners. With the current global uncertainty, Uganda will have an even greater challenge launching its mining sector. This may bring more focus on the formalization of artisanal mining, especially as it relates to job creation during the post-COVID recovery.

36 The COVID-19 crisis has adversely affected commodity prices, with Brent crude oil prices falling well below the estimated break-even production price in Uganda for most of 2020, possibly causing further delays and pushing oil extraction beyond 2024. Analysts estimate that an oil price of between US\$50 and US\$60/bbl is the break-even point for production in Uganda (Patey, L. 2015).

37 See World Bank (2020b, June).



Box 3: Oil production in Uganda³⁸

Fifteen years after the discovery of oil in Uganda, development and production have yet to start. The recoverable reserves, estimated at 1.5 billion barrels of crude oil, are expected to last up to 30 years, with production peaking at 230,000 barrels per day. The government had expected earnings from oil of about \$1.5 billion a year, or 4 percent of FY20 GDP. This figure may not be as high now compared with the value if first oil had flowed in 2018, given structural changes in the global oil industry over the last five years and a global push for investments in green energy that may reduce demand within the next decade.³⁹ Once a final investment decision (FID) is made by private oil companies, however, foreign investment inflows are expected to surge.

Several obstacles in recent years have delayed the FID. Oil companies have taken longer to conclude with government the FID for important components of the required oil infrastructure, due to two main issues. First, a general agreement of the principles of the future tax regime has weighed heavily on the relationship between the government and oil companies, as government seemingly held out for better deals.⁴⁰ Second, the delays in reaching agreement on and implementing downstream arrangements regarding the refinery and pipeline have caused significant delays in the signing of various international agreements needed to start building the pipeline, such as shareholders, land lease and port agreements.

While the international context is still uncertain there are signs that FID may still be concluded in 2021. In April and May 2021, key stakeholders – including the Uganda and Tanzania government's, Total, CNOOC, Uganda National Oil Company (UNOC) and Tanzania Petroleum Development Cooperation – signed outstanding agreements related to the development of the EACOP oil pipeline.⁴¹ This followed the signing of Host Government Agreements (HGAs) in September 2020 between Uganda, Tanzania and Total for the oil pipeline, and Total reopening the bid process in June 2020 for a potential US\$2 billion contract to build oil production facilities in Uganda. From the moment FID is concluded, Uganda is going to change drastically. Up to US\$20bn is expected to flow into the country to develop oil infrastructure, some of which could be tapped by local suppliers – as per the country's local content policy – and local communities. This includes the pipeline construction, which will take at least three years at an estimated cost of US\$3.5 billion.⁴² This investment however comes with substantial environmental and social risks that need to be monitored and effectively addressed. There are also climate-change implications of bringing Uganda's oil to market that need to be considered.⁴³

Uganda's oil production project remains a risky venture for the country and investors. A fundamental and intractable challenge to development of the Albertine oil reserves comes from the high cost and marginal economics of the oil fields, which impacts the oil companies' profitability. High pipeline transportation costs and poor crude oil quality will result in wellhead netback prices that are deeply discounted from global crude oil prices, and hence cut into government revenues. In addition, the remoteness and environmental sensitivity of the Lake Albert region result in high operating costs. Under existing fiscal terms, the breakeven global Brent crude oil price for the Albertine developments is between US\$50 and US\$60 per barrel versus an average price of approximately US\$41 per barrel in 2020. Even with the rise in oil prices above US\$60 in 2021, project economics are unlikely to stack up well against other investments in the portfolios of Total and CNOOC, suggesting that headwinds facing the FID are still strong. Moreover, the risk of downward price pressures, underpinned by changes in the global environment (including climate change and the sustained COVID-19 shock), are driving a transition into clean energy technologies. The latter could make Uganda's oil production project a risky venture for prospective investors,⁴⁴ as the challenges posed by the ongoing transition to a low carbon energy economy are not insignificant for Uganda's oil and gas sector development, since they affect access to capital (e.g. climate-change driven investments, growth in renewable energy investments), the cost basis (e.g. carbon taxes, carbon border adjustments), and long term natural gas/oil demand growth.⁴⁵

37. The refugee inflows since the 2015 SCD have exacerbated the deficiencies in service delivery in twelve hosting districts, several of which are among the poorest and most vulnerable in the country. The country experienced a dramatic increase in refugee

numbers since 2015 and, as of January 2021, Uganda hosts about 1.45 million refugees, making it the third largest host country in the world.⁴⁶ The new refugee inflows, combined with the existing and protracted situation, have put additional pressure on the local

38 See World Bank and Government of Uganda, 2015, for a comprehensive discussion of the planned oil sector, including infrastructure plans and major players.

39 Huxham, M. et al (2020).

40 The Economist (2019).

41 See details in World Bank (2021, June).

42 Biryabarema, E. (2021).

43 The carbon footprint of the oil, once burned, is estimated to be roughly that of Denmark.

44 World Bank (2020, March).

45 This is particularly important in the context of global efforts to reduce national contributions of GHG emissions following the Paris climate agreement.

46 Office of the Prime Minister & UNHCR (2021)



hosting communities, creating challenges in the delivery of essential public services and infrastructure, as well as incrementally exacerbating a range of ongoing environmental challenges. As in other similar situations, humanitarian aid dwindled in 2020 due to the impact of COVID-19, causing gaps in the refugee humanitarian response, and making it difficult to meet essential needs and sufficiently invest in long-term solutions.⁴⁷ The low likelihood of return for most refugees and their limited means to be self-reliant, coupled with diminishing aid resources, has the potential to aggravate social tensions among refugees and host communities. Given this protracted state, the refugee situation has ceased to be an entirely humanitarian issue and it is imperative that refugee financing increasingly focuses on development-oriented solutions, where refugee issues are integrated into government and sectoral development planning. Uganda's *Comprehensive Refugee Response Framework*⁴⁸ and the inclusion of refugees within NDP III provide a strong basis for this approach. Enhancing the current institutional capacity, preparedness, and synergies at sectoral and local government levels, as well as improving connectivity and access to digital skills, will also be essential to deliver the government's longer-term refugee planning agenda in a comprehensive and sustainable manner.

38. With the majority of the poor and those in the bottom 40 percent dependent on agriculture, sustainability of the natural environment in Uganda is crucial. The loss of biodiversity and ecosystem services, deforestation, and land/wetland degradation have also continued since 2015. Between 1990 and 2015, Uganda's forest area declined from 20.4 percent to 8.1 percent of the total land area, and this trend has continued since then.⁴⁹ The latter is driven by the expansion of farming and harvesting of forest products, as well as localized impacts such as refugee inflows. Unsustainable land use drives soil erosion, increases the loss of soil nutrients, and lowers soil water retention capabilities. This, in turn, results in the pollution and silting of surface waters, thus threatening their ecological integrity and hampering resilience to climatic shocks. This declining resilience

comes at a high economic cost both for rural households and at the national level as it adversely impacts agriculture productivity. Climate extremes through high temperatures, droughts, and heavy rainfall – with slow onset changes – drive large ecological effects that are already being felt in Uganda. Climate events negatively impact economic growth and agricultural production, and cause breakdowns in food systems. Weak institutional capacity in environmental management, coupled with a lack of enforcement, coordination, and conflicting mandates among institutions, aggravates these issues.

39. Land and its management are increasingly becoming a major development challenge to Uganda's overall transformation. Although it is becoming easier to transfer land between different entities, including individuals, households and firms, due to increased registration and titling, land tenure insecurity seems to have increased, with systems to ensure that government acquisitions are conducted in the public interest and with fair and full compensation under question. The weak institutional capacities of land administration agencies have contributed to illiquidity of land markets, and hence constrained the development of the financial sector, ability to transform agriculture, build efficient cities, and to achieve higher levels of productivity more generally.⁵⁰

40. The challenges associated with rapid urbanization are becoming more apparent and threaten to derail the expected benefits of agglomeration economies. According to official estimates, although less than a quarter of Ugandans live in urban areas, Uganda has one of the fastest urbanization rates in the world (5.3 percent), and by 2030 this ratio will increase to one-third. Of this urban population, 40 percent live in the Greater Kampala Metropolitan Area (GKMA), which accounts for about 40 percent of GDP, provides 46 percent of formal sector employment, and includes 70 percent of manufacturing firms with five or more employees. While the urbanization process has helped raise productivity in certain sectors,

47 UNCHR (2020) & World Food Programme (2020, December)

48 National Plan of Action 2021-2022 to Implement the Strategic Direction for the Global Compact on Refugees and the CRRF in Uganda (2021)

49 UBOS (2019, October)

50 World Bank, 6th Uganda Economic Update (2015)

the largely unplanned urban development is putting significant pressure on the delivery of social and infrastructure services and there are now increasingly diseconomies of scale. Congestion, poor roads, lack of commercial space and inadequate housing feed into deteriorating living and working conditions in cities and towns across Uganda. Slums and informal settlements provide accommodation for an estimated 60 percent of Uganda's urban dwellers.⁵¹ Such settlements are characterized by a lack of basic services (including health and education), over-crowdedness, homelessness, crime, poor sanitation, and pollution. Uganda's future housing strategy must, however, focus on providing accommodation alternatives that meet the full spectrum of household affordability.

41. Lack of competition, high interest rates, limited credit information and weak property rights limit firms' access to finance, constraining the growth of the farm and non-farm sector. Interest rates in the banking industry remain high, at 19.26 percent on average in FY19/20, while the Central Bank Rate was 9.3 percent.⁵² Interest rates have also been significantly higher than Uganda's regional neighbors throughout the last decade, putting Ugandan firms at a clear disadvantage. Although the banking system is well capitalized and profitable, competition among banks is limited and the sector exhibits a lack of innovation, and its services fail to reach large segments of the market. Only between 10 and 25 percent of bank lending goes to SMEs. Lending at longer maturities is constrained, as banks rely primarily on short-term deposits (90 percent of

their funding base) and SMEs often do not meet financial accounting standards that would facilitate access to long-term capital. Two credit bureaus have started to reduce information asymmetry and facilitate access to finance. A law to allow movable assets as collateral has also been passed recently. However, legal uncertainty over property rights and lengthy proceedings to recover collateral continue to weigh on banks' credit risks.

42. Access to and usage of digital technologies in Uganda is expanding rapidly, though it still lags the region and pricing is a concern. In Uganda, the mobile cellular subscriptions have grown 25 percent in four years (2015 – 2019) and the number of subscriptions per 100 individuals reached 57.4 percent.⁵³ This penetration rate is, however, well below the average for Africa at 87 percent, but greater than in countries in the same GDP per capita bracket.⁵⁴ Broadband access is limited with only 0.028 fixed broadband subscriptions per 100 people,⁵⁵ and mobile prices are the most expensive in Uganda's group of comparators.⁵⁶ While the internet wholesale price in Uganda is the second cheapest in East Africa, factors like low consumption and smartphone adoption seem to be hindering economies of scale.⁵⁷ Digital financial services are developed in Uganda, though mainly concentrated in payments' solutions.⁵⁸ There is also some digital service penetration in the Agri-Value chain (as discussed in section 3.2).⁵⁹ Going forward, digital solutions can play a key role in addressing the economic growth and health challenges posed by COVID-19 and its aftermath. Furthermore, with an increasing number of digital platforms and

51 World Bank, 5th Uganda Economic Update (2015)

52 According to a study by Bank of Uganda and the IGC decomposing the determinants of interest rate spreads, the biggest contributor between 2008 and 2018 were overhead costs (61 percent), followed by loan provisions (Bank of Uganda, Annual Report 2019/20).

53 WDI (2021).

54 Ibid.

55 Fixed broadband subscriptions refer to fixed subscriptions to high-speed access to the public Internet (a TCP/IP connection), at downstream speeds equal to, or greater than, 256 kbit/s.

56 According to the International Telecommunication Union (ITU), the cost of basic mobile broadband services (1GB of mobile data) was 16.6 percent of Gross National Income (GNI) per capita in 2017, in contrast with the United Nations Broadband Commission's target of 2 percent, making it prohibitively expensive for many Ugandans.

57 To bring the cost down, the Uganda Communications Commission (UCC) has licensed seven mobile network operators and 13 ISPs to increase competition in the market. At the same time, policies such as the social media tax or the mobile money tax have adversely influenced demand for mobile services.

58 While the predominant use of mobile money continues to be P2P transfers, other uses such as utility bill payments, school fees, airtime top ups, transport payments, crediting inward remittances to mobile wallets, mobile money virtualization for online e-commerce both domestically and internationally (Momopay), wallet to wallet transfers, etc. are also gaining momentum. E-money customers and transactions have seen tremendous growth in Uganda.

59 As farmers access information through platforms like M-Farmer and Yo! Uganda, the data generated can be leveraged to support data-based decisions on purchasing inputs and access to financial services like micro-loans. There are also some emerging applications that leverage the agriculture extension model to develop an analogous e-extension model that operates via the agent network to provide financial services and input distribution to large farmer networks in areas where individual digital access may be limited.



services being rolled out by Uganda's public and private sectors, and investments being made into networks and applications, Uganda needs to prioritize the strengthening of its cybersecurity, information security and data protection frameworks.

43. Private sector investment in the energy sector is key to build on the significant power sector reforms that Uganda has undertaken. The unbundling of the energy sector in Uganda 20 years ago resulted in significant private investments and public-private partnerships in both electricity distribution and generation. As a result, considerable results were achieved.⁶⁰ For example, in the last five years, the share of Ugandans with access to the grid increased from 14 to 24 percent. An additional 18 percent of Ugandans are also now reached through off-grid solutions promoted by the private sector. However, access to electricity in urban (economic) centers is low compared to peers, which is a key binding constraint to many firm

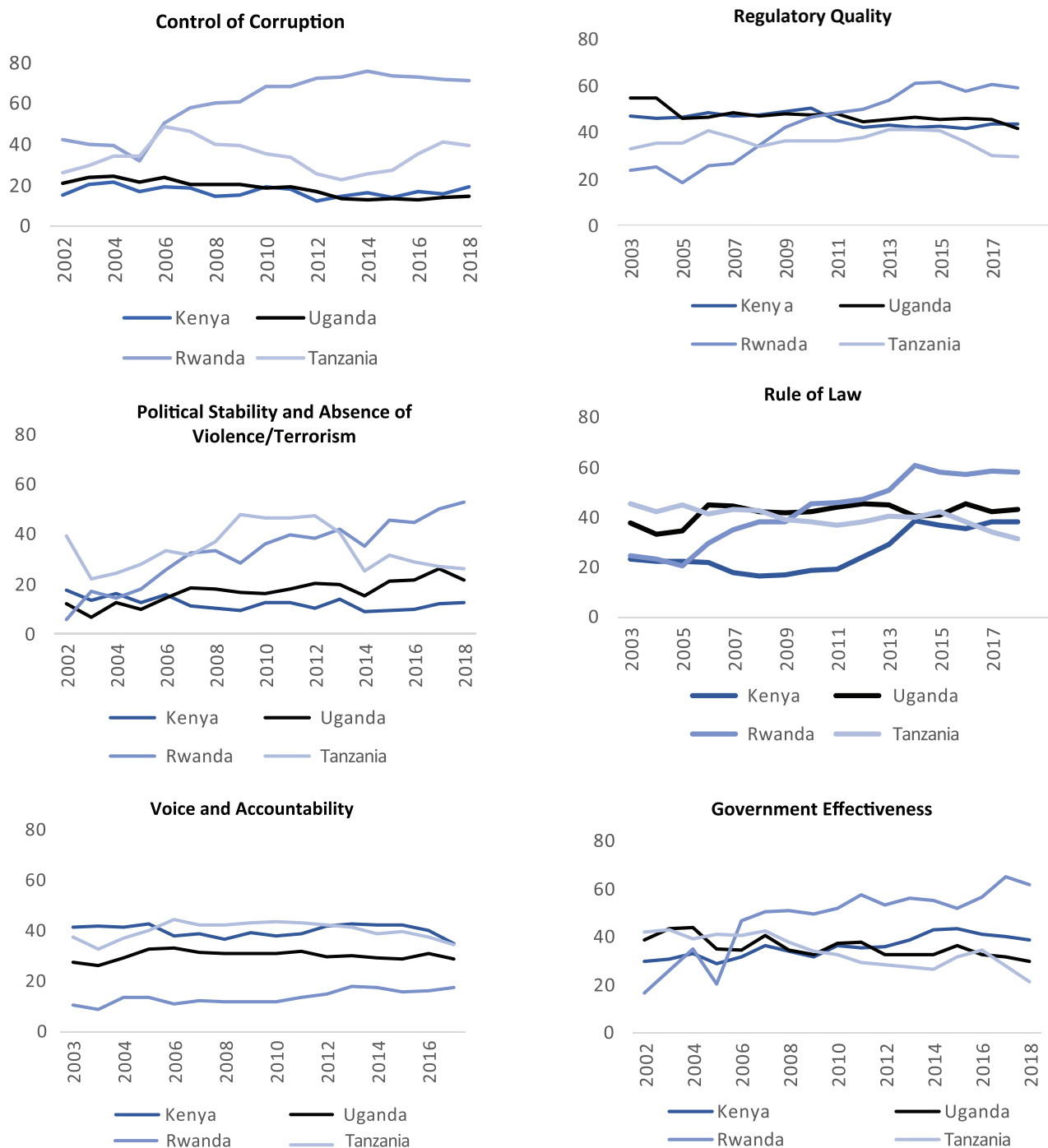
operations.⁶¹ Uganda must now take forward the next generation of reforms and investments to ensure that the current excess supply gets evacuated to stimulate productive use and regional export opportunities, and leads to better electricity access for consumers. However, recent government announcements on the proposed merger of the energy entities (i.e. the three electricity companies UEGCL, UEDCL, and UEDTL back into one company), and the uncertainty of UMEME's concession are unsettling for future private sector participation. Both regarding contractual arrangements that already exist, as well as from the perspective of mobilizing future concessional funding for the sector. In particular, the perceived political antagonism towards the UMEME concession could raise concerns about future private sector participation in the distribution sector, as well as discourage private sector participation in other areas of the electricity sector.



⁶⁰ Installed generation capacity increased from about 300 MW in 2002 to 1,252 MW in 2020, of which 80 percent is hydropower and 12 percent from a combination of renewable sources such as solar and bagasse, a byproduct from sugar production. The transmission network expanded from about 1,165 km in 2003 to 2,989km in 2019. In the distribution segment, Umeme reduced distribution losses from 38 percent in 2005 to about 16.9 percent in 2019 and increased revenue collections to over 99 percent in 2019.

⁶¹ For example, only 58 percent of the urban population currently has access to electricity compared to 89 and 84 percent in Rwanda and Kenya respectively. This has resulted in one of the lowest electricity consumption rates per capita in the world.

Figure 10: Trends in governance indicators (country percentile), 0 (lowest) to 100 (highest)



Source: World Governance Indicators 2018⁶²

62 *Control of Corruption* - perceptions of the extent to which public power is exercised for private gain, as well as capture of the state by the elites; *Regulatory Quality* - perceptions of the ability of the government to formulate and implement sound policies and regulations that promote private sector development; *Political Stability and Absence of Terrorism* - perceptions of the likelihood of political instability and terrorism; *Rule of Law* - perceptions of efficiency of the legal framework and institutions in challenging the Law; *Voice and Accountability* - captures perceptions of the extent to which a country's citizen can participate in selecting their government, as well as freedom of expression, of association and free media; and *Government Effectiveness* - perceptions of the quality of the civil service and its policies and degree of independence from political pressure and credibility of government's commitment to its policies.







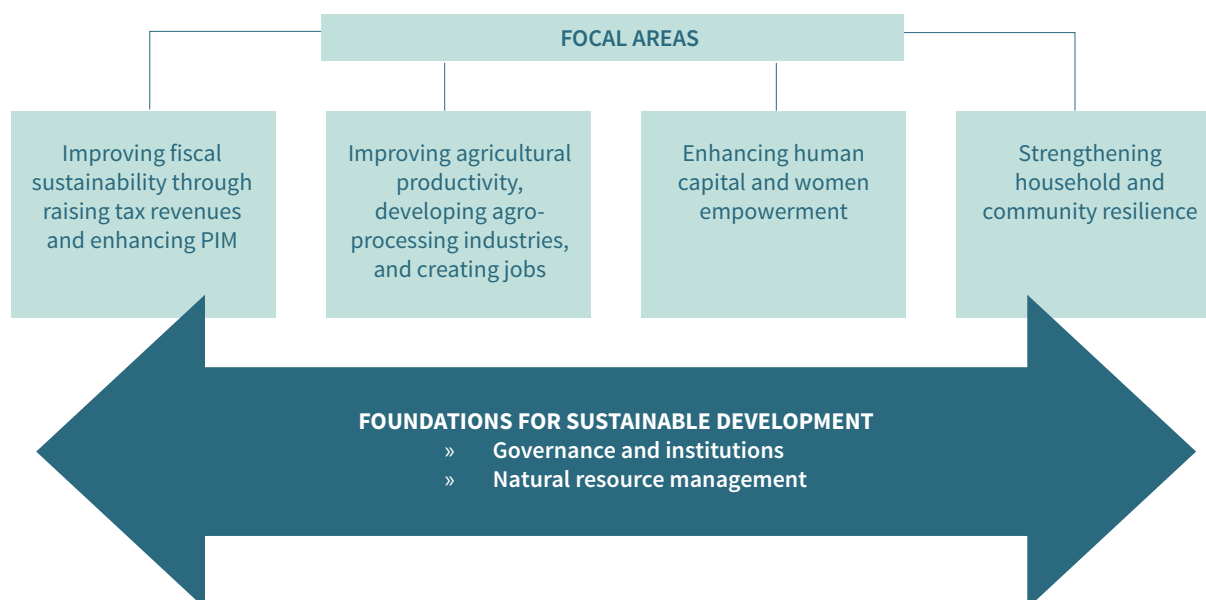
3. CURRENT FOCUS AREAS FOR UGANDA'S DEVELOPMENT

44. To resume a path of inclusive growth and poverty reduction over the medium term, Uganda needs to: *create sufficient and quality jobs by accelerating a sustainable and inclusive economic transformation.* This intermediate goal is in line with the findings of the 2015 SCD and has become increasingly relevant given the developments of the last five years. As discussed, poverty in Uganda remains a predominantly rural phenomenon, even though rapid urbanization has led to an increase of poverty in urban areas. These rural households depend largely on agricultural activities for their livelihood, have limited access to basic services, and are unable to cope with negative covariate shocks. As a result, any development path for Uganda begins with strengthening the income-generating capacity of the rural poor by boosting agricultural productivity, increasing their resilience, and investing in human development. In addition, faster economic transformation is essential to attain higher and more inclusive growth over a sustained period and involves regaining pre-COVID growth in the non-farm sector. This entails returning to productivity-driven growth by rekindling structural reforms – especially those fostering agri-business and trade – encouraging job creation by the private sector where the poor are actively engaged or where they can transition to, stirring the ongoing digital transformation, and accelerating investment in human and physical capital. Urbanisation, which

involves an orderly shift of employment from rural to urban areas, and exports are also critical drivers of this economic transformation.

45. The analysis in the SCD Update is organized around four main focal areas where constraints should be addressed to help drive economic transformation and propel the incomes of the poorest. Considering the developments since 2015 and following consultations internally and with Ugandan stakeholders (see Annex D), these include: i) *improving fiscal sustainability through raising tax revenues and enhancing PIM*; ii) *improving agricultural productivity, developing agro-processing industries, and creating jobs*; iii) *enhancing human capital and women's empowerment*; and iv) *strengthening household and community resilience*. Policies and actions that address these pillars could accelerate an economic transformation that raises productivity, generates quality and inclusive jobs, and is sustainable. The success of this will also depend on whether the country is able to consolidate two foundations for sustainable growth, as discussed in Section 4. In Section 5, the SCD Update then proposes a streamlined set of priority areas for action that tackle both the foundational challenges and the sectoral constraints outlined in each pillar (see Figure 11) to ultimately attain the intermediate goal.

Figure 11: Uganda SCD Update analytical framework

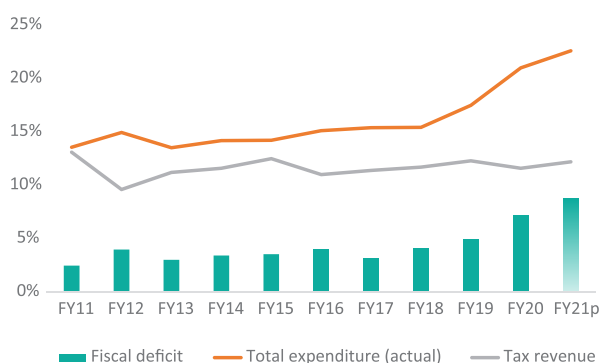


3.1 Improving fiscal sustainability through raising tax revenues and enhancing PIM

46. Uganda’s fiscal and debt sustainability has deteriorated steadily since 2015, and vulnerabilities are mounting. The fiscal deficit has expanded substantially over the past few years, from 4 percent of GDP in FY16, to 7.1 percent in FY20 (Table 1 and Figure 12), well above the government’s Charter for Fiscal Responsibility that had intended to narrow the deficit to 3 percent of GDP by FY21. In parallel, public debt has risen considerably from 22 percent of GDP in FY13, to an expected 50 percent in FY21 (Table 1). The latter occurred despite the rebasing exercise in 2019 that raised nominal GDP by about 17 percent, hence enlarging the repayment capacity of the country. Total public debt is expected

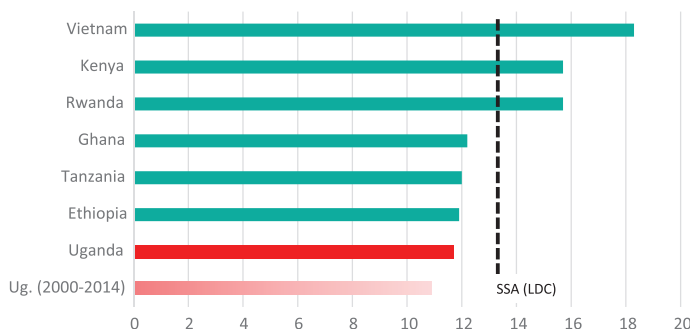
to continue rising to 55 percent of GDP by FY24 in light of government’s ambitious investment program. The sharp increase in total public debt is caused by three factors: low tax revenues by sub-Saharan standards (Figure 13), disproportionately high current spending, and consistently ambitious capital spending marred by inefficiencies. These three factors have resulted in large primary deficits, which drove the increase in debt. The high average real interest rate is another contributing factor, and reflects the sizable share of domestic public debt, which carried an implicit average interest rate of 17 percent in FY19.

Figure 12: Deteriorating fiscal position (% GDP)



Source: MoFPED

Figure 13: Poor tax performance (% GDP, 2015-2018)



Source: IMF WEO

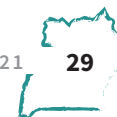
3.1.1 Revenue mobilization challenges

47. Tax collection is well below government’s target and below the sub-Saharan average. Uganda’s tax revenues averaged 11.6 percent of GDP over the last five years, well below the government’s medium-term target of 16 percent. Thus, despite earlier tax policy reforms and efforts to modernize tax administration, Uganda has made limited progress in enhancing tax revenues over the last half a decade (Figure 13). Furthermore, Uganda’s performance compares poorly to peers in the region, such as Kenya and Rwanda with an average close to 16 percent of GDP and is considerably lower than Vietnam with an average tax

collection of over 18 percent of GDP from 2015 to 2018. Improving tax collection in Uganda is therefore one of the cornerstones to sustainably finance human capital and infrastructure while containing the surge in public debt. The COVID-19 crisis and corresponding fiscal response that has reduced taxes, makes the task more urgent.

48. The existing tax system and levels of economic activity could generate tax revenues that are almost double the current size. Uganda has the potential to collect revenues between 18 and 23 percent of GDP.⁶³ However, a large informal sector (approximately 80

63 World Bank (2018, May)



percent of firms), generous tax exemptions to investors, and generally weak tax administration pose challenges to increasing revenues. At the sectoral level, most sector revenues are not responding well to GDP growth, except for manufacturing, trade and real estate, whose buoyancy was higher than one during the 2006-2016 period.⁶⁴ Taxes on international trade are a particular constraint to revenue mobilization efforts – being the least buoyant at 0.6 for the period 2006–2016 – arising from sub-optimal tax policies, low compliance rates and administration gaps. Furthermore, Value Added Tax (VAT), which contributes on average 3.8 percent of GDP and about 30 percent of all revenue mobilized, had a productivity of only 20 percent. This is lower than the VAT productivity of Rwanda (28 percent) and Kenya (26 percent), and the sub-Saharan Africa (SSA) average of 31.6 percent.⁶⁵

49. High levels of informality narrow the tax base and limit the responsiveness of taxes to economic activity. Uganda's economic transformation has been characterized by the proliferation of micro, small and medium enterprises (MSMEs), which exhibit low levels of productivity and high levels of informality. Informality accounts for almost half of all economic activity and is a major structural constraint with respect to revenue growth.⁶⁶ An MSME tax regime exists, but many of these firms are hard to reach, and conduct financial transactions in cash, making it easy for them to hide their economic activities from tax authorities. Furthermore, a significant share of the formal sector's transactions are with informal firms, which leaves little or no audit trail and hence likely also reduces the payment of taxes from firms in the formal sector.⁶⁷

50. A sub-optimal tax policy framework and strategy limits Uganda's revenue efforts. Widespread tax exemptions result in revenues foregone estimated at

4-6 percent of GDP each year.⁶⁸ The low CIT productivity is partially explained by a high number of allowable deductions, treatment of losses carried forward, abuse of Double Taxation Agreements and transfer pricing. Besides the VAT revenues foregone due to exemptions, the VAT effort is affected by VAT offsets carried forward, deemed VAT provisions and challenges in administering VAT refunds. PIT is dominated by taxes on employment (PAYE), with limited participation of high-net-worth individuals in the tax base due to widespread exemptions extended to officials in the legislature, security, judiciary and technical assistance sectors. Meanwhile, limited analysis and consultation during policy design⁶⁹ contribute to instability and unpredictability of the tax regime; such unpredictability then creates uncertainty and complicates taxpayer compliance.

51. The COVID-19 economic fallout, together with the tax measures aimed at mitigating the impact of the pandemic on businesses, will further exacerbate Uganda's revenue mobilization challenges. The government introduced temporary tax exemptions and deferred tax payments for selected economic sectors to provide liquidity support to businesses in the wake of the economic shock caused by COVID-19. Estimates indicate that due to the initial three-month lockdown, 51 percent of firms in Uganda will remain profitable, whereas nearly all firms in the highly impacted sectors will register losses and cut 5 percent of the total annual payroll.⁷⁰ This will result in a loss of CIT revenues equal to 17 percent of their 2020 baseline and accumulated losses equivalent to 0.8 percent of GDP. That said, the extent of the COVID-19 impact on revenues will depend on the duration and depth of the crisis.

64 An indicator to measure efficiency and responsiveness of revenue mobilisation to growth in GDP. A tax is said to be buoyant if the tax revenues increase more than proportionately in response to a rise in GDP. Tax elasticity, on the other hand, refers to changes in tax revenue in response to changes in tax policy and mainly the tax rate.

65 Tax productivity is defined as the net revenue from a certain tax (e.g. net VAT revenue) to GDP ratio, divided by the tax rate of that tax (e.g. VAT rate). The productivity numbers presented here are five-year averages to the end of June 2019.

66 GoU MoFPED (2019, October).

67 World Bank (2018, May).

68 VAT Tax expenditures are the largest at 2.5 percent, CIT at 2.3 percent and Excise Duty at 0.4 percent of GDP.

69 This is attributed by the DRMS (2019) to the stretched, under resourced and limited capacity of the Tax Policy Department in the Ministry of Finance and URA.

70 Bachas et al (2020).

3.1.2 Revenue mobilization opportunities

52. Government's new Domestic Revenue Mobilization Strategy (DRMS) presents a great opportunity to boost revenues. The DRMS (2019)⁷¹ aims to improve the tax system by closing gaps in tax policy, improving the productivity of tax instruments, and increasing the efficiency of the tax administration. It notes that tax policy will need to balance efficiency with progressivity, broaden the tax base and encourage participation in the formal economy. To do this, the DRMS acknowledges the need to build capacity in URA and the Tax Policy Department (in functions such as tax policy analysis, revenue forecasting, auditing etc.), develop a tax policy strategy, and repair or revamp the legal tax framework along with the new tax policy.

53. To address the issue of tax expenditures, the government is in the process of improving fiscal oversight and transparency. Specifically, GoU is implementing a tax expenditure management framework to ensure that existing and future tax expenditures are recorded, evaluated, and published regularly. In addition, the framework will require an impact assessment to guide the awarding of any future tax concessions. The GoU also plans to publish its first annual report on revenue forgone due to tax expenditures. These steps are expected to be complemented by a sequenced reduction in tax exemptions following the 2021 election period.

54. Strengthening alliances with key stakeholders, including Parliament, the private sector and CSOs will be key to build public confidence in the tax system and broaden the tax base. Important initial steps are to enhance compliance through a comprehensive database of all taxpayers,⁷² improve taxpayer services and education, and make it easier for all Ugandans to become registered and active taxpayers. The revenue-raising capacity of local governments can be strengthened by broadening the range of revenue

instruments, including property taxes and user fees, and their revenue administration capacity. Furthermore, certain groups can be better targeted, including semi-informal businesses, professionals, and traders who need to register as taxpayers and report their incomes in full.

55. Prudent management of Uganda's oil revenues can significantly accelerate the pace of the country's economic growth and development. To date, there is little evidence that either economic growth or the tax effort in Uganda have been negatively affected by expectations of windfall earnings from oil.⁷³ This reflects the relatively small size of the country's oil wealth, and that governance of oil has been largely long-term and technocratic in orientation (see Box 3 and section 4.1). This has included efforts to adopt rules-based institutional arrangements and to impose a relatively stringent fiscal regime on oil companies. Given the recent positive progress in the oil sector and expectations that associated investments will pick up over the next few years, the potential increase in revenues from the oil sector is moving closer. However, as discussed in section 4.1, more needs to be done to improve coordination, enhance transparency and promote efficiency.⁷⁴

3.1.3 PIM challenges

56. In addition to poor tax outcomes, fiscal vulnerabilities are further aggravated by inefficient public spending that is driven by weak public investment management (PIM). While investment in infrastructure has continued to be the government's priority, execution of the investment pipeline deteriorated during the period 2016-2019. According to Uganda's public investment plan (PIP), actual investment spending in the transport and energy sectors continued to dominate. These two sectors accounted for 45 percent of development spending (Figure 14). At the same time, they continue to face execution difficulties, with an average execution rate in the energy

71 GoU MoFPED (2019, October).

72 URA needs to create a comprehensive database of all eligible taxpayers, which will enhance efficient identification, assessment, and collection. The database should be linked to the national ID database. Furthermore, taxpayer identification numbers should be linked to a person's ID number (for individuals) or company registration number (for organizations). This will facilitate tracking/authentication of taxpayer transactions and information sharing with URA.

73 World Bank (2019b June).

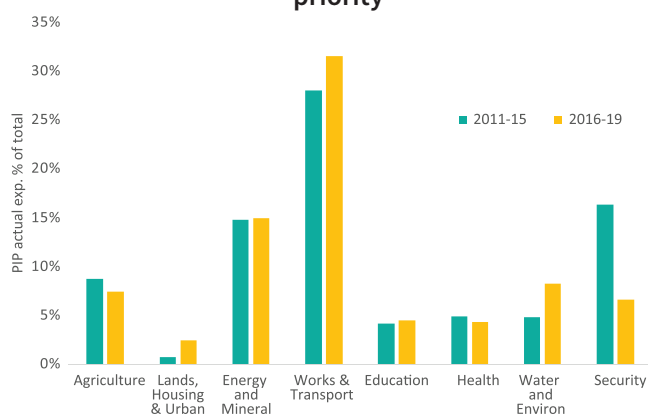
74 See World Bank (2020, March) and Wolf and Potluri (2020).

sector of 40 percent and in the works and transport sector of 61 percent over the 2016-19 period (Figure 15). Meanwhile, the overall average execution rate of the PIP has deteriorated over time, from 58 percent during 2011-2015 to 55 percent during 2016-2019. Thus, the accumulation of infrastructure assets has not matched the significant capital budget allocation over the years.

57. Persistent under-execution of the Budget and PIM inefficiencies have constrained the ability of government to address infrastructure gaps – a key constraint to growth – even as the debt burden grows. Uganda ranks 46 out of 71 countries on the overall quality of the institutional environment underpinning PIM,

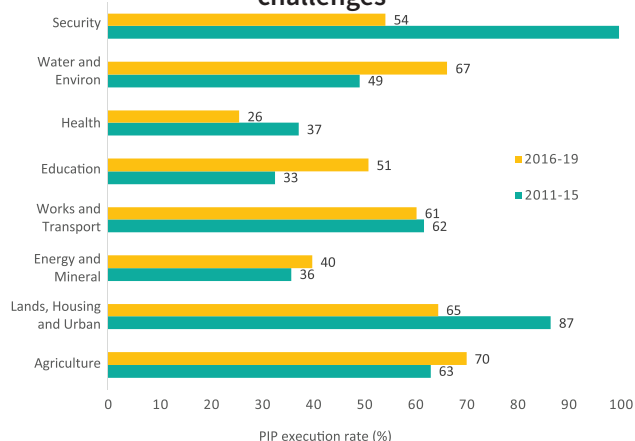
trailing its peers such as Ghana (27) and Rwanda (12).⁷⁵ Furthermore, estimates suggest that Uganda’s public investment has an efficiency gap of about 50 percent compared to the best performing countries, and about 25 percent measured against the average performance of emerging market economies.⁷⁶ Therefore, significantly more physical infrastructure (roads, hospitals, schools, etc.) and of a higher quality could be generated with the same levels of capital expenditure. The inefficiency of public investment not only burdens the budget, but also constrains the efficacy of fiscal policy in accelerating growth and raising productivity; with a further negative feedback loop for enhancing tax revenues.

Figure 14: Transport & energy investments still a priority



Source: MoFPED

Figure 15: Major public investment execution challenges



Source: MoFPED

58. Appraisal of projects is weak and deficiencies in the “quality at entry” (i.e. projects entering the investment phase before they are ready for implementation) are key constraints to PIM. The current PIP contains too many projects; many are neither aligned to government’s strategic priorities, nor sufficiently costed, and are without reliable baseline information.⁷⁷ This results in poorly prepared projects and explains in part subsequent implementation shortcomings such as delays, cost escalations, time-overruns, contract disputes, abandonment of projects, and poor quality of some completed projects. Finally, limited maintenance results in the rapid depreciation

of public capital stock⁷⁸. Appraisal deficiencies are in large part due to capacity gaps in project identification, review, negotiation, and financial prioritization. Delays in establishing the project facilitation fund to finance pre-investment studies and project preparation activities has also meant fewer resources for this early stage of the project cycle. Key activities such as land compensation or resettlement of project-affected persons are also not being addressed at the project preparation stage. Finally, the execution of externally funded projects is particularly poor, averaging under 60 percent per year during 2016-2019 (Figure 16). The latter is the result of an inability to meet effectiveness and disbursement

75 World Bank, 7th Economic Update, (2016, April).

76 IMF (2017).

77 MoFPED (2018, July).

78 World Bank, 7th Uganda Economic Update (2016, April).

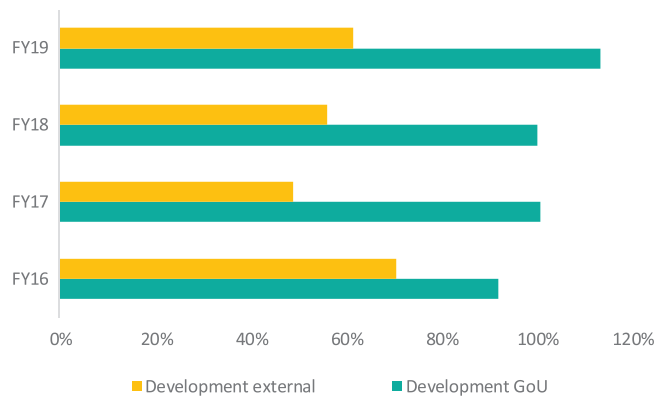
conditions for these externally funded projects, given inconsistencies between Uganda’s PIM processes and the requirements of creditors.

59. Gaps in procurement processes and poor contract management result in long delays in project implementation and completion. Over the last four years only about 70 percent of public investment contracts were, on average, delivered on time and 64 percent delivered on budget. This has led to major time and cost overruns and accumulation of expenditure arrears.⁷⁹ The procurement processes are hampered by corruption, delays in evaluation, complaints,⁸⁰ inadequate staffing and skill deficiencies in technical and procurement units, and inability to attract high quality contractors to Uganda. Delayed payments to contractors are also a major obstacle to efficient contract execution as it affects the contractors’ cash flows and, therefore, their ability to deliver projects on schedule.⁸¹ In addition, delayed payments lead to penalties, which deplete resources that could otherwise be used for more investment projects.

60. Monitoring and evaluation throughout and after the project cycle are inadequate and public infrastructure assets are poorly managed, reducing their productivity and return on investments. Uganda scores very low on evaluation compared to peers. Learning from experience does not inform future planning and budgeting. The financing for operations and maintenance (O&M) is generally inadequate across all MDALGs, resulting in poor asset management. For example, road development accounts for the biggest share of the works and transport budget, around 90 percent, while road maintenance is allocated about 7 percent. Consequently, the backlog of maintenance work is rising and will result in higher replacement costs of the road assets in the future. The stock of non-financial assets is also not reported comprehensively,

which means that a government-wide register of all investments is not up to date and some title deeds are missing.

Figure 16: Poor execution of externally funded projects (actual as a percentage of budget)



Source: MoFPED

3.1.4 PIM opportunities

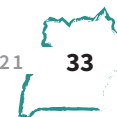
61. Some reforms and institutional strengthening have taken place over the last five years, yet critical steps remain to be completed. The Development Committee (DC) in MoFPED is now vetting new projects, blocking bad projects, and trying to ensure project alignment to sector objectives and the NDP. A new project approval framework has been introduced to develop project ideas through the mandatory stages of the project cycle and includes different levels of approval before a project enters the PIP. An electronic Integrated Bank of Projects (IBP), which is a central depository for digitalizing the appraisal process and tracking and reporting on projects through the PIMS cycle, has been established, while capacity building is ongoing to create a critical mass of PIM experts at all levels of government. Basic tools have been prepared to guide stakeholders in the appraisal of their projects.⁸² In addition, the

79 A Mott MacDonald study (2019) financed by the World Bank noted that the actual unit price per km of a completed road in Uganda may be much higher than that at contract signing. Furthermore, in the case of transmission lines, a recent study (MoFPED, September 2019) revealed that the generic unit cost of a transmission line in Uganda is USD 474,396/Km, which is 26 percent higher than Kenya’s. These high unit costs for infrastructure projects are affected by PIM efficiency and impact the return on investments.

80 Complaints attributed to alleged bias in evaluation, non-clarification of qualification criteria, and leakage of confidential information at evaluation.

81 For instance, the Uganda National Roads Authority (UNRA) has reported delays of up to 4 months on average for contractor project payments (GoU PIM policy).

82 These include: (i) guidelines that outline the mandatory stages of the project cycle MDALGs must undertake to prepare their projects; (ii) a project preparation and appraisal manual introduced and disseminated to MDALGs; and (iii) national parameters including conversion factors critical for economic analysis of projects and providing a uniform standard (and ultimately quality) for proposals submitted for the PIP.



e-Government procurement system is planned to be rolled out to all government agencies within the next two years, which can enhance the transparency and efficiency of public procurement. Yet, more needs to be done to develop the legal and regulatory framework and consolidate the PIM architecture. Public investment regulation in the PFM Act is limited and does not provide a sound basis for the overall PIM system and management of the project cycle. The DC derives its authority from the administrative powers of the Permanent Secretary (Ministry of Finance) and without a legal mandate, its authority is constrained, and sustainability undermined.

62. Project preparation needs to be enhanced, and the institutional environment and capacity further developed. All public projects, including externally funded and those delivered through PPPs, should be identified, developed, and managed through a consistent framework. To support better project preparation, the project facilitation fund needs to be established. Social risks, including land acquisition and resettlement, require better management to ensure smoother project implementation. The authorities therefore need to finalize the revised *Land Acquisition Act and Policy* as well as the legal framework for streamlining and strengthening *Social Impact Assessments*; both of which would help underpin a clear and cohesive framework for managing social risks. Systems across government can be better linked to improve information flow on the full PIM cycle. The latter requires finalizing of the monitoring and evaluation phase of PIM processes in the IBP and linking this system with others such as the *Program Based Budgeting System (PBS)* and *Integrated Financial Information Management System (IFMIS)*. Capacity building initiatives need to focus on key MDAs (e.g. Ministry of Works and Transport), particularly in the areas of project preparation, appraisal and monitoring. Therefore, the operationalization of the *PIM Centre of Excellence (CoE)*⁸³ needs to be fast-tracked.

3.1.5 Debt vulnerabilities

63. Against the background of low tax revenues and increasing levels of capital expenditure, public debt has risen sharply since the 2015 SCD (Figure 17). Uganda's total public debt surged 85 percent since 2015, from 27 percent of GDP to 50 percent. Some of this surge can be attributed to borrowing to construct oil related infrastructure, such as the oil roads, but the majority has been unrelated to the oil sector and has instead been driven by big hydropower investments, purchase of planes for the revived Uganda Airlines, and other roads and electricity transmission projects. Furthermore, a significant share of this surge was accumulated in the last two fiscal years as the government responded to the COVID-19 crisis (Figure 17). While these debt obligations have not been collateralized against future oil revenues, the government does, however, expect future oil revenues to play an important role in managing the accumulated debt, and expects the debt stock to begin declining as oil revenues pick up.⁸⁴ That said, continuing to borrow on the expectation of future large oil revenues may increase Uganda's risk of experiencing the presource curse.⁸⁵

64. This sizable increase in government debt has led to a shift in the risk assessment from low to moderate risk of debt distress based on the joint WB-IMF DSA in June 2021. The deterioration in the risk rating is largely predicated on the worsening fundamentals due to the impact of the COVID-19 shock, which decelerated real output growth and non-debt-creating foreign exchange inflows such as remittances and FDI. The deterioration in the capacity to carry debt outweighs the sizable share of concessional loans that dominate the portfolio (Table 2) and Uganda's restraint so far to issue international bonds, which in turn has led to a smooth principal repayment profile.⁸⁶

83 Hosted by the School of Economics at Makerere University. The CoE is expected to train stakeholders in PIM (e.g. MDAs), as well as generate knowledge and tools to support the strengthening of Uganda's PIM systems.

84 Wolf and Potluri (2020).

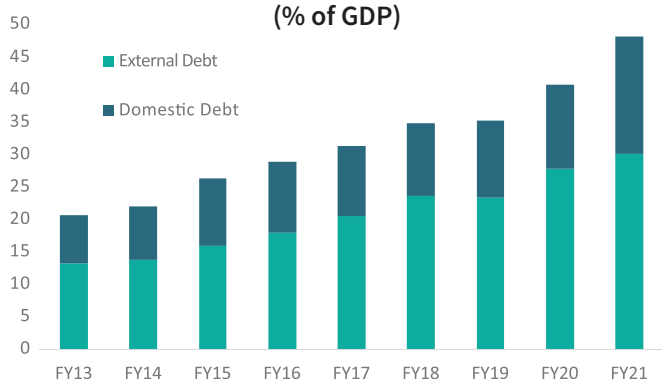
85 Cust and Mihalyi (2017).

86 About two-thirds (US\$8.5 billion) of outstanding public debt is owed to external creditors, largely for energy and infrastructure projects, and with a weighted average interest rate of about 2 percent. Domestic debt totaled US\$4.3 billion, with roughly three-fourths in Treasury Bonds with maturities from 2 to 15 years, while the rest is in short-term Treasury Bills.

65. Heightened liquidity pressures from Uganda’s external public debt are aggravated by heavier reliance on domestic debt, which is characterized by high, double digit interest rates. Increasing semi- and non-concessional external borrowing, together with sizable domestic borrowing, has led to heightened liquidity vulnerabilities. The latter is reflected in a narrowing of the fiscal space, as shown by the doubling of the interest spending-to-revenue (excluding grants) ratio to 20 percent in 2021 (Figure 18). This has been exacerbated by the continued weak revenues from the economic impact of the pandemic, and sharply rising interest payments resulting from a combination of growing domestic debt, which carries double digit interest rates, and currency depreciation that raises payments denominated in foreign exchange. In addition to exposing the budget to vulnerabilities, the large interest payment bill of over

2 percent of GDP also consumes valuable fiscal space – central government interest payments on domestic debt alone exceeded spending on both education and health (excluding donor projects) in FY20. In addition to the sizable increase over time in interest payments, the gross financing need (GFN), which includes the fiscal deficit and principal payments coming due, has also almost doubled to 13 percent of GDP in 2021 from 7 percent in 2015 (Figure 18). In the absence of significant concessional budget support, the government will likely meet this financing requirement through a mixture of expensive domestic debt, accumulating arrears, and semi- and non-concessional debt. The increasing reliance on domestic debt crowds out private investment, and rising arrears create risks for financial stability due to spillovers into non-performing loans.

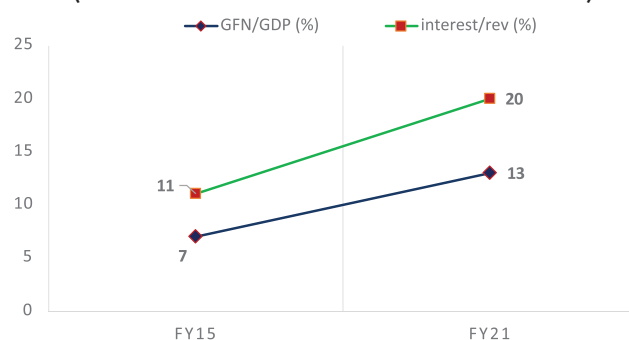
Figure 17: Total public debt (% of GDP)



Source: BoU

66. There are several key risks to the debt burden trajectories. Those include a slower-than-expected recovery from COVID-19, an increased frequency of climate disasters, higher current spending jeopardizing the consolidation in expenditures, incomplete implementation of the DRMS, slow execution of investment projects, further delays beyond 2025 in oil exports coming on stream, a shift in the composition of financing towards non-concessional loans, and a potential decline in the capacity and appetite of commercial banks to provide financing.

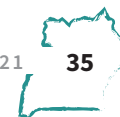
Figure 18: Liquidity indicators (GFN-to-GDP and interest- to-revenue ratio)



Source: DSA, World Bank staff estimates

67. Uganda is doing well in terms of public debt and debt management transparency compared to other Sub-Saharan, IDA-eligible countries.⁸⁷ The continuous efforts in publishing debt information have resulted in good disclosure of explicit and implicit public debt data. In addition to debt data, the Annual Debt Report includes the *Debt Sustainability Analysis and the Debt Management Strategy*, both produced in-house and updated annually. This provides for a holistic approach to disclosing debt data, debt sustainability, and debt management analysis. Therefore, when assessed through the lens of the WB Public Debt Heat Maps, this effort results in transparent practices. Another

87 Stucka, Sebudde, Walker (2021, February).



transparency angle is to assess in more detail the transparency of the functioning of the domestic public debt markets. In this regard, Uganda performs relatively well compared to peers. The most pronounced gaps,

however, exist in the domestic auction calendar, which lacks provisional issuance volumes, and disclosure of secondary market trading of government securities.

Table 2: Composition of Uganda's debt portfolio by creditor (in US\$ million)

Creditor	Amount	Share (%)
Total	10,702	100
Multilateral	6,421	60.0
o/w IDA	3,596	33.6
ADF	1,359	12.7
IMF	492	4.6
IFAD	246	2.3
Bilateral	3,200	29.9
o/w EXIM China	2,365	22.1
UKEF	246	2.3
JICA	225	2.1
AFD	171	1.6
Commercial Banks	749	7.0
o/w TDB	332	3.1
Stanbic Bank	278	2.6
Standard Chartered	118	1.1
GoU guarantees for external debt	32	0.3
Local currency debt held by offshore creditors	300	2.8

Source: Joint WB-IMF DSA, June 2021

3.2 Improving agricultural productivity, developing agro-processing industries, and creating jobs

68. In the five years before the COVID-19 outbreak, jobs, especially in the non-farm sectors (see Section 2.2), have grown faster than the influx of youth into the labor market. As a result, the percentage of those employed increased in this period. Furthermore, there was good progress in economic transformation in reducing the employment share in the least productive agricultural sector and increasing the share in the more productive sectors of industry and services. However, as discussed in Section 2.2, the COVID-19 crisis has reversed this momentum in the labor market.

69. This section considers options to foster economic transformation by transforming Uganda's agriculture into a more dynamic and productive sector, bringing the non-farm sector's growth back to pre-COVID levels, and taking advantage of the ongoing digital transformation. The non-farm sector's job creation in the pre-COVID era was promising; it helped absorb the growing labor supply and also pushed the economic transformation agenda forward. Thus, returning to similar levels of growth in the non-farm sector is critical for returning to the favorable pre-COVID trend. Transforming the agricultural sector is also crucial because it still provides the main income source for rural and poor households in Uganda and is an important source of export earnings and supply of raw materials for industry. Furthermore, the broader agriculture value chain is critical for providing jobs, increasing domestic incomes, and stimulating demand for local service providers and manufacturers. Also, in Uganda, access to digital technology has been increasing rapidly. Mobile cellular subscription is growing at an annual rate of 5.7 percent and internet access reached one quarter of the population in 2019. It is critical to take advantage of this ongoing digital transformation for improving productivity and business opportunities in the agricultural and non-farm sectors.

70. This section also includes new insights on Uganda's labor market using various datasets that

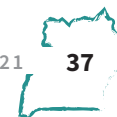
have recently been released. Until recently, the latest available household survey was UNHS 2016/17, which was collected during the 2016/17 drought. The drought slowed down the country's growth and pace of poverty reduction significantly, demonstrating the vulnerability of Uganda's population to shocks. However, newly released datasets have provided fresh insights: UNPS 2019/20 data, collected in the pre-COVID growth period, provides more optimistic views about Uganda's medium-term growth and economic transformation, while the COVID-19 UHFPS reveals the urban non-farm sector's vulnerability.

3.2.1 Challenges

71. Despite agriculture's important role in Uganda's economy, output is far below potential. The sector employs about 60 percent of the labor force, generates about a quarter of GDP, and is the main source of income for the bottom 40 percent of rural households. However, while there has been some increase in agricultural labor productivity over the last five years, the baseline level in 2015 was so low that overall productivity is still far below potential. Similarly, there has been very slow growth in output of cash and food crops. As discussed in World Bank (2018), national agricultural output had grown at only 2 percent per annum over the previous five years, compared to agricultural output growth of 3 to 5 percent in other EAC members and 3.3 percent per annum growth in Uganda's population over the same period.⁸⁸ Farmers' low uptake of improved agricultural inputs is one of the main causes of the stagnating yields.

72. Political interference accentuates inefficiencies in the farm input market. Through OWC, which started in 2014, the extension services system has steadily moved away from its core function of knowledge transfer and has increasingly taken the role of distributing free or highly subsidized agricultural inputs. These are distributed by the military, are often

88 For example, overall maize yields barely increased on average from 2,505 kg/ha in 2014 to 2,621 kg/ha in 2018 (FAOSTAT).



of low quality⁸⁹ and marred by inadequate timing. The cost of the OWC distortion is substantial, as inputs are sometimes procured at 20-50 percent above market prices. At the same time, with free seeds being available to many smaller scale farmers, seed companies seeking to produce quality seeds for private sale to farmers have seen their market share and their ability to expand adversely affected – reducing their incentives to invest and, thus, crowding out the private sector from seed distribution. In addition to OWC, perceived and real politicization of rural organizations has limited the growth of farmer groups and cooperatives that could serve an important role in organizing access to markets for inputs and outputs among smallholder farmers.

73. Over the last five years, the institutional base in Uganda for agriculture has continued to deteriorate and public expenditures have been insufficient and poorly allocated. Institutional weaknesses within the responsible ministries and agencies have been a key bottleneck for agricultural policy design and implementation, regulation and administrative coordination.⁹⁰ Furthermore, despite the emphasis on the agricultural sector in many policy plans, agriculture was estimated to account for, on average, just 3.6 percent of total public expenditures between 2013/14 and 2017/18,⁹¹ which is lower than the annual average share of agriculture in total spending in Africa of about 4 percent and far from the 10 percent of total expenditures that the CAADP compact recommends. Furthermore, a significant share of this expenditure went to funding OWC, while very little was invested in digital solutions and data driven analytical tools to help with improved planning in the agricultural sector, including effective soil observation and management techniques to inform the selection of the crops. Similarly, very little was invested in irrigation, access roads, wholesale and livestock markets, veterinary, sanitary,

and phytosanitary laboratories and equipment, and research and extension services, which are critical for increasing productivity and building resilience to climate change risks.

74. Growing rural density has caused increasing land fragmentation and shrinking farm sizes, which constrains productivity and incentives to commercialize. From 2006 to 2016, the share of small household farms, with less than 2 hectares of land, rose from 75 to 83 percent.⁹² As a result, the average net land operated fell from 1.7 to 1.2 hectares per household, thus reversing the trend toward larger farm holdings, which are more likely to commercialize due to economies of scale and ease of adopting modern technologies. Land tenure issues are also a critical bottleneck to organizing more productive farms. Overlapping systems result in unclear and unofficial land rights for many smallholders, inhibiting their ability to rent, sell or use land as collateral. This is even more constraining for women farmers as Uganda's land tenure system is rooted in patriarchy, with customary law usually affording women fewer land rights. Lack of land tenure security for refugees (as well as the estimated 30 percent of the population who still do not have national IDs) also provides a barrier to investment and longer-term self-reliance.

75. Farming is exposed to increasing climate variability and weather shocks, with Uganda being the most vulnerable to climate change among regional peers on the ND-GAIN index.⁹³ More than 95 percent of cropland is rainfed and based on subsistence farming, making it especially vulnerable to weather variability and climate hazards.⁹⁴ In recent years, seasonal rainfall has become more variable and less predictable and, in combination with higher temperatures (see Section 4.2), is likely to reduce crop productivity. Extreme events such as droughts, floods or landslides are also

89 A Ugandan Parliamentary hearing held in May 2017 suggested that some small farmers who relied on the free inputs distributed have faced large-scale failures of seeds and seedlings (Ibid).

90 See World Bank (2018).

91 World Bank, (2019, June). Republic of Uganda, Agriculture Sector Public Expenditure Review.

92 This compares unfavorably to comparators like Tanzania and Ghana where 44 and 55 percent of farms respectively, in 2012/13, were operated on land bigger than 5 hectares (Jayne & Kray, 2018).

93 Regional peers include: Ethiopia, Kenya, Madagascar, Malawi, Mozambique, Rwanda, Tanzania, Zambia, and Zimbabwe.

94 CIAT, BFS/USAID (2017).



projected to become more frequent and intense and are exacerbated by unsustainable land use practices and the expansion of agricultural land into other ecosystems such as forests (see Section 4.2). Soil degradation and erosion, caused by unsustainable land management, has further reduced agricultural productivity and increased vulnerability. In recent years, this lack of resilience has resulted in huge losses in livestock and crops. For example, due to drought and pests such as the armyworm in 2016, output plummeted, which resulted in widespread food insecurity. Future predictions look even more grim.⁹⁵ The high probability of weather shocks also reduces the incentives of farmers to invest in higher productivity techniques and inputs, leading to even further foregone potential growth.

76. Beyond the farm-gate, poor logistics and considerable post-harvest losses impact the quality of crops, access to markets and incentives to adopt more productive approaches. The agricultural supply chains linking farmers to output markets are underdeveloped and fragmented. Smallholders typically depend on lower quality post-harvest handling and storage practices, whereas aggregators are constrained by lack of working capital to take on the post-harvest processes on a larger, more centralized level. This results in an unreliable supply for agro-processing companies, reducing their efficiency and dampening the incentives to invest. Because of this, most crop sales end up in informal markets, which generates low and variable farmer income, despite relatively high prices in other countries in the region. Furthermore, the marked seasonality of agriculture leads to high volatility of output and prices, creating (largely unexploited) opportunities for intertemporal arbitrage. Lack of connectivity in the region and affordable mobile devices also limit the ability of farmers to stay abreast of daily price changes and coordinate a response amongst each other. Consequently, the lack of formalization, finance, electricity access, production support services – such as warehousing, quality-controlled post-

harvest management, cold chain infrastructure and logistics services – and effective market stabilization mechanisms prevent farmers from smoothing income and consumption.

77. High transportation costs and weak competition in agricultural intermediation squeeze the profit margins of farmers engaged in domestic and international trade. The poor quality of rural roads leaves some rural areas economically isolated from larger markets and reduces the profitability for smaller farmers. For commodities grown primarily for export and with limited long-term storage potential, like coffee, remoteness can also make farmers even more vulnerable to intermediaries.⁹⁶ Weak competition in market intermediation, likely due to high costs of entry into long-distance subnational trade, and high transport costs, means that intermediary traders and aggregators capture a high share of the market surplus.⁹⁷ Information asymmetries, the small scale of production and weak cooperative marketing further reduce the bargaining power of farmers. In this way, while Uganda's exports typically receive internationally competitive prices, this is not always reflected in the prices received by farmers.

78. Uganda's formal exports remain concentrated on a narrow range of products, including a few agricultural commodities, and its top five markets.⁹⁸ As a result, export growth primarily occurs by exporting higher volumes of the same products. This then limits the potential for exports to stimulate further backward and forward linkages and create more jobs. Currently, Uganda's backward linkages share in total exports is on average 12 percent and its forward linkages share is 17 percent, which is a deterioration in recent years and lower than neighbours such as Kenya, Tanzania, and Rwanda.⁹⁹ Participation in global value chains, a key vehicle for creating jobs in manufacturing and agro-processing, has also deteriorated since 2010 and, at less than 30 percent, is on average lower than its peer countries. The reasons for this poor export performance

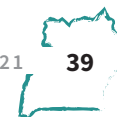
95 For example, by 2050, the production of Arabica and Robusta coffee could fall by 50 percent, and areas suitable for growing tea and beans could be severely affected, resulting in a massive loss of market opportunities. (ReliefWeb, 2015).

96 Muratori L. (2016)

97 Evidence from a randomized trial in Kenya shows that traders collude to maximize joint profits and, by doing so, can capture 81 percent of the total market surplus. (Bergquist and Dinerstein, 2019).

98 Not including informal cross-border trade, which includes apparel, worn clothing and footwear as well as agricultural products.

99 World Bank (2020, September).



are largely due to the high trade costs (as discussed) and non-tariff barriers related in many instances to poor quality, packaging, and handling.¹⁰⁰

79. Uganda's non-farm sector was most severely affected by the COVID-19 outbreak and the subsequent mobility restrictions, resulting in a reversal of the recent economic transformation. 70 percent of the non-agricultural GDP is generated in urban areas; nearly 60 percent of employment in the non-farm sector is hired in the informal sector; and 85 percent of firms have less than ten employees (World Bank 2012, ILO 2010 and Merotto 2020). According to the COVID-19 UHFPS, 33 percent of employees in the service sector in March 2020 had stopped working by June 2020 (Table 3). In contrast, only 7 percent of employees in the agriculture sector in March 2020 had stopped working by June 2020. Furthermore, the agricultural sector employment share had increased by ten percentage points in just three months (from March 2020 to June 2020). Thus,

the COVID-19 outbreak and subsequent lockdowns reversed (at least temporarily) the positive economic transformation process of the pre-COVID years.

80. The recovery process continues in the labor market, but progress is not uniform. The employment rate declined from 86 to 70 percent in the first three months of the pandemic, but returned to the pre-COVID level by August 2020. However, the large shift of employment from the non-farm sector to the agriculture sector – economic transformation reversal – remained. The share of agricultural sector employment continued to be ten percentage points higher than the pre-COVID level as of August 2020 (Table 4). According to the latest round of the UHFPS (October 2020), most households' income levels have also not yet returned to their pre-COVID levels. The income levels of 60 percent of households in the non-farm enterprises and 41 percent of households in the agricultural sector are still lower.¹⁰¹

Table 3: Employment status (percent) by economic sector in June 2020 compared to March 2020

	National		Rural		Urban	
	<i>working</i>	<i>stopped</i>	<i>working</i>	<i>stopped</i>	<i>working</i>	<i>stopped</i>
Agriculture	93	7	93	7	89	11
Industry	79	21	87	13	71	29
Services	67	33	74	26	60	40

Source: UHFPS, Round 1

81. Refugees are still recovering from the COVID-19 shock. According to results from three rounds of the *Uganda Refugee High-Frequency Phone Survey* (URHFPS), the employment rate among refugees in February/March 2021 had still not returned to the pre-pandemic level. Despite a high reliance on humanitarian aid, the majority of refugee households reported either

a decline or a complete loss of income between March 2020 and February/March 2021. By February/March 2021, none of the key income sources, including farming, family business, wage employment and humanitarian assistance, had on average recovered to pre-COVID levels.¹⁰²

¹⁰⁰ See Fowler and Rauschendorfer (2019).

¹⁰¹ Most recent results from the UHFPS are available from World Bank (2021).

¹⁰² Atamanov et al. 2021ab

Table 4: Economic sector of employed (percent)

	2020, UNPS (same respondents as in UHFPS Round 1)	March 2020 (Round 1, recall)	June 2020 (Round 1)	August 2020 (Round 2)
Agriculture	50.9	49.1	61.8	61.5
Industry	8.4	9.3	9.0	8.6
Services	40.6	41.7	29.1	29.9

82. Besides the pandemic, inadequate urban planning and growing urban density is curtailing mobility and constraining the enabling environment for business and formal job creation in the non-farm sector. For example, the *Greater Kampala Metropolitan Area* (GKMA) alone accommodates 10 percent of the national population, 40 percent of the urban population and is expected to host 10 million people by 2030 – more than double its current level. Road congestion is already a major issue for the movement of goods and people, and the quality of life for GKMA inhabitants. Therefore, better and more efficient urban transport systems are essential to reduce congestion, promote sustainable mobility, and improve connectivity, thus facilitating the movement of people and products and, ultimately, stimulating job creation. Additionally, climate change impacts will likely increase the frequency and intensity of hazard events, such as floods and landslides, putting further strain on the coping capacity of the city. Effective coordination among local governments in GKMA is needed to deal with metropolitan area-wide issues that transcend local jurisdictions; for example, land use planning, traffic congestion, solid waste management, air pollution, storm water drain clogging, and environmental problems.

83. Throughout Uganda the non-farm sector continues to face various bottlenecks in accessing electricity, finance and land, and also in the time it takes to start up a business. The 2013 Enterprise Survey¹⁰³ showed that limited access to electricity has consistently been a major constraint for Uganda's non-farm sector. Although Uganda has invested considerably in power generation and transmission, low urban access

rates, reliability and pricing still remain key constraints for firms. The National Electrification Survey Report (2018) indicates that 30 percent of enterprises and 50 percent of manufacturers lack access to electricity, and 44 percent of enterprises had to turn customers away due to unreliable power. For medium-sized and larger firms, particularly in manufacturing, power reliability is a major bottleneck resulting in idle production lines, equipment damage, and high backup generator costs.¹⁰⁴ Access to finance is another critical challenge, as is the time it takes to start up a business. The latter may severely hinder the urban non-farm sector workers' return to their businesses after the pandemic. Furthermore, as discussed in Section 3.3, limited human capital is another challenge for the non-farm sector's growth and ability to create jobs.

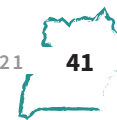
3.2.2 Opportunities

84. Adopting climate-smart agriculture (CSA) practices has the potential to increase productivity and resilience for smallholder farmers. Crop rotation, integrated soil fertility management and intercropping staples with nitrogen-fixing plants or trees are some of the most promising CSA practices, which, in addition, provide a vast array of ecosystem services. Improving water management and storage infrastructure also holds significant potential to increase productivity and guard against future climatic risks.¹⁰⁵ However, while the adoption of CSA appropriate technologies is critical to enhancing the productivity and resilience of smallholder farmers, such gains are only marginal if appropriate management practices to land use systems are not broadly adopted. In this regard, agricultural productivity

¹⁰³ World Bank (2013).

¹⁰⁴ Walter et al. (2018).

¹⁰⁵ Bastiaanssen and Perry (2009) compared biomass production of irrigated versus rain-fed land for cereals in Uganda and found that average cereal yield for rain-fed agriculture was 1,539 kg/ha, while yields under irrigated agriculture were as high as 7,064 kg/ha. At an assumed market price of US\$ 0.50/kg, the net financial increment due to irrigation was US\$ 1,667/ha.



and resilience are, to a large extent, determined by actions taken to prevent and reverse land degradation, potential disasters, and climate shocks.

85. Demand for food and agricultural products has been increasing rapidly, creating opportunities all along the agricultural value chain, especially for emerging, or more commercially oriented farmers.

Demand for meat, fish, milk and fruits is growing more rapidly than income, and this growth is widespread in both rural and urban areas.¹⁰⁶ Regionally, Africa's demand for food is projected to more than double by 2050 and the value of the African food market is predicted to rise threefold to US\$1 trillion by 2030.¹⁰⁷ The livestock sub-sector in Uganda is a good example of this, having experienced very positive growth in recent years, and holds significant potential to expand further and meet the growing demand.¹⁰⁸ Research, using household data in five countries of East and Southern Africa with income levels similar to Uganda, estimates that demand for processed foods in urban areas will increase by a factor of eight over the next three decades.¹⁰⁹ Furthermore, the full agricultural value chain holds tremendous economic potential and can be a major source of jobs and income, and can also support the growth of manufacturing. It has been estimated that agro/food processing and food services together can generate about 200,000 new formal jobs in Uganda over the next decade.¹¹⁰

86. Vertical integration can provide small emerging commercial farmers¹¹¹ with opportunities for commercializing and engaging in value addition for domestic and export markets. To incentivize smallholders to invest more in inputs and more productive methods, and for the private sector to increase investments in value addition, credible and

stable opportunities for profitable commercialization have to be present.¹¹² Vertically integrated agri-business operations, such as contract farming and outgrower schemes, are increasingly being used to achieve this in Uganda for commodities with more organized value chains, such as tea, sugar, coffee, dairy, barley and sorghum (see Box 4). Expanding this to other crops could also address finance and technology constraints, enabling higher productivity and value addition. Core to this is investing in capacity building of farmer organizations so that they can participate in such opportunities.

87. Capitalizing on promising export trends can create significant opportunities for growth in agricultural commodities and value addition.

Regionally, Uganda already handles significant flows of goods in transit between ports in Kenya and Tanzania and other landlocked neighbors. While Uganda's domestic market comprises 45 million people, the population of the broader East African region is almost ten times that size, thus implying a much larger potential market. The extension of new railway systems in Kenya and Tanzania towards the Ugandan border, and the revival of goods transport services across Lake Victoria, hold great potential for the private sector in Uganda to offer value adding logistics services and to leverage its location as a logistics hub. Demand for coffee is expected to increase up to 3 percent per year and Uganda has the opportunity to increase its supply by further investing in its two coffee varieties and increasing its brand awareness, as well as upgrading along the coffee value chain. Uganda is already the third biggest fish exporter on the African continent, after South Africa and Tanzania, and the sector creates more than 1.5 million jobs. Uganda is also a growing net exporter of livestock products and

¹⁰⁶ In contrast, demand for lower value staple food grains, root crops and legumes are growing less quickly than income.

¹⁰⁷ AGRA (2017).

¹⁰⁸ Over the last four years, livestock output experienced a structural shift in growth, accelerating by an average of 7 percent from FY17 to FY20, and roughly tripling compared to the output recorded during the five-year period before that. As a result, the livestock sub-sector currently accounts for about 17 percent of agricultural value added and 4.3 percent of GDP.

¹⁰⁹ Tschirley et al (2015).

¹¹⁰ Christopher Delgado (2018, October).

¹¹¹ It is important to note that different segments of smallholder farmers should be targeted by different solutions to enhance their productivity and resilience. For example, subsistence-oriented smallholders may need to focus more on food security objectives and may not have the capacity to engage in vertically integrated opportunities. However, smallholders who have begun diversifying their crops and selling in markets may be able to take advantage of these productivity-enhancing opportunities.

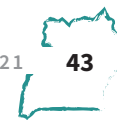
¹¹² Empirical evidence shows that increased crop productivity must go hand in hand with better access to markets. Studies in Burkina-Faso, Benin, and Senegal, for instance, have found that price certainty and robust prospects for value addition stimulate farmers to increase the use of inputs such as fertilizers and animal traction (Ouédraogo et al. 2018 for Burkina-Faso; Arouna et al 2019 for Benin; and Bernard et al. 2017 for Senegal).

live animals, which account for between 1-1.5 percent of total export trade value, dominated by dairy products and eggs (US\$80 million), with meat and meat products (US\$6.2 million) expanding.

88. Adoption of digital technologies have the potential to improve short and long-term productivity by enhancing government's ability to better manage the sector, increasing access to information for all stakeholders, and facilitating greater coordination. The recent increase in internet connectivity and substantial rise in mobile phone ownership (almost 70 percent of the population) is laying the foundation for Uganda's digital transformation and enabling the rapid take-up of digital services that are offered by both the public and private sector. Digitally enabled services can provide timely access to information on pricing of agricultural products (inputs and outputs) and extension services delivered via mobile devices, support digital payments, and help identify and connect different players across

the value-chain such as farmers, suppliers, buyers, and logistics providers. There are already many existing applications and digital technology-enabled tools for data collection purposes, including the Jaguza Livestock App, Ensubiko for rural financial institutions, E-Voucher system for agro-input dealers, and MUIIS for weather and agricultural information. Also, as farmers access information through platforms like M-Farmer and Yo! Uganda, the generated data can be leveraged to support data-based decisions on purchasing inputs and access to financial services like micro-loans. Expanding the uptake of these digital enabled technologies has significant potential to overcome the challenges of distance and multiplicity of small independent farms in Uganda. In turn, better access to real time digital data by the government can inform timely decision making, including around prioritization of crops, distribution of seedings, and provision of subsidies to the most vulnerable farmer households temporarily affected by weather or pandemic related events.





Box 4: Vertical integration between smallholders and aggregators to serve domestic and global markets

The dairy sector in Uganda has seen steady growth for many years, supported by both government and private investment, as well as increasing coordination between small-scale farmers and milk processors. Annual milk output has grown steadily from 1.5 billion liters in 2010 to 2.2 billion liters in 2016. Regulations on the acquisition of milk transporting vehicles have been made easier, and regulations were enforced on acceptable modes of transporting milk. Moreover, large private and cooperative investments have been made in setting up coolers and processing plants throughout the milk producing areas; with processing facilities growing from 5 processors in 2003 to 76 in 2017, of which 15 are large-scale processors. Eight of these large-scale processors now export milk and milk products.

Kyagalanyi Coffee Ltd, one of the main licensed coffee exporters, engages extensively with smallholder coffee farmers to increase yields and quality for Uganda's top agricultural export. In the proximity to the farmers they serve, the company has established washing stations – critical to quality – across Mount Elgon, West Nile, and the Rwenzori regions. Most of the stations are equipped with eco-pulpers, wastewater treatment systems, nurseries, and agro-input stores. Farmers are taken through an intensive agronomy training program that includes business skills. They are eligible for annual cash and fertilizer bonuses, access to quality agro-inputs, farm tools and good quality seedlings. Personalized advisory services are also provided to the farmers, who are able to use mobile phone technology to gather geo-tracked data on coffee traceability, adopt good agricultural practices, and use appropriate socio-economic practices. As a result, coffee yields and quality have improved tremendously. Furthermore, to provide incentives for quality products, a premium is paid for better quality Arabica beans. This has led some participating farmers to register yields of 1 Mt/ha for Arabica, compared to the norm of 0.4 Mt/ha.

Maize production in Uganda has been steadily growing, responding to increasing domestic and regional demand, and supported by firms that have organized smallholders to facilitate access to inputs and ensure a higher quality grain. Maize production doubled from 1.3 million metric tons (Mt) in FY03/04 to about 2.6 million Mt in FY15/16. This was accompanied by a significant increase in exports, which rose from 400,000 Mt in 2004 to about 1.1 million in 2015; going primarily to Kenya, Rwanda, and South Sudan. To harness this opportunity, Afro-Kai Ltd. entered Uganda in 2012, with its core business entailing the purchase, cleaning, storage and sale of grain to the World Food Program and neighboring countries. Afro-Kai pays a premium of up to 20 percent higher than the spot market price to farmers and traders who comply with strict EAC quality standards such as the absence of foreign materials, excess humidity and pests. Afro-Kai supports the formation of new and strengthening of existing farmer groups with training in production, primary processing and handling. Farmers under this arrangement can access high-quality inputs of seed and fertilizer, as well as support services such as spraying and maize shelling equipment. These farmers have been able to increase their yields from 600kg/ha to 2Mt/ha.

89. **Private sector solutions in Uganda's energy sector are important for promoting increased access to electricity, which is essential for increasing productivity in both the agricultural and non-farm sectors, as well as making progress on the human capital agenda.**¹¹³ Uganda's energy sector reforms and resulting legal, regulatory, and institutional framework have been conducive to the development of the generation segment of the industry. The country now needs to put more emphasis on the transmission and distribution sectors to enable evacuation of power, serve latent national demand, tap into export opportunities in neighboring countries, and improve sector efficiency and financial sustainability. Constraints in transmission and distribution systems and their interconnection, together with the institutional setup of the distribution sector, are the main barriers to maximizing electricity access and achieving sector efficiency and financial sustainability. The potential for private participation in on-grid transmission and distribution is high. Given that

the scale-up of electricity service connections through grid alone will be too expensive, especially as the costs escalate when moving from urbanized areas to villages with scattered settlements, off-grid solutions (including a combination of mini-grid and standalone solar home systems) have also become a viable solution to increasing access levels. For example, the market for standalone solar home systems in Uganda is already vibrant and growing, and as the third largest market for off-grid solar products in East-Africa, Uganda presents significant opportunities for private sector investment. However, government is currently considering a second generation of reforms, by merging the unbundled generation, transmission and distribution companies into a vertically integrated entity. The effect of such a decision on the potential for private sector participation in the energy sector needs to be carefully evaluated.

90. **Arguably, the most promising prospect in terms of both inclusive and equitable economic**

113 For a more comprehensive discussion of the challenges and opportunities in Uganda's electricity sector, see World Bank Group (2021)



growth and expansion in job opportunities, lies in the development of small- and medium-scale agro-industrial firms, which can supply the growing markets within Uganda and the region. Between FY15 and FY19, manufacturing growth in Uganda was buoyant, growing at an average annual rate of about 5.5 percent.¹¹⁴ This was driven largely by the rapid growth in the value of output of the food processing sub-sector (with an average annual growth rate of 8 percent), and with particularly strong growth being registered in meat, fish and dairy processing, and drinks, textiles, edible oils, and bakery production. Currently, the bulk of Uganda's manufacturing output is accounted for by the processing of agricultural commodities: food processing alone accounts for 40 percent, with half of this amount being contributed by sugar, coffee, and tea processing. The production of soft drinks and beer accounts for a further 17 percent of manufacturing output.¹¹⁵ This is hardly surprising given the dietary transition that is underway in the country. As such, both food as well as cash crops form the basis of Uganda's productive agro-industrial sector and have the potential to be exploited even further.

91. With appropriate investments in both physical and human capital, non-farm sector-led economic transformation can significantly increase Uganda's overall labor productivity. Up until the onset of the COVID-19 crisis, the national average labor productivity grew 2.4 percent annually thanks to the shift of employment from the least productive agricultural sector to the more productive non-farm sector. The broad impact of this employment shift was also huge. If there had been no such shift, Uganda's national average productivity would have declined at an annual rate of 1.7 percent, implying this non-farm sector-led economic transformation increased Uganda's labor productivity by around 4 percent annually. However, the non-farm sector's labor productivity declined slightly as it expanded rapidly, suggesting that firms either invested little in other inputs like capital or hired less qualified and skilled workers than before, or possibly did both. Without proper investments in both physical and human capital, this pre-COVID economic transformation would

likely have lost its momentum over time even without the outbreak of COVID-19.

92. Shifting more labor from agriculture to the non-farm sector can also improve agriculture productivity and productivity in the country as a whole. According to UNPS and WDI data, the agricultural sector's labor productivity grew at an annual rate of 4 percent between 2015 and 2019, which was the highest of all industries. This high labor productivity growth is due in part to the fact that the sector grew 3.6 percent annually despite the declining labor supply to agriculture given the rapid expansion of the non-farm sector. This result suggests that a large portion of redundant labor or wide-spread underemployment might remain in agriculture.

93. Addressing some of the key bottlenecks to non-farm sector growth might not be resource intensive. As discussed, the non-farm sector faces several challenges, including access to electricity, access to finance, low skill/human capital of employees, and length of time to start up a firm – with many of the underlying issues being the same as when the 2015 SCD was prepared. Removing these constraints will help facilitate the recovery of Uganda's non-farm sector, but it is not always easy to do that due to limited fiscal space. However, regulatory reform to reduce the time to start up a firm can be done with limited resources. Also, access to finance can be accelerated by the already expanding options of mobile financing.

94. Implementing well-designed urbanization policies is also critical for the recovery of the non-farm sector. Uganda's non-farm sector is heavily concentrated in urban areas, particularly in GKMA. But congestion and high land prices in cities like Kampala can eliminate competitiveness of urban centers. To maintain positive urban agglomeration effects, it will be critical to improve transportation, ensure effective land markets, meet the significant housing demand, and improve the amenity of urban areas. To address these issues and unlock the city's growth potential, the GKMA economic development strategy adopted a multi-sectoral programmatic approach. Developing secondary cities/

114 World Bank (2020, January)

115 Fowler (2019)



towns, connecting those to broadband, providing free wi-fi in public spaces, and applying a growth corridor or spatial strategy to development will also reduce the pressure and over-concentration of existing business and industrial hubs in the larger cities. Furthermore, Uganda's housing sector offers significant potential for

private sector participation and investment along the different activities of the housing value chain, including in construction, intermediate input manufacturing, real estate services, and capital market development.¹¹⁶



116 See World Bank Group (2021) for a more detailed discussion.



3.3 Enhancing human capital and women's empowerment

95. **Population growth remains high, underpinned by high fertility rates and a high dependency ratio.** The Total Fertility Rate (TFR) has declined, but in 2018 was still high at 5 births per woman. Uganda's annual population growth rate, at 3.6 percent in 2019, is the fourth highest in the world.¹¹⁷ According to UN World Population Prospects (2019), Uganda's dependency ratio was estimated at 92 in 2016, implying that for every 100 economically active persons, there are 92 dependents. This dependency ratio is significantly higher than the sub-Saharan Africa average of 82 and East Africa region's average of 80.9 in 2020.¹¹⁸

96. **Uganda is entering a demographic transition, which has great potential for accelerating growth in per capita terms and reducing poverty.** Although fertility rates and the dependency ratio are still high, Uganda's declining fertility rate and growing working-age population are gradually increasing the share of the working-age population and reducing the child dependency ratio.¹¹⁹ This transition has several potentially positive welfare impacts. First, since a household has more income earners and fewer dependents, a household's income per capita (per adult equivalent) can increase even though earnings per individual do not change. Second, having fewer children than previous generations makes it easier for households and government to invest in education and health for children.¹²⁰ Evidence shows that empowering women and improving their health and education outcomes have great potential for reducing the fertility rate, accelerating the demographic transition, improving household livelihoods, bettering children's education and health outcomes, and substantial economic dividends.

97. **However, demographic dividends can turn into a demographic disaster if the youth's employment conditions and human capital/skills do not improve.** Large cohorts of youth will be unemployed or underemployed if economic opportunities and jobs do not increase at the same pace as the rising influx of job seekers. As a result, income per capita can decline, and poverty can rise. Furthermore, the youth's discontent with not having decent jobs can potentially bring social, political, and economic instability, and a deterioration in social capital.¹²¹ Sustained investments in education and health of the youth are essential to reap the demographic dividend and increase the country's competitiveness over time.

98. **Despite improvements since the 2015 SCD, new evidence shows that human capital in Uganda remains low.** While some human capital indicators have improved over the last five years, children in Uganda still do not reach even half of their human capital potential (Annex C, Figure A3f). According to the HCI (Human Capital Index), a child born in Uganda today will only be 38 percent as productive as she could be if she had completed her education and maintained full health when growing up; this ranks the country 137 out of 157 on the HCI. This poor position is largely due to the low quality of education and low secondary completion rates, especially among the bottom 40 percent of rural households.¹²²

99. **While the impact of the COVID-19 crisis on human capital development is worrisome, the development of vaccines now offers hope for a return to normalcy.** The pandemic brought about school closures and limited access to general health services for children and women beyond the treatment of COVID-19. New waves of COVID-19 may create even more challenges to providing such services. Yet, Uganda

117 WDI (2020)

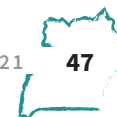
118 East Africa includes Kenya, Burundi, Uganda, Tanzania, Rwanda and South Sudan.

119 Schneidman et al., 2016

120 Kalem-Ozcan et al (2000)

121 World Bank (2015/16)

122 For instance, the Learning-adjusted Years of School component of HCI (i.e. factoring in what children actually learn) barely improved between 2010 and 2020. In 2010 it was just under 4 years and only marginally increased in 2020 to 4.3 in 2020.



developed a National Covid-19 Deployment and Vaccination Plan based on international guidance from WHO and launched the vaccination exercise on March 10, 2021. However, effective deployment and coverage of vaccines is being stifled by severe resource constraints and some vaccine hesitancy, challenges that are likely to delay a return to normalcy. Although, according to the high-frequency phone surveys, 80 percent of those surveyed indicated a willingness to be vaccinated. Following through with a successful vaccination process will be essential to the long-term recovery from the pandemic and for limiting the impacts of COVID-19 on human capital formation.

100. Building human capital and empowering women are critical for addressing the inequality of opportunity. During the pre-COVID economic growth, most of the poor remained in the agricultural sector and were left out from the economic transformation. One key obstacle for the poor is their lack of education, employable skills, and human capital necessary to work in the non-farm sector. Unless the poor accumulate human capital, they will likely be excluded from the post-COVID economic recovery. Also, gender inequality in Uganda has been severe and persistent and constrained women's ability to contribute to economic growth and development. Building human capital and empowering women are critical to accelerate the post-pandemic growth and make it more inclusive.

3.3.1 Education challenges

101. While primary school enrolment is still high, completion rates have dropped slightly since 2015, and survival rates are particularly low for vulnerable populations. Uganda made important strides in improving access and education attainment since the

introduction of Universal Primary Education (UPE) in 1997, yet these early gains failed to translate into a sustained upward trend in education outcomes for all students. Although gross primary enrollment rates were 110 percent in 2017, primary completion rates fell to 62 percent in 2016 from 64 percent in 2011.¹²³ This is the same level achieved in 2004 and the downward trend is likely to continue in the immediate term due to the COVID-19 crisis.¹²⁴ The low completion rate is related to high repetition rates, resulting in many more years of schooling to complete the full primary cycle.¹²⁵ For example, even though the primary cycle is seven years in Uganda, on average students take 12.6 years to complete it. This is due in part to the fact that the rapid expansion of the primary education system has not been accompanied by adequate measures to introduce quality standards, boost learning, and reduce over-crowding in early grades. The probability of school completion is worse for girls, children from geographically disadvantaged areas and from the lowest socio-economic status (SES).¹²⁶

102. Despite some improvements, secondary level access remains low, unequal and insufficient to meet the growing demand. While the total number of students enrolled in secondary education has increased by over 50 percent in the last 10 years, partly due to the government's commitment to have one secondary school in each sub-county, the pace of growth has been too slow to offset demographic growth and an increasing number of primary school graduates. The GER for secondary education has stagnated at 25 percent since 2010,¹²⁷ and is expected to decline to 22 percent by 2025. This will be less than half of the 45 percent target for 2025, as outlined in the *Education and Sport Sector Plan* for the period. Transition rates from primary to lower secondary education have also

123 GoU, Ministry of Education and Sports (2015).

124 In 2017, the survival rate in Kenya was 95 percent (grade 8), Ethiopia was 63 percent (grade 8), and Rwanda was 68 percent (grade 6).

125 Official repetition data is limited. However, a recent study (2019) done by Uwezo, indicates 32 percent repetition rate in P1. This is consistent with another study done in 2017 by RTI, which suggests that up to 40 percent of each class in early grades is taken up by repeaters.

126 Insights from the HCI, disaggregated by SES quintiles, indicate that a child in the richest 20 percent can expect to complete 9.5 years of school by her 18th birthday. This is substantially below the 8.3 years of school that a child from the poorest 20 percent can expect. In addition, pupils from low-SES households are less likely to attend pre-primary school, and therefore are far more likely to repeat grades in lower primary, as well as being at risk of dropping out. Geographical disparities are also of concern when it comes to access and progression – primary school completion rates for children in Northern Uganda are 1.6 times less than in Central Uganda.

127 When focusing on the lower secondary cycle alone, which is the minimum level expected to be attained by every citizen, since 2010 the GER has been consistently confined to between 31 and 35 percent.



declined from 72 percent in 2013 to 61 percent in 2017.¹²⁸ Furthermore, large inequities persist by region, location, wealth, gender, and refugee status.¹²⁹ School closures resulting from the COVID-19 pandemic have now also exacerbated these existing inequalities.¹³⁰ These large inequalities in education then translate into inequality of future opportunities, access to jobs, and the potential for upward mobility.

103. Girls' education experience is characterized by lower access, higher dropout and lower transition rates compared to boys, especially for women from lower SES quintiles and in disadvantaged locations.

While the primary level Gender Parity Index (GPI)¹³¹ at the national level stood at 0.99, district specific data show that access is substantially lower for girls in rural areas. For instance, GPI in rural Karamoja stood at 0.84, compared to the largely urban Central region where GPI was at 1.07. In 2016, the enrollment rate at the secondary level for boys was four percent higher than for girls, at 29 and 25 percent respectively, and the GPI was at 86 percent. Lower secondary completion rates for girls were also lower than for boys, at 36 and 40 percent respectively. Likewise, transition rates were poorer for girls, at 28 and 21 percent for boys and girls respectively (see Annex C, Figure A4).¹³²

104. Learning outcomes have continued to worsen, following the same trend identified in the 2015 SCD, with marked geographic and gender disparities,

especially at the secondary level. On average, a child in Uganda can be expected to complete 7 years of education by age 18. However, this drops to only 4.5 years of schooling if learning performance is considered. In other words, students lose 2.5 years of schooling due to the poor quality of learning.¹³³ National averages at the primary level indicate a similar level of outcomes amongst boys and girls. However, these averages conceal important district-specific disparities. For instance, gender differences in achievement in Karamoja was 17 percent lower for girls.¹³⁴ Moreover, learning outcomes for girls tend to be significantly worse than that for boys in STEM subjects at the secondary level. For instance, in 2016, only 33 percent of girls in Senior 2 were proficient in mathematics compared to 49 percent of boys.¹³⁵

105. Poor teacher quality¹³⁶ and an array of inefficiencies, especially at the secondary education level, are major constraints for improving student learning achievement and completion rates.

While some improvements have been achieved over the last five years, teacher absenteeism is still very high.¹³⁷ At the lower secondary level, the number of subjects remains too high at 40 and out of line with modern pedagogic practices.¹³⁸ This results in substantial inefficiencies and additional costs. The cost of providing secondary education is over 3 times higher per unit than the cost for primary education, which is substantially higher than the sub-Saharan African average of 2.23 times.¹³⁹

128 The main barriers to improved transition rates are low P7 pass rates in the Primary Leavers Exam (PLE), which stood at only 47 percent in 2017 (according to the Uganda National Examinations Board), and an insufficient number of secondary schools to absorb the growing demand.

129 In 2015, secondary education GER in the capital city of Kampala was over 50 percent, while in rural Karamoja it was only 5 percent.

130 Evidence from the UHFPS found that since the closure of schools in March 2020, the share of children (3-18 years) participating in any learning by October 2020, was only 43 percent and distributed very unequally according to wealth and location. While 55 percent of children from the richest pre-COVID consumption quintile reported some learning activity, only 22 percent of those among the poorest quintile did. Similarly, while 56 percent of urban students engaged in some learning activity, only 38 percent of rural students did.

131 Ratio of number of female students enrolled at primary, secondary and tertiary levels of education to the number of male students in each level.

132 GoU, Ministry of Education and Sports (2017).

133 More specifically, NAPE (2018) shows that literacy proficiency declined from 64.2% in 2014 to 49.9% in 2018. Similarly, numeracy proficiency declined from 72.7% in to 55.2% in the same period. According to UWEZO (2019), the percentage of P3-P7 children who could read and comprehend a basic story at P2 level declined from 39% to 33% between 2015 and 2018.

134 UWEZO (2019).

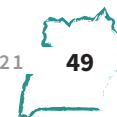
135 World Bank (2019, May). Despite the importance of monitoring learning outcomes, there is no official regular monitoring of them. Creation of official regular monitoring is an important first step to draw public awareness to poor learning outcomes.

136 According to the 2013 SDI, only 21 percent of grade 4 math teachers could compare fractions and 25 percent could assess students' abilities.

137 The 2015 SCD cited the 2013 Service Delivery Indicators (SDI) study (Wane et al), which found that on average 24 percent of teachers across primary schools are absent from school on any given day, and, of those who are in school, only 39 percent are actually in classrooms and teaching. There has not been a more recent SDI evaluation since 2013. The absenteeism rate is higher in public schools (27 percent) as opposed to private schools (14 percent). Progress is possible, though, as evidenced by the GPE-UTSEP program which reduced teachers' absenteeism to 9 percent in the 29 districts that received *Early Grade Reading* interventions.

138 A new curriculum has been developed that substantially reduces the number of compulsory subjects, but COVID-19 has delayed the rollout.

139 Bashir et al (2018).



106. There are limited formal and informal market-relevant skills training opportunities for youth. Aside from foundational skills, the labor force requires other productivity-enhancing skills beyond an occupation-specific technical skill. This includes higher order cognitive skills (such as problem solving and critical analysis), socio-emotional skills, business skills (entrepreneurship, managerial and financial literacy), and more advanced digital skills. There is insufficient supply of Technical Vocational Education and Training (TVET) institutions and informal training providers to train the large volume of new labor market entrants each year in these skills. Significant urban-rural gaps remain despite the fact that youth in rural areas tend to enroll in vocational education and training over tertiary education. While over 90 districts (out of 121) have at least one TVET institution, many of them are located in or close to urban centers where youth from refugee and host communities are likely to face difficulties gaining access. Opportunities to access and gain employment-relevant skills are also lower for women and girls. While the enrollment rate of females in TVET experienced mild

growth from 14,650 to 16,051 between 2013 to 2017, they represent a much smaller proportion of overall students (36 percent).

3.3.2 Education opportunities

107. Educational attainment is strongly correlated with higher productivity and earnings for Ugandans, highlighting a key opportunity for growth, stability and realizing the demographic dividend. Evidence shows that workers with completed primary or secondary education receive significantly higher monthly wages than those without education. For example, according to the 2016/17 UNHS data, the average monthly wage for workers with less than a first-grade education is USh 93,970 (US\$ 28);¹⁴⁰ whereas, on average, workers with completed primary education received more than double that, while workers with completed lower secondary education received nearly three times more (Table 5). This highlights the need for human capital investment to address the inequality of opportunities and welfare outcomes under the status quo.

Table 5: Average Nominal Earnings for Selected Educational Attainment, 2012/13 and 2016/17

	2012/13			2016/17		
	Monthly wage (USh)	Hours worked per week (Hrs.)	Hourly wage (USh)	Monthly wage (USh)	Hours worked per week (Hrs.)	Hourly wage (USh)
Primary completed	167,770	47.6	881	194,652	53.7	906
Some lower secondary	182,227	55.3	824	201,804	57.1	884
Lower secondary completed	216,050	59.3	911	251,784	58.0	1,085
Some/completed upper secondary	308,920	59.3	1,303	348,405	56.6	1,539

Source: Adapted from Tsimpo and Wodon (2019)

108. Despite significant challenges outlined above, progress has been registered in some districts in key areas including survival rates, completion rates, teacher presence and learning outcomes. These important ‘pockets of progress’ exist in districts where *Early Grade Reading* (EGR) interventions were provided to the poorest performing local governments between

2015 and 2019.¹⁴¹ The most notable improvements include survival rates increasing by up to 3.4 percent, reading comprehension¹⁴² improving from 11.7 to 55.7 percent, and teachers’ presence reaching 91 percent. To capitalize on these ‘pockets of progress’, the MoES decided to scale up the EGR model nationwide by institutionalizing the EGR methodology in teacher

140 Using an exchange rate of about 3,333 USh per US\$ in 2016.

141 Support to these was provided by the Uganda School and Teachers Effectiveness Project (UTSEP) between 2015 and 2019.

142 As measured by the EGRA methodology.



training and pedagogy. However, due to these recent efforts, these gains have not yet been factored into the latest nationwide data collection efforts (both *National Assessment of Progress in Education* and EMIS data). It will be important to continue to learn from these early successes to support government in scaling up and institutionalizing these gains going forward.

109. Government has begun implementing strategic and systemic reforms, as well as making targeted investments that can create opportunities for more efficient resource allocation and substantial savings. As part of the MoFPED-led Intergovernmental Fiscal Transfers Reform, the MoES increased the value of grant allocations to local governments (LG) for education service delivery. LG financing to cover school operational costs increased by 41 percent in 2019/20 compared to the previous year, which has translated into a 60 percent increase in per pupil funding across primary schools. This is coupled with government's increased efforts to make funding to LGs more equitable, while incentivizing performance and focusing on key drivers of learning. In addition, through increasing wage allocations for teachers to the lowest staffed LGs, and incentivizing more needs-based allocation of teachers within LGs, the government has begun addressing important equity asymmetries in service delivery.¹⁴³ This renewed focus on LG education service delivery provides opportunities for further support at the local level.

110. Uganda requires targeted education policies and strategies to accelerate its economic transformation, which is the basis for the creation of formal wage jobs in productive sectors of the economy. It calls for a skills development system that provides education and training at universities and technical and vocational training institutions, as well as enterprise-based skills development in formal and informal settings. In addition, building digital skills at all education levels is a necessary foundation to advance Uganda's digital transformation and unlock jobs in the digital economy. Enhancing digital skills can also lead

to efficiency gains from leveraging low-cost education delivery platforms in the medium term, including digitally enabled remote learning, distance learning and online learning. The MoES has recently developed a draft *Digital Agenda Strategy*, which will guide sector-wide support to digital learning and skills and contribute to finalizing and implementing selected aspects of the National ICT policy.

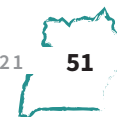
111. Uganda has made some progress in laying foundations necessary for supporting young people to transition into the labor market. The recently updated TVET policy and strategy could substantially improve the approach to skills development. Further, government has begun implementing innovations in the TVET sector including the use of twinning arrangements between qualified internally recognized training institutions and vocational training institutes. The government has also been piloting a *Skills Development Matching Grant* model for enterprise-based training provision, that will inform the establishment of the *Skills Development Fund* situated at the TVET Council, when the latter becomes operational.¹⁴⁴ These innovations have important implications for ensuring that skills gained by youth are market relevant. While investing in basic education provision and skills development will be government's priority in the medium-term, a renewed strategy towards higher education is required to allow for a larger proportion of young people, specifically women, to enter into high skilled professions.

112. Private participation in the education sector can help close the financing gap. To achieve the SDG goals, Uganda will need to double its average annual budget for primary and secondary levels from US\$480 million in 2019 to US\$979 million in the period 2020-25. The increased annual budget corresponds to around 5 percent of GDP and 20 percent of the projected national budget in the 2020-2025 period.¹⁴⁵ It is very unlikely that the public sector alone will be able to bear these costs. However, by developing a strong policy framework for private participation, Uganda could create opportunities to enable upfront private financing

143 Previous analysis showed that the allocation of teachers to schools did not follow a clear pattern or was not aligned with actual needs. Poor deployment practices, therefore, resulted in further additional costs to the government (World Bank 2019, May).

144 Both these innovations have been delivered through the World Bank's USDP project.

145 Education spending in Kenya accounted for 5.2% of GDP and 21.0% of government expenditure in 2017/18 (UNICEF & KIPPRA, 2018).



for capital investment and crowd-in additional sources where user charges can be levied.

3.3.3 Health challenges

113. While deaths from communicable diseases have decreased in recent years, Uganda is still experiencing a high burden of maternal, child and adolescent health and nutrition-related complications, infectious diseases, and non-communicable diseases. Deaths caused by communicable diseases like malaria, HIV/AIDS, and meningitis declined by over 30 percent between 2009 and 2019. Deaths from maternal and newborn complications, congenital/birth abnormalities, respiratory complications, and diarrheal diseases also declined by nearly 20 percent over the same period. Furthermore, key health sector indicators have improved significantly between 2016 and 2020.¹⁴⁶ On the other hand, deaths from non-communicable diseases (especially cardiovascular diseases, diabetes, mellitus and cancers) rose by over 25 percent, and trends like urbanization and associated lifestyle changes may increase the relevance of these issues in coming years.¹⁴⁷ Furthermore, many households and specific segments of the population suffer from malnutrition and food insecurity; in fact, more than 30 percent of the total population faces some level of chronic food insecurity. The prevalence of stunting and anemia in children under five years is 29 percent and 53 percent respectively.¹⁴⁸ Uganda has also been prone to public health emergencies having registered six outbreaks of Ebola to date and eight outbreaks of various kinds of hemorrhagic fever from August 2017 to August 2018.¹⁴⁹ The risk of resurgence in COVID-19 remains, although the recent surge in COVID-19 cases was short-lived.

114. Despite recent improvements in health outcomes, Uganda faces many obstacles in achieving the national and global health sector goals. The current level of financing for the health sector is about US\$ 51 per capita, far less than the US\$ 72 required to promote universal access and achieve health-related sustainable development goals.¹⁵⁰ Besides resource constraints (financing, human resources, medicines, equipment, health technologies and infrastructure), the joint health sector review mission of 2020¹⁵¹ identified the following as challenges: poor multi-sectoral collaboration, limited community participation and citizen empowerment, inadequate support supervision, weak community health systems, and insufficient referral/emergency medical services.

115. In addition to the direct health impacts for those who have contracted the disease, COVID-19 related mobility restrictions have also affected access to general health services. The first round of the UHFPS showed that, at the national level, of the 80 percent of households who reported needing medicines in the week preceding the survey, about 33 percent could not access it. A detailed review of health facility data from Uganda's health management information system shows that compared to pre-pandemic trends and seasonality, Uganda has experienced significant disruptions in service volumes since the outbreak of COVID-19.¹⁵² As compared to March to December 2019, the average monthly drop in service utilization across all the key health indicators ranged from one to 42 percent over the period March to December 2020. Specifically, over this period, utilization of first antenatal care services dropped by one percent, institutional deliveries by 4 percent, outpatient consultations by 18 percent, and postnatal care by 42 percent. The decline in service volumes for Bacille Calmette-Guerin, oral Polio, and Pentavalent vaccines ranged from 6-8 percent. These

146 Antiretroviral therapy treatment rate increased from 64% to 89%; tuberculosis case detection rate increased from 51% to 82%; proportion of pregnant women receiving at least 2 doses of malaria prevention therapy increased from 55% to 60%; fourth antenatal care visits increased from 38% to 42% and Couple Years of Protection (estimated protection provided by contraceptive methods) increased from 2,232,225 to 3,835,235.

147 Institute of Health Metrics and Evaluation (2020).

148 Uganda Demographic and Health Survey (2016).

149 Mbonye and Sekamatte (2018).

150 For low-income countries like Uganda, estimates show that 80 percent coverage for a package of essential universal health care would cost US\$72 per capita per annum. This suggests that more funding to the health sector is required to provide essential health services and to address the COVID-19 pandemic. See Jamison et al (2018).

151 GoU MoH (2020, November).

152 World Bank Development Research Group (2020, December).

findings are corroborated by a study by the Global Financing Facility¹⁵³ which predicted that the COVID-19 pandemic is likely to disrupt the supply and demand of maternal and child health services in Uganda; and could increase child mortality by 22 percent and maternal mortality by 21 percent over the next year.¹⁵⁴

3.3.4 Health opportunities

116. The increasing production of COVID-19 vaccines and distribution in the developing world raises hope for an end to the pandemic. The Ugandan government has developed a *National Deployment and Vaccination Plan*, based on support from WHO and the Covax Facility, to guide vaccination of at least 60 percent of the population by 2022. A successful and smooth vaccination process can contain the risk of a resurgence in future COVID-19 cases and minimize the need for lockdowns and severe mobility restrictions. However, this process requires a sufficient supply of effective vaccines and adequate approaches to vaccine delivery. Digital technologies can also be leveraged by Uganda to approach the scale and complexity of COVID-19 vaccine delivery.

117. Developing an adequate core of public funding for health not only increases coverage, it also enhances the government's stewardship and oversight of interventions in the sector. Increasing stable funding sources for health services can provide even better health outcomes for the growing young population. A good start has been made over the last five years by increasing the funds transferred to local governments for service delivery, through the Intergovernmental Fiscal Transfer Reforms, which has also increased local stewardship. Government also has several tools that can be used to strengthen the quality of healthcare, including regulation, information, financing and administrative actions. Focal areas include quality assessment processes and tools, better enforcement of the existing standards and regulations for key sector resources (namely human resources,

medicine, equipment, infrastructure and health information), deepening quality of care as part of the results based financing and intergovernmental fiscal transfer reforms, and communicating quality as a key objective of the health sector at all levels. These efforts will only work well if they are backed by strong quality-focused performance measurement and monitoring.

118. Enhancing private sector participation to leverage additional resources for the health sector is needed given government's limited fiscal space. The government alone cannot effectively address health needs especially considering the low tax-to-GDP ratio. Private financing of health, especially out of pocket (OOP) financing, already accounts for about 37 percent of the total health expenditure in Uganda, but it can negatively affect the welfare of households. Thus, raising additional funds from innovative financing sources needs to be considered, including expanding both mandatory and/or voluntary contributory insurance schemes. The government's formulation of the PPPH policy was a bold step for enhancing private sector contributions to the health sector and can be built on further. It would be beneficial, however, to further support the policy, especially in areas where government investment is low.

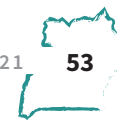
119. Improving the efficiency of health spending can generate considerable savings in the health budget and create a more sustainable system. Inefficiencies account for losses of between 20 and 40 percent of healthcare resources in most developing countries.¹⁵⁵ Over the last five years, Uganda has been getting on the right track by scaling up of performance (as opposed to input) based financing of health services, as part of the *National Health Financing Strategy (2015/16 – 2024/25)*. Deepening this further through the *Intergovernmental Fiscal Transfers Program* or other initiatives could help improve efficiency and overall performance in the health sector. Simultaneously, regularly monitoring the effectiveness of deployed resources (human resources, infrastructure etc.) and implementing corrective measures in real-time can reduce inefficiencies.¹⁵⁶

153 Global Financing Facility (2020).

154 Ibid.

155 WHO (2010).

156 For example, improving management, maintenance and repair of equipment and enhancing staff time at task are two critical efficiency areas that could be further enhanced.



Scaling up the digitalization of business processes in health service delivery, management of healthcare resources, training of personnel and procurement can also help to enhance efficiency. In fact, digital technologies can already play a key role in addressing the COVID-19 pandemic.

120. Multi-sectoral collaboration can also produce significant financial savings and health gains since the highest burden health conditions are caused or exacerbated by a broad range of social and environmental factors.¹⁵⁷ Efforts to change the current sector-based planning, budgeting, monitoring and learning approaches with program-based budgeting, as proposed in the third National Development Plan (NDP), can make significant improvements.

3.3.5 Water supply and sanitation challenges

121. Whilst Uganda successfully achieved the MDG for 72 percent access to improved water by 2015, reaching the SDG of universal access to improved drinking water by 2030 will be a tall order. Concerningly, access rates to improved or piped water supply within a 30-minute walking distance have not improved since 2013 and have actually declined in rural areas. As of 2016/17, 85 percent of urban households had access to improved or piped water, showing little change from 2013. However, rural access rates dropped from 67 percent to 57 percent in this period. Up until 2013, Uganda's high performance was credited to a pro-poor strategy that focused on a low-cost type of supply in rural areas (boreholes). However, since early 2000, funding for rural water supply has been declining in real per-capita terms and by 2018/19 had fallen by 80 percent since their peak in 2000.

122. Uganda fell short of meeting the MDG of 70 percent access to improved sanitation by 2015, and its prospects for realizing the SDG goal of universal access by 2030 currently seems unlikely. In 2013, 35 percent of the total population had access to basic improved and not shared sanitation services. By 2016/17 this rate had

dropped to just 31 percent of urban and 17 percent of rural residents. With such low rates, Uganda will have to dramatically increase investments in sanitation over the next ten years to even come close to the SDG. However, the combination of rapid population growth and inflation has significantly eroded the real per-capita value of funding allocations to the sanitation sector in recent years. As highlighted by the COVID-19 pandemic, access to improved water and sanitation services are a critical part of the preventative health agenda. As of 2016, the mortality rate attributed to water, unsafe sanitation and lack of hygiene was 31.6 per 100,000 people (WDI).

123. The lack of improved water and sanitation services in public institutions also poses a health challenge and undermines the quality of care provided by these facilities. 38 percent of healthcare facilities rely on unimproved sources of water and a quarter of all healthcare facilities have no basic water services.¹⁵⁸ Even in Greater Kampala, 48 percent of healthcare facilities have limited water services; 85 percent have limited sanitation services; 57 percent have limited hand hygiene services; and 54 percent have limited healthcare waste management services. The situation outside of the capital is substantially worse. In Karamoja, for example, few hospitals have running water, and none have sewage systems (ibid). Even connected hospitals do not necessarily consume water from public providers. In FY19/20 less than 25 percent of all hospitals having access to the NWSC network consumed more than 10m³ a year, meaning they used water in critical situations only. In small towns served by UAs, all health facilities use their own water supply systems, and none are connected to sewage systems.

3.3.6 Water supply and sanitation opportunities

124. The COVID-19 crisis can catalyze reforms to channel more investment for improved water and sanitation services in Uganda. The last year has demonstrated how increasing coverage of quality

¹⁵⁷ The maximum likely demographic dividend (in terms of a GDP per capita of US\$6,925 by 2065) can be attained by increasing key sectoral expenditures as a share of GDP, as well as by designing and implementing cross-sectoral policies in education, health, agriculture, social development, water, and the environment. UNICEF (2020).

¹⁵⁸ Matthews Ofori-Kuma, M. & Gebreyesus, T. (2019).



water and sanitation services is essential in the effort to ensure good health and enhance the fight against communicable diseases. In particular, the pandemic has highlighted the importance of better coordination in providing water and sanitation services to the education and health sectors for them to function safely. With rising population densities, this will be even more important in coming years.

125. A pro-poor strategy that focuses on reducing the disparities between rural and urban areas in access to improved water and sanitation is more cost-effective on a per-capita basis. As trends point to a growing gap between urban and rural areas, focusing on rural areas can increase coverage rates at a lower cost. Whereas the average estimated cost of extending piped water to the household premises in urban areas is estimated at US\$ 120 per capita, providing “improved” water technologies to rural households’ costs about US\$ 40 per capita. Similarly, a latrine with a septic tank is estimated at US\$ 230 per capita for urban areas, whereas “improved” sanitation options are estimated to cost US\$ 80 per capita in rural areas.¹⁵⁹ Therefore, focusing investments on rural areas can deliver over double the increases in coverage rates.

3.3.7 Gender challenges

126. Gender inequality is still pervasive in Uganda. Gender disparities in ownership and control over productive resources, such as land are widespread.¹⁶⁰ Women are also heavily underrepresented in paid employment (only one-third are women) and overrepresented in unpaid family work (only one-third are male). Child marriage, early childbearing, and low educational attainment for girls have a wide range of negative impacts on the girls themselves and their children, families and communities, with significant regional disparities.¹⁶¹ There is also limited participation

of women in household, community and national decision making.¹⁶²

127. High rates of GBV in Uganda are among the major and pervasive manifestations of gender inequality, inhibiting women’s empowerment and costing the Ugandan economy. According to the 2016 UDHS, 46 percent of women aged 15-49 have experienced physical, sexual or emotional violence by their partners. Intimate partner violence (IPV) is the most prevalent form of GBV and is deeply entrenched in discriminatory gender social norms.¹⁶³ Poverty is also a major driver of GBV in Uganda.¹⁶⁴ The direct and indirect costs of GBV are high for individuals, households, and society. It is estimated that GBV annually costs Uganda US\$ 77.5 billion in expenses and lost profits.¹⁶⁵

128. While Uganda’s GPI in education has improved slightly, there are still major gaps, especially at the secondary level. Uganda has mostly closed the gender gap in primary education, aided by policies like the *Gender in Education Strategic Plan (2015-2020)*, and the *National Strategy for Girls’ Education (2014-2019)*. However, more progress is needed in secondary education. Between the 2006 and 2016 DHS surveys, the GPI for secondary level increased slightly from 81 percent to 86 percent. Notably, the increase was sizable for those in the poorest quintile, rising from 45 percent to 58 percent. However, large gender gaps remain, especially for the poorest households and in certain regions, such as Karamoja with a GPI of just 32 percent.

129. The GoU has enacted laws and policies to address GBV and gender inequalities in recent years, but policy implementation remains a big challenge.¹⁶⁶ Most of the laws take a criminal or human rights angle, providing for gender equality either as a strategy to reduce interpersonal violence or as an assertion of women’s rights as human rights. The policies, on the other hand,

159 World Bank (2020a June).

160 UBOS (2019).

161 In Karamoja, Bugosa, and Bunyoro, girls tend to marry younger, adolescent fertility is higher, and girls’ dropout rates from school are higher.

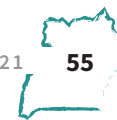
162 UBOS & ICF (2018).

163 49 percent of women and 41 percent of men believe that it is justified for a man to beat his partner according to the 2016 UDHS (UBOS, 2016).

164 2016 UDHS showed that 66 percent of women in the lowest wealth quintile experienced IPV versus 40 percent in the highest quintile.

165 See Center for Domestic Violence Prevention (2012).

166 This includes the National Strategy to End Child Marriage and Teenage Pregnancy (June 2015), the National Policy and Action Plan on the Elimination of Gender Based Violence (2016), the Public Finance Management Act (2015), the Gender in Education Strategic Plan (2015-2020), and the Water and Sanitation Gender Strategy (2018-2022).



were mostly embedded in the poverty eradication and sustainable development discourse. Hence, there are many provisions on how to bring women on board, without discussing the structural and normative causes of gender disadvantage being legislated against or for which the policy was enacted and how the laws or policies can overcome them. Harmonization of the legal framework is also fundamental since key legislation either remains pending,¹⁶⁷ requires amendments,¹⁶⁸ or requires regulatory/operational frameworks.¹⁶⁹

130. Early childbearing remains prevalent and restricts women's educational outcomes. One of the main factors for Uganda's high TFR is adolescent (15-19) pregnancies, which has only decreased slightly from 124 to 116 births per 1,000 women from 2015 to 2018. Indeed, the median age of a Ugandan mother at first birth currently stands at 19.2 years, one of the lowest in the world (UBOS and ICF, 2018). Such childbearing has a serious implication on girls' secondary school enrollment. About 25 percent of girls drop out of secondary school because of pregnancy, and the level varies across regions, with 37.3 percent in Eastern Uganda and 32.3 percent in West Nile.¹⁷⁰

131. The pace of fertility reduction diverges across regions and by household wealth.¹⁷¹ The adoption of modern contraceptives in Uganda has been slow and lags significantly relative to other countries in the region. According to the UDHS 2016, only about 35 percent of married women and 47 percent of sexually active unmarried women (ages 15-49 in both cases) use any form of modern contraception. Partly because of this, there remains a relatively wide gap between desired fertility and observed fertility – on average, Ugandan women (ages 15-49) still have one more child than they plan to have.

132. The COVID-19 pandemic has impacted women and girls in Uganda disproportionately more. Women are in a weaker position to cope with shocks, given their lower incomes and greater concentration in the informal sector and vulnerable employment (83 percent of women versus 68 percent of men).¹⁷² Inadequate coverage of social protection programs also makes the situation worse for women in Uganda. School closure due to COVID-19 exposed adolescent girls to a higher risk of childbearing and sexual violence, resulting in dropouts from secondary education. COVID-19 has also affected the employment of adolescent girls, increasing those engaged in unpaid care work, pushing some out of the labor market, and making their school-to-work transition difficult.

3.3.8 Gender opportunities

133. Educating girls, empowering women, enhancing access to reproductive health services, and employing women are four crucial pillars to accelerate human capital development and reap the demographic dividend. Higher educational attainment among young women delays childbearing, lowers the chances of early marriage, boosts their productivity, and empowers them as adult women, contributing to lowering fertility over time. Also, advances in women's education levels improves child health outcomes. Educated mothers are more likely to use prenatal and child health services, improving child health outcomes, which positively affects human capital. Moreover, interventions (such as conditional cash transfers and the provision of free school supplies) that reduce the economic constraints to girls' education are the most proven to delay marriage and childbearing.¹⁷³

134. Helping girls stay in school and learn is essential to skills development and intergenerational human capital formation. Africa has the highest

167 Includes the Marriage and Divorce Bill 2009, Sexual Offences Bill, Legal Aid Bill, and Succession Act and Transitional Justice Bill.

168 For example, the Domestic Violence Act 2010 (DVA), HIV and AIDS Act (2014), Succession Act and Administrator General's Act, Evidence Act, Penal Code Act, Employment (Sexual Harassment) Act 2012, Judicature (Plea Bargain) Rules 2016, and Judicial Sentencing Guidelines.

169 Including Sexual Harassment, DVA regulations, PTIP regulations, national guidelines for school re-entry of pregnant girls and young mothers, and SRHR policy guidelines.

170 World Bank (2019, May).

171 Five regions with the highest fertility rates recorded an average 6 percent drop, while five other regions with the lowest fertility rates record an average 13 percent drop. The poorest two wealth quintiles record around a 10 percent drop, while the middle and fourth quintiles record around a 20 percent drop.

172 According to Goldstein et al. (2020), female-owned businesses in the SSA region were nine percentage points more likely to be temporarily closed than male-owned businesses during the pandemic.

173 Wodon et al, (2018).

economic returns to education in the world: each year of schooling raises average earnings by 11.3 percent for males and 14.5 percent for females.¹⁷⁴ Education interventions are shown to have a direct impact on skills, academic achievement and, consequently, earnings. Education also contributes to women's empowerment, allowing women to access the labor market with higher remunerated jobs, reduce their fertility rates and invest more in each of their children, promoting a virtuous cycle of human capital formation. In this regard, there is now an opportunity to strengthen government's recent policy and strategy framework (e.g. Policy of Re-entry of Teenage Mothers and National Strategy to End Child Marriage and Teenage Pregnancies). Capitalizing on these promising developments can strengthen re-entry/'back to school' interventions in the post-COVID-19 context.

135. Increasing women's access to reproductive health services and empowering women in their households can play a significant role in reducing the maternal mortality rate. Between 2010 and 2017, Uganda successfully reduced the maternal mortality rate from 430 to 375 deaths per 100,000 live births.¹⁷⁵ This progress was partly achieved by increasing women's access to skilled delivery from 57 to 74 percent over the same period. Factors that play a role in women's access to skilled delivery include the cost and distance to health facilities,¹⁷⁶ as well as women's influence in the household over their workload around the time of pregnancy, men's attitudes and involvement in fatherhood, and women's ability to make decisions regarding their health care.¹⁷⁷ There is also some evidence of progress here. For example, between the 2011 and 2016 DHS, the proportion of women reporting involvement in all three major decision-making areas

(their health, large household purchases, and visits to family and friends) increased from 38 to 51 percent.

136. Improving women's productivity and employment creates a significant opportunity to increase economic growth and investments in human capital development. Agricultural plots managed by women are 20-30 percent less productive than those managed by men¹⁷⁸ and that closing this gap would bring a gain of 0.42 percent in GDP, lifting 119,000 people out of poverty.¹⁷⁹ Key factors underlying this lower productivity include women's greater share of childcare responsibilities, lower participation in cash crop farming, lower use of improved inputs, and lower returns to assets owned by men.¹⁸⁰ In the non-farm sector, microenterprises owned by women make profits that are 30 percent lower on average than those of their male-owned counterparts.¹⁸¹ However, Campos et al found that women in Uganda who operate businesses in traditionally male-dominated sectors make just as high profits as men in these sectors, and three times more than women operating in female-dominated sectors.¹⁸² The lower use of capital appears to be holding back the performance of women-owned enterprises. Promising approaches to address these constraints include interventions that strengthen women's access to assets that can be used as collateral for business loans, such as providing households with land titles that are subsidized conditional on including the wife's name,¹⁸³ supporting the development of credit products that offer loans with reduced collateral requirements, providing women with information on the higher profits they could earn in male dominated sectors,¹⁸⁴ and providing larger (compared to micro finance) loans to growth-oriented women entrepreneurs who fall in the 'missing middle' segment of the market for business loans.¹⁸⁵

174 Montenegro and Patrinos, 2014.

175 According to the Maternal Mortality Estimation Inter-Agency Group (MMEIG).

176 45 percent and 37 percent of women, respectively according to the 2016 DHS.

177 Morgan et al., (2017).

178 Ali et al., (2016).

179 World Bank/UN Women (2015).

180 Recent evidence shows several ways to address these issues. Small informational and financial nudges are effective to get men to register blocks of out-grower crops in their wife's name (Ambler et al, 2019). Emerging impact evaluation evidence from the World Bank's Africa Gender Innovation Lab (forthcoming) shows that 'personal initiative' skills training (a psychology-based curriculum with a focus on perseverance and problem solving) can help women farmers move into cash crop production, increase investments in productive inputs, increase adoption of best farming practices, and increase establishment of off-farm enterprises.

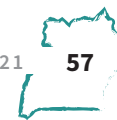
181 World Bank (2019, March).

182 Campos et al (2015).

183 Cherchi et al (2019).

184 Hicks et al (2011).

185 Alibhai et al (2018).



3.4 Strengthening household and community resilience

137. Frequent episodes of large shocks have been among the key challenges for Uganda's development.

Uganda is one of the most vulnerable and least adapted countries to climate change, placing 155 out of 188 countries on the 2016 ND-GAIN index (see Section 4.2).¹⁸⁶ Uganda's growth trajectory is also highly volatile, with GDP per capita growth dropping to less than 1 percent five times since 1990, and the frequency of such falls also increasing – three out of them have occurred since 2010. Furthermore, Uganda is now facing new challenges, including a large refugee population and the COVID-19 pandemic.

138. Under this volatile environment, social protection is vital for building resilience and supporting households to invest in children and youth.

Investments in jobs and skills, improved agricultural production practices, and access to finance (as discussed in preceding sections) all contribute to strengthening household and community resilience to economic and environmental shocks. On top of this, though, a strong social safety net is necessary to address deficiencies in human capital, which have long-term repercussions and can be a critical impediment for growth and development (as discussed in Section 3.3). As the COVID-19 crisis has shown, social protection programs can protect households from shocks and help them avoid selling critical assets or taking children out of school in order to survive. In the absence of any social protection arrangement, households that are vulnerable will fall further into poverty and will stop making longer term investments to improve their own livelihoods or educate their children. Appropriately designed social protection systems can reduce uncertainty and encourage investments, including investing in the human capital of future generations.

139. Uganda's Vision 2040 commits to using social protection for addressing risk and vulnerability. The NDPs prioritize social protection as one of the key

strategies for transforming Uganda from an agrarian society to a modern and prosperous country. This includes expanding the scope and coverage of social security to the informal sector and social assistance grants to vulnerable groups. It also includes expanding labor-intensive public works programs and enhancing access to social care and support services (see Figure 19).

3.4.1 Challenges

140. A large portion of Uganda's population remains vulnerable to poverty and significant welfare setbacks in the wake of a shock. More than 40 percent of Ugandans still live in extreme poverty and on less than US\$1.90 a day (2011 PPP). Also, on top of the Ugandan households classified as poor, about 44 percent are considered vulnerable and are therefore susceptible to falling into poverty after a shock.¹⁸⁷

141. Historically, drought is amongst the most dominant and widespread climatic shocks in Uganda, and its nature, frequency, and intensity are changing. While Uganda enjoys well-endowed climatic and ecological conditions relative to most African countries, extremes in temperature and rainfall do occur, particularly in the Northern and Eastern regions, rendering it especially vulnerable to droughts. Given the high degree of reliance on rain-fed agriculture for the vast majority of Uganda's rural population, poor crop harvests can lead to significant shocks on household income and consumption. Furthermore, there is evidence that climate change is already exacerbating these shocks as the average annual temperature has increased by 1.3 degrees Celsius since 1960. Not only is climate change expected to aggravate existing vulnerabilities, but it may also change the nature and regions that are most affected. For example, while the 2016/17 drought affected a large part of Uganda, the northeast was one of the less affected regions. Instead,

¹⁸⁶ The Notre Dame Global Adaptation Initiative (ND-GAIN, 2016) country index summarizes a country's vulnerability to climate change and other global challenges in combination with its readiness to improve resilience. It aims to help governments, businesses and communities better prioritize investments for a more efficient response to the immediate global challenges ahead. The Country Index uses 20 years of data to rank 180 countries annually.

¹⁸⁷ World Bank (2019a, June)

the more densely populated southern and southeastern parts of Uganda experienced moderate to severely dry conditions, with large negative welfare impacts. Furthermore, climate change mapping has indicated that the areas suitable for growing key crops important to Uganda, including Arabica coffee, tea and maize, will reduce drastically in the future.¹⁸⁸

142. Displaced refugees and internal climate migrants pose additional challenges to building resilience among Ugandan households and communities. While Uganda has often been lauded for its progressive refugee policy, the decline in humanitarian finance has caused reductions in basic services, including a cutback in food rations to below minimum requirements. This illustrates the requirements for further planning to continue providing the necessary services for both refugee and host communities, including through more shock-responsive national development systems. Climate change is also expected to accelerate out-migration from certain regions, such as the rural northeast, while other regions may become the epicenters of climate in-migration, creating new pressures and demands for public services and income-generating opportunities. The impact of climate change in neighboring countries may also further exacerbate regional conflicts, creating new inflows of refugees into Uganda over the next decade.

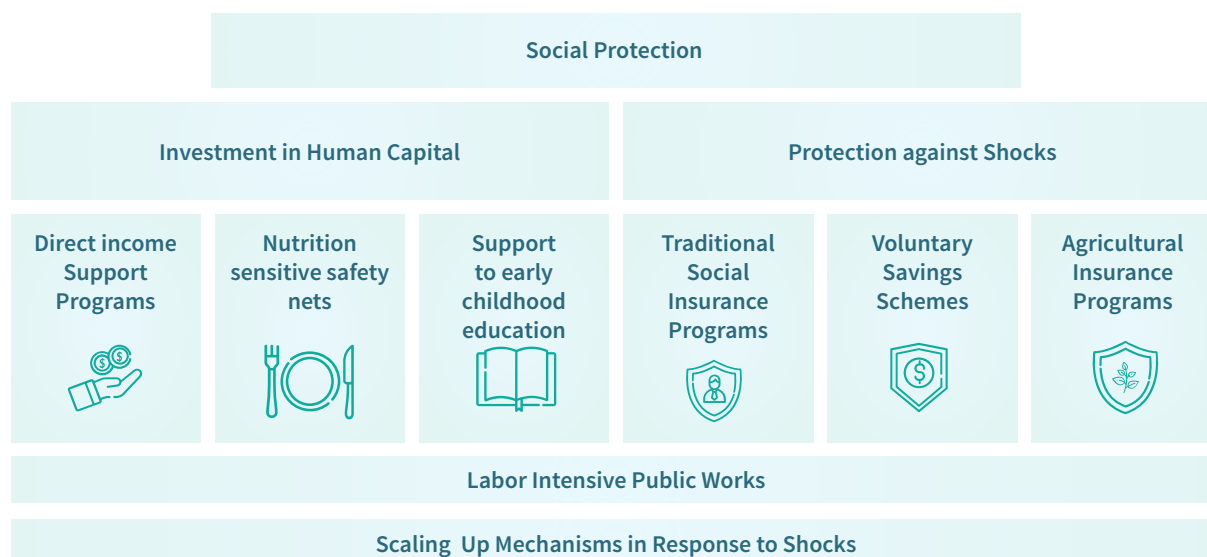
143. Uganda is now facing severe impacts from the COVID-19 pandemic, which are different from climatic shocks. As discussed in Section 2.2, household incomes are still well below levels recorded before the pandemic and the structure of employment has also changed, with a shift in respondents from non-farm economic sectors to agriculture. Unlike droughts, the impact of the COVID-19 crisis has been more profound in urban areas, including for urban refugees – the share of respondents who stopped working in urban areas was 28 percent (and 26 percent for Kampala refugees) compared with

11 percent in rural areas. Also, the most affected people have not been farmers, but non-farm sector workers. This highlights the need for a national level social protection system that is shock-responsive and responds to the complex needs of Uganda's context – that is not only to high levels of poverty but also high levels of vulnerability to various shocks, especially for groups such as women, children, the elderly, and refugees.

144. Although a vision for social protection has been articulated in Uganda, the coverage of social protection programs is low. The allocation to social development, which includes social protection programs, was only 0.7 percent of the overall government budget in FY19/20. Expenditure on the two largest direct income support programs, such as the Senior Citizens Grant (SCG) and the Northern Uganda Social Action Fund (NUSAF) 3, was just 0.14 percent of GDP in FY17/18. This is lower than in neighboring countries like Kenya and Rwanda, which spend 0.4 and 0.3 percent of GDP respectively on direct income support. Furthermore, a large part of spending on SCG and NUSAF 3 is provided by donor grants or concessional loans. This raises concerns about the medium to long-term sustainability of financing to the sector. With limited funding, the overall coverage of these direct income support programs in Uganda is just 3 percent of the population, significantly lower than the East African average of 9 percent and low-income country average of 7 percent. The coverage of social insurance in Uganda is also minimal due to the low levels of formalization. Access to social assistance from the government during the COVID-19 pandemic has also been very limited. According to UHFPS, in June only about 6 percent of households reported getting food aid since March and less than 1 percent reported receiving direct cash transfers.

188 For coffee see Arriens, J. (2019) and for maize see Kikoyo, D. A., and Nobert, J. (2016)

Figure 19: Vision for a social protection system in Uganda



Source: World Bank (2020, January)

3.4.2 Opportunities

145. Given government's limited fiscal envelope, it is essential to improve the targeting and shock responsiveness of social protection programs, and expand other mechanisms such as access to credit, savings and insurance. As discussed in World Bank (2020a), this could include geographic targeting by identifying areas with low human capital indicators and rainfall shortages. Such geographic targeting is more efficient in allocating resources to the most needed. World Bank (2020a) also recommended: (i) scaling up existing disaster risk financing (DRF) pilots like programs in the northern region of Uganda, and (ii) expanding agriculture insurance. Efficiency gains can also be made through enhancing the digitization of social protection transfers and leveraging the promising growth of mobile money to improve access to finance.¹⁸⁹

146. Support for sustainable natural resource management and climate-smart agriculture can increase the country's resilience in the face of impending climate change. As noted in the 2015 SCD, over 46 percent of Uganda's land is severely degraded, and over 40 percent of the country's forest cover has been lost in the past two decades. Harnessing

opportunities to restore these ecosystems is essential to safeguard against climate change and increase productivity, especially for agriculture. For farmers, this means adopting climate-smart agricultural techniques that help conserve water, prevent soil erosion, utilize drought and flood-resistant crop varieties (see Section 3.2) and, ultimately, enable significant productivity gains. Investments in forest and landscape restoration at scale can also generate jobs, support livelihoods, and help build resilience through protecting ecosystem services. From a sector perspective, it entails adaptive investments into climate-sensitive high-potential exports, such as fish farming. To make these adaptations, investments in the enabling environment (such as the provision of technically qualified extension services), scale-up of agricultural finance, the use of digital technology, and a well-functioning hydro-meteorological data monitoring and forecasting system, will be critical.

147. The *Displacement Crisis Response Mechanism (DCRM)* provides a new framework to handle the displacement related shocks. The DCRM aims to foster inclusion and cohesion between refugees and host communities by maintaining public service provision and investments for *both* groups. It is a pre-planned and pre-financed mechanism for shock response.

189 It is also important to create more fiscal space through better domestic resource mobilization and enhancing PIM.



The process of disbursing resources for public service provision from the DCRM is agreed upon in advance. Government then selects indicators regarding public service provision and monitors them over time. If the indicators drop below threshold levels, the DCRM rapidly and automatically disburses resources. Second, the public service investments financed by DCRM resources are pre-agreed and include the development of schools, water supplies and health care facilities. This component is pre-financed, with US\$4.5 million held in the World Bank financed *Development Response to Displacement Impacts Project (DRDIP)*. GoU and other stakeholders should continue these efforts to support both host and refugee communities across all sectors. However, opportunities to explore greater self-reliance and lower aid dependency of refugee populations will also be important as humanitarian funding is declining.

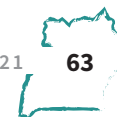
148. The COVID-19 pandemic provides an opportunity for further adjustments to the social protection system. The existing social protection system was designed with weather shocks and displacement crises in mind. However, those affected by the pandemic are significantly different from those affected by shocks in the past. For example, the pandemic affected informal sector workers in the urban non-farm sector the most. Nearly 90 percent of non-farm family businesses experienced income loss or no earnings since March 2020, while almost 60 percent of households engaged in agriculture experienced income loss. Also, the impact of the pandemic has been changing rapidly. The employment status has been improving, but recovery from income losses has been slow. Improving responsiveness and timeliness of social protection programs against the pandemic and unexpected shocks is necessary.

149. Expanding labor-intensive public works programs can be considered an option to effectively provide support to victims of unexpected shocks like the COVID-19 pandemic. If public works programs are designed and implemented well, only the most in need nominate themselves to participate in the programs and receive wages. Such self-targeting helps provide support to victims of shocks even though victim profiles and the impact of the shocks are unknown in advance. However, to make the programs work well, wages should be set at an estimated minimum wage, and participants' work needs to be adequately monitored. If these conditions are not satisfied, self-targeting does not work well, and the leakage to unintended populations could be high and worsen the already challenging fiscal outlook.

150. To further improve the shock-responsiveness of social protection programs, there is an ongoing initiative to develop a dynamic National Single Registry (NSR). A dynamic NSR will help quickly identify vulnerable households that are most in need and minimize the risks of duplicating interventions. The NSR can also be used to identify those needing support from other health, education and income-generating programs. In this way, the NSR can be used as an integrated platform to increase the resilience of households and spur productivity growth and human capital investments in Uganda.







4. STRENGTHENING THE FOUNDATIONS TO ACHIEVE SUSTAINABLE PROGRESS

151. Addressing the challenges and availing the opportunities discussed in the preceding focal areas depend strongly on whether Uganda is able to consolidate two foundations for sustainable growth.

These foundations are: (i) governance and institutions, and (ii) natural resource management. As will be discussed in the following sections, political dynamics seem to have diminished the government's appetite for structural reforms and corruption remains a major and intransigent issue. At the same time, Uganda's abundance of natural resources is being rapidly depleted, which is threatening sustainable growth and poverty reduction. Yet, Uganda has shown relatively strong macroeconomic governance, and opportunities for change exist, especially where political objectives can be achieved and constraints to service delivery addressed simultaneously. Furthermore, environmental policies and laws are well developed and progressive in Uganda; they have just not been effectively implemented and coordination remains weak.

4.1 Governance and institutions

152. Political dynamics have diminished the government's appetite for structural reforms. These dynamics have been increasingly driven by a clientelist political system. This not only curbs the ability of the government to undertake necessary reforms – likely unpopular with important constituencies (such as low-income rural voters and large firms that provide financial support for the ruling party) – but has also made winning the elections a more expensive endeavor, straining fiscal management.¹⁹⁰ In addition, such political circumstances reduce the willingness of political leadership to protect the autonomy and capacity of government bureaucracy to operate effectively.

153. Corruption remains a major and intransigent issue. Despite assurances of political support in fighting

corruption, episodic cases of high-level corruption continue and puts into question the accountability of the executive. Corruption remains a key factor in the management of public funds, service delivery and the high implementation gap. The most recent East African Bribery Index report¹⁹¹ places Uganda in the worst position amongst its regional peers, with 41 percent of respondents indicating that they had paid a bribe during the last 12 months. The police, judicial institutions and lands commission continue to be ranked as the most bribery prone. Data from WGI 2014-2018 show a decline in control of corruption and government effectiveness, and the Corruption Perceptions Index score from Transparency International showed hardly any improvement, from 26 in 2014 to 27 in 2020, which is still below the SSA average of 32.

154. The key hindrance to controlling corruption is the limited use of sanctions. Information on corrupt practices is publicly available from official reports of the IG and OAG, press and media. Although the primary and secondary institutions with anti-corruption mandates¹⁹² continue to aggressively pursue allegations of corruption linked to high-level political leaders and public officials, well-connected businesspeople and large contract/tender awards, very few convictions have been made. Convicted public officials also continue to earn salaries as their names remain on the payroll, and this further exacerbates the perception of impunity. The government is considering a law to allow for asset freezing and recovery once an individual has been identified as having acquired wealth beyond means and prior to the conclusion of criminal cases.

155. Space for civil society organizations (CSOs) appears to be shrinking, especially for those dealing with governance related issues. CSOs have on occasion had their offices raided or closed down for lengthy periods.¹⁹³ These actions have been compounded by the

¹⁹⁰ Golooba-Mutebi and Hickey (2013, 2016).

¹⁹¹ EABI (2017).

¹⁹² The Inspector General (IG), Director of Public Prosecutions (DPP) and Uganda Police Criminal Intelligence and Investigations Department (CIID).

¹⁹³ In 2017, the police raided the offices of ActionAid Uganda, an international NGO that works to combat poverty and injustice, and its accounts were subsequently frozen. Great Lakes Institute Strategic Studies, a policy think-tank, Solidarity Uganda and, in November 2020, the Uganda National NGO Forum, Chapter Four Uganda, and Uganda Women's Network have faced similar intrusions.

enforcement of the revised NGO Act that came into effect in 2016, which provides for more restrictive regulation of CSOs. The NGO Bureau, a department in the Ministry of Internal Affairs, now has powers to blacklist, suspend, or revoke the permit of any NGO. In 2019, the FIA – which tracks suspicious money movements in Uganda – directed banks to unveil financial details of the top 13 NGOs in the country. Although the validation exercise was conducted within the law and the government’s monitoring mandate, it put excessive pressure on the NGOs. Furthermore, the February 2021 suspension of the *Democratic Governance Facility* (DGF)¹⁹⁴ will affect financial inflows and technical support to key CSOs that have been supporting the transparency and accountability agenda in Uganda. Incidents of media disruption, intimidation of journalists and censoring of internet sites are increasing; as a result, Uganda no longer projects a free and active media environment capable of fomenting public discussion on corruption or abuse of public office. An unintended impact of this could be a reduction in space for broader debate on economic management and public policy issues.

156. Despite relatively strong macroeconomic governance and aggregate fiscal discipline, budget credibility and fund control by spending agencies is relatively weak. As indicated in the *Public Expenditure and Financial Accountability* (PEFA) assessment of 2017, Uganda demonstrates relatively strong performance across the budget cycle in the following areas: budget documents are comprehensive, public access to key fiscal and debt information, taxpayers’ obligations and liabilities are transparent, good accounts are kept, reporting systems are adequate, and external audits are extensive and of high quality.¹⁹⁵ Internationally, Uganda is also doing relatively well in terms of budget transparency, ranking 32 out of 117 countries and second in Africa behind South Africa. Furthermore, the new PFM strategy provides for enhanced monitoring of public resource use by bringing citizens on board to monitor service delivery contracts.¹⁹⁶ However,

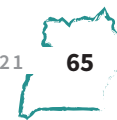
this progress has not translated sufficiently into budget credibility and effective spending controls and compliance. Key weaknesses highlighted in the 2017 PEFA included medium-term budgeting, with the MTEF not being effective at linking policies and strategic plans to resource allocation, PIM, budget execution controls (including payroll and commitment controls), procurement compliance, and legislative scrutiny of external audit reports. The OAG’s annual reports regularly identify weak compliance with PFM regulations, resulting in avoidable or wasteful expenditure, build-up of arrears, inadequate accountability and, in some cases, the risk of fraud or misappropriation. At the same time, government has increased the use of supplementary budgets – most of which are approved long after spending has been incurred and with a large share marked ‘classified’ – further denting the credibility of the budget process.

157. Although relatively sophisticated results-based initiatives to monitor progress in public sector performance have been established and a delivery unit (DU) set up under OPM, these are yet to translate into improvements in service delivery. The framework and approach to performance-based budgeting has been strengthened, and OPM produces *Government’s Annual Performance Report* (GAPR) on a bi-annual basis, which provides information for political leadership to use when supporting implementation of policy reforms. The function of assessing local government institutional performance has been revitalized, with a broadened scope for evaluating sectoral performance and shifting of responsibility from the *Ministry of Local Government* (MoLG) to OPM. The *annual performance assessment* (APA) tool has also been revised and although the introduction of financial rewards linked to the APA for LGs has had an impact on institutional performance, it is yet to yield improvements in service delivery directly. Despite these efforts to improve performance, long-standing and intransigent problems in institutional performance and service delivery remain.

¹⁹⁴ The DGF is a multi-donor facility contributed to by seven of Uganda’s International Development Partners (Austria, Denmark, European Union, Ireland, the Netherlands, Norway, and Sweden) to provide harmonized and coordinated support to state and non-state partners to strengthen democracy, protect human rights, improve access to justice, and enhance accountability in Uganda.

¹⁹⁵ The roll out of the Treasury Single Account (TSA) to both central and local governments and the comprehensive use of IFMIS across government, and associated benefits in the automation of payment processes, represent significant recent achievements.

¹⁹⁶ GoU/MoFPED – REAP (2019-2023).



158. A paradox in Uganda is that despite the relatively sophisticated macroeconomic and public sector management processes, economic outcomes are lagging, and the quality of public service delivery remains of a very poor quality. Governance and political economy constraints underpin this paradox:

- *Governance bottlenecks to service delivery pervade within sectors in ways that mean even crosscutting reforms struggle to deliver change.* Specific human resource gaps, low pay and motivation¹⁹⁷ and inadequate capacity underpin weaknesses in institutional capability. Management and oversight of service delivery is often weak, and accountability systems do not function. Enforcement of compliance to processes and systems is also weak, undermining institutional performance. Collective action problems and limited incentives often underlie the failure to act to address these constraints.
- *Political economy challenges reduce the likelihood of needed broad-based reforms, which in turn affect service delivery.* Uganda was for much of the 1990s and 2000s considered to be a star performer with regards to the high degree of political commitment and capacity to undertake the type of governance and policy reforms favored by international development actors. However, within and outside the ruling NRM party, power and interests are now more contested and diffused, creating a more complex route to decision making. This makes it more challenging for the Executive to drive through reforms, and less likely for a broad-based reform agenda to be jointly supported by GoU and its external partners.

159. Yet, opportunities for change exist, which address the underlying governance constraints. There are pockets of reformers and effectiveness within institutions and there is potential to build narrower coalitions of support to address specific development challenges. The greatest potential is where political objectives can be achieved and constraints to service delivery addressed simultaneously. This will involve identifying areas where there are common political and technical interests for making progress and creating mutually advantageous scenarios. For example, GoU

has managed to invest in and address issues in the adequacy and equity of financing and the management of local government health and education services, whilst simultaneously meeting election pledges for one secondary school and one health facility per subcounty. Other opportunities may exist in social protection, use of digital technologies in improving remote and uninterrupted service delivery, public investment management and domestic revenue mobilization, as illustrated in Box 5.

160. Strategic and targeted approaches that start by solving specific problems and addressing specific delivery constraints, and then building on them, are likely to have more chance of success than embarking on comprehensive reforms. Starting small requires taking a longer-term perspective to reform (beyond the lifecycle of individual operations) and patience. It also involves building coalitions of support for change. The reforms to financing local services (as discussed in Box 5) started with addressing the fragmentation and equity of fiscal transfers, and this relatively narrow agenda has been built upon, incrementally over seven years, and resulted in a set of reforms, that not only address the financial constraints to local services, but also key bottlenecks to service delivery. This approach is consistent with the government's vision in NDP III.

161. In the past, Uganda used crises well as an opportunity for reform, and the COVID-19 pandemic could provide similar opportunities. The pandemic has demanded a response from government in terms of public health, social protection, and support to the private sector, whilst trying to manage a significant fiscal shock. This may force a reduction of non-essential spending, ensure that execution of budgets is more effective and results orientated, and encourage a more significant clamp-down on corruption and misuse of public funds.

¹⁹⁷ Targeted efforts have been made to improve the pay of specific cadres of public servants, yet the increasing cost of living and shortages, inequities, and poor motivation of staff involved in frontline service delivery remain problematic.



Box 5: Balancing political and governance objectives to deliver change

Investing in infrastructure and strengthening local service delivery. In the 2016 Election Manifesto, the ruling party committed to investing in health and education infrastructure, including staffing of facilities. Meanwhile, analytical work from the Bank revealed the extent of erosion of funding levels, and disparities in financing for and availability of local government services across Uganda. As a result, GoU developed the Intergovernmental Fiscal Transfers Program (IFTRP) to address issues in adequacy, equity and management of infrastructure and services. This has been supported through the UglFT and USMID PforRs, supporting health and education countrywide and urban services in 22 municipalities. UglFT and USMID have provided significant funding for infrastructure, which has also helped achieve the election pledges and support political incentives. UglFT has also supported less politically visible improvements in the equity and adequacy of operational funding for health and education. In parallel, both programs provide incentives to improve the management of infrastructure service delivery (schools, health facilities and urban infrastructure).

Social protection, labor intensive public works and e-vouchers. Fighting poverty is a key objective of the current political leadership. As part of the response to the challenges created by the COVID-19 pandemic, GoU has committed to support restoration of livelihoods through: providing direct income support by expanding the SAGE program to support the elderly; implementing labor intensive public works to restore incomes; and increasing access to better quality inputs for agriculture through the e-voucher program. Whilst MoFPED has concerns about the affordability of such interventions, they are likely to prove both politically attractive and, if implementation is technically sound, consistent with reducing poverty and boosting shared prosperity.

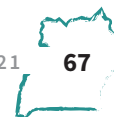
Domestic revenue mobilization (DRM). The failure to meet revenue targets in FY17 and FY18 undermined spending commitments in priority investment areas. However, it also created a window of opportunity for making progress on policy and institutional reforms to support DRM, as political leadership placed increased pressure on government to deliver higher levels of domestic revenue. The political economy of DRM in Uganda shows, however, that this nascent commitment could be short-term in nature. Therefore, the recent development and launch of the DRM strategy and setting up of the implementation committee is a positive movement towards sustained process of institutional reform that can be built on.

162. Planned rollout of the E-Government Procurement (e-GP) system and review of the Government Procurement Portal (GPP) to significantly improve the use of public resources. Piloting the e-GP system was to serve as a catalyst for modernizing procurement; fostering value for money, fairness, accountability, and transparency in procurement; and reducing the cost of doing business for government and the private sector. The e-GP could also improve confidentiality, integrity and authenticity of transactions between procurement entities and suppliers; and develop an electronic trail of procurements for monitoring, reporting and planning. However, developing the e-GP system recently suffered setbacks, due to delayed integration with other systems.¹⁹⁸ This has been worsened by government plans to terminate the contract with the existing vendor and adopt an e-GP solution that has been developed locally – the two systems are being piloted in parallel and neither of them is still fully functional. The public now has access to some public procurement data through the GPP under the PPDA. This was revised in 2018 to meet

Open Data Standards with the support of the Africa Freedom of Information Centre (AFIC). Implementation of a new strategic plan for the PPDA will strengthen both the regulatory and institutional capacity of the agency and support the audit function. As a result, PPDA has already seen improvements in its processes, ensuring that procurement audit reports are produced in time to inform the annual institutional audits done by the AG and thus capturing misuse of resources in real time to support investigation and sanction processes.

163. Although delays in reaching the FID have allowed government more time to develop relevant legislation and put in place critical institutions to manage the oil resources, more needs to be done. Uganda has largely avoided falling into the *presource* curse following the discovery of its oil resources fifteen years ago. Faced with delays and government's apparent commitment to transform the natural resources into productive assets, government appears to have done a reasonable job in the sequencing of policy, legislation, institutional and commercial developments. This seems

¹⁹⁸ Integration successfully done for URSB, URA's Etax, URA Payment gateway, but not done for PBS, NIRA, IFMIS and public key infrastructure (PKI) that permits digital signatures.



particularly to be the case when compared to other African oil producers, such as Ghana, which raced from discovery to production in only two years – Uganda, whether intentionally or not, has taken its time to prepare for the onset of revenues.¹⁹⁹ This started with the approval in 2013 of an Oil and Gas Revenue Management Policy, which provided a signal that the government intended to put in place a prudent governance framework to manage the expected revenue. This was followed in 2015 with the passing of the Public Financial Management Act, which included specific provisions for the management of oil resources and established the *Charter for Fiscal Responsibility, Petroleum Revenue*

Fund, and the *Petroleum Revenue Investment Reserve (PRIR)*.²⁰⁰ Although a diverse institutional framework has been built for managing these oil resources, more needs to be done to improve coordination, avoid duplication, enhance transparency, promote efficiency, provide more clarity in the management of volatility, and ensure fiscal sustainability over the longer run, which should also help with managing the Dutch disease crowding out effects.²⁰¹ Weaknesses in public investment management (as discussed in Section 3.1.3) also raise further doubts about the transformational impact of the planned investments.



199 Wolf and Potluri (2020).

200 Adapted from the Norwegian model, the framework mandates that revenues shall first enter the Petroleum Fund, and then be used to either finance a maximum deficit of 3 per cent of non-oil GDP or invested in the PRIR (a sovereign wealth fund). The PRIR is meant to park revenues abroad in times when domestic investment absorption is at capacity and/or signs of Dutch disease emerge.

201 See World Bank (2020, March) and Wolf and Potluri (2020).

4.2 Environment and natural resource management

164. Although Uganda is endowed with an abundance of natural resources, these resources are being rapidly depleted, which is threatening sustainable growth and poverty reduction. It is estimated that Uganda's natural capital contributed almost 40 percent to overall wealth in 2014. Apart from nonrenewable resources, like oil and mineral deposits, the country's soils, forests, wetlands and other resources provide the foundation for key sectors of the economy. Unfortunately, these resources are currently being exploited faster than they are being renewed.²⁰² Soil erosion and land degradation are pronounced, with 2019 estimates putting the overall cost of this degradation at about 17 percent of GDP. The rate of forest loss (2.6 percent annually) is among the highest globally and forests on private land are nearly all lost – which puts more pressure on forests in National Parks and Central Forest Reserves. While Uganda's NDP III recognizes the contribution of the country's environment and natural resources to its development trajectory, this sector receives considerably low budget allocations, which are inadequate to reverse degradation of natural assets and curb the increased pollution from emissions and waste.²⁰³ Uganda's Green Growth Development Strategy (2017/18 – 2030/31) underpins the need for inclusive economic development and environmental sustainability. However, to achieve significant change, there is a need to mainstream the environment into sector budgets and promote investment in natural capital, resource efficiency, and pollution prevention and management across government institutions. Ensuring the long-term sustainable use and management of these resources is vital, especially in light of growing demographic pressures and the increasing effects of climate change.

165. Climate change is expected to exacerbate the strain on natural resources and heighten the imperative to invest in greater resilience. Uganda's climate is

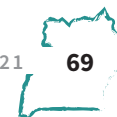
already changing. The rainy season, traditionally lasting eight to nine months during a year, has become shorter, averaging six to seven months a year since 2010. There are also considerable variations in the timing of the onset of the rainy season, distribution of rainfall and duration of the dry season. Predictions indicate an increase in rainfall of 10–20 percent over most of the country with a decrease expected in the semi-arid cattle corridor. In parallel, average temperatures have increased by 1.3°C since 1960 and could rise by up to 2.5°C by 2050.²⁰⁴ The combination of high vulnerability to climate change (14th most vulnerable country) and low readiness to improve resilience (48th least ready country) resulted in Uganda being ranked 155 out of 188 countries on the 2016 ND-GAIN index. This means that climate changes and extreme weather events, such as high temperatures, droughts, heavy rainfall and floods, are likely to have significant ecological and economic effects. If no adaptive action is taken, annual costs of the adverse impact of climate change in Uganda are estimated in the range of US\$ 273-437 billion over the 40-year period from 2010-2050; with the biggest impacts being on water, followed by energy, agriculture and infrastructure.

166. While environmental policies and laws are well developed and progressive in Uganda, they have not been effectively implemented and coordination remains weak. The Government has systems and structures for environmental management, led by the Ministry of Water and Environment (MWE) and statutory Agencies such as the National Environment Management Authority (NEMA), National Forestry Authority (NFA) and Uganda Wildlife Authority. Environmental management is also largely decentralized, requiring MWE and NEMA to coordinate with Lead Agencies and Local Governments. Unfortunately, the 2019 *Country Environmental Systems Assessment*, undertaken by the World Bank, found that the system suffers from

202 MoFPED (2019, August).

203 Based on annual budget call circulars, the Ministry of Water and Environment's budget allocations range from 2.5% to 3%, and actual allocations appropriated to the sector can be much smaller.

204 Uganda's National Adaptation Program of Action (NAPA) cites an average temperature increase of 0.28 °C per decade in the country between 1960 and 2010, with January and February being the most affected by this warming trend. The frequency of hot days has increased significantly, while the frequency of cold days has decreased (McSweeney C et al 2010) The MWE assessment from 2015 on Uganda's INDC indicates the possibility of an increase in the country's near-surface temperature in the order of 2 to 2.5 °C in the next 50 years.



inadequate institutional coordination, financial resources and political support.²⁰⁵ Overlapping mandates and a “silos” approach to implementation also limits the effectiveness of policies and enforcement of laws. As a result, environmental management has not been sufficiently prioritised, especially for projects not linked to international financial institutions or donors. These issues have also triggered large overruns in infrastructure costs, significant impacts for affected populations, and higher risks for potential investors. Looking ahead, the new *National Environment Act* (NEA) 2019 offers opportunities to strengthen environmental management systems by providing a framework for better Lead Agency coordination and collaboration (multidisciplinary and multiagency), designating funding options, and strengthening decentralized governance structures (including the Regional Offices set up by NEMA).

167. Land degradation, driven largely by poor agricultural methods and limited adoption of sustainable land management (SLM) practices, poses multiple challenges for Uganda’s rural economy, community resilience and national commitments to climate change. At the national level, about 75 percent of agricultural land is currently considered highly degraded (including nutrient depletion, soil erosion and deforestation), causing the long-term loss of on-site and off-site terrestrial ecosystem goods and services. Loss of soil carbon is likely to be a major source of greenhouse gas (GHG) emissions, although this has not been quantified accurately at the national level.²⁰⁶ Depleted soils are also generally less able to retain moisture and are prone to quicker run-off. This lowers their capacity to support production in drought conditions and increases susceptibility to flash flooding, lowering their resilience to weather variability and longer-term climate change. A leading cause of land degradation is the lack of improved agricultural methods. For example, the limited use of improved inputs and newer technologies results in low yields per hectare, driving farmers to expand their plots and convert more land to agriculture.²⁰⁷ Other drivers

include conversion of forests, woodlands and wetlands to agricultural land, extraction of construction materials, and unregulated and unsustainable use of open access forests for fuel wood and timber harvesting. Many public institutions responsible for forest management, as well as agriculture and forestry extension services, are understaffed and have limited funds to cover non-wage costs.²⁰⁸

168. Reversing this trend and enhancing the productivity of land will require the introduction and scaling up of incentives and investments for expanding SLM practices. Although demonstration farms have implemented modern approaches and technologies to sustainably increase productivity, there has been very limited adoption of these methods by small-holder farmers. Better incentive systems are required to support this transition, including conditional cash transfers and public investments in irrigation infrastructure. There are also structural and institutional issues that have to be addressed, such as considering entire catchment areas as entry points and empowering communities in the planning processes. Land tenure issues are a further critical bottleneck to more productive farms, as overlapping systems result in unclear land rights for many smallholders, inhibiting their ability to use land as collateral and not encouraging them to expand SLM practices. As discussed, this is even more constraining for women farmers as Uganda’s land tenure system is rooted in patriarchy, with customary law usually affording women fewer rights. This then compounds the issue of accessing finance to support investments into SLM practices and technologies. As discussed in Section 3.2, agri-business development also has a role to play in supporting SLM.

169. This all needs to be supported by enhanced public institutions and policy. Such policies could include: (i) the introduction of land-use planning, ordinances and/or community by-laws to regulate natural resource use of open access resources, and (ii) measures, such as catchment-level *Payments for*

205 The ongoing elite capture of forest resources through dubious land claims at Bugoma Forest Reserve – one of the crown jewels of Uganda for biodiversity and nature-based tourism – highlights these weaknesses clearly.

206 Uganda’s NDC submission to the UNFCCC notes that agriculture was the largest source of emissions at 48 percent, followed by land use change and forestry at 38 percent – both of which are linked to land degradation.

207 Nkonya E, et al (2008).

208 See GoU MWE (2017) and MWE (2016).

Ecosystem Services (PES) schemes, that incentivise the participation of the private sector in land restoration and increase the adoption of SLM techniques.

170. Uganda's natural forests are being lost and degraded at one of the highest rates in the world despite their importance for tourism, the role they play in supporting livelihoods of the majority of the rural population, and other natural resource-based activities. The total net loss of Uganda's forests during 2000–2015 was estimated at 1.8 million ha, equivalent to an average annual loss rate of 4 percent. In 2000, forests covered 19.4 percent of the land area, but this had reduced to 12 percent by 2015. Implementation of the policy and legal framework has been weak, and forest laws are unevenly enforced. The key drivers of deforestation and degradation have been the expansion of agricultural land into forest areas, often on marginal areas with low yields, over-harvesting for wood fuels (charcoal and firewood supply) and forest fires.²⁰⁹ For remaining natural forests, most of which are now found in protected areas (National Parks and forest reserves), the lack of clearly marked boundaries, infrastructure, equipment and limited access, severely restricts efforts to conserve and manage these forests. The spread of invasive and alien species also contributes to the decline of biodiversity and eradication becomes increasingly more expensive the longer the problem is left unaddressed. This is particularly concerning for Uganda's heavily nature-based tourism industry, which depends on the country's forested and savannah landscapes.

171. A well-managed forest sector has great potential to contribute to Uganda's development through contributions to local livelihoods and the economy. In 2019, forests and woodlands provided over 88 percent of Uganda's primary energy demand through the provision of firewood and charcoal. Employment in the wood fuels subsector is substantial, estimated at

870,000 people on a full-time equivalent basis.²¹⁰ Demand for wood fuels is expected to rise at 4.2 percent per year in fuelwood equivalent,²¹¹ due to population growth, rapid urbanization, and rising wealth.²¹² However, to sustain this level of demand without depleting and over exploiting forested areas, plantations are critically needed. According to the Uganda's forest accounts, there were approximately 107,000 ha of plantations in Uganda in 2015. This area is well below what is needed to meet the country's anticipated demand for timber, poles and wood fuel. Even excluding wood fuel, the predicted demand indicates a minimum requirement of 200,000 ha of standing forest plantations.²¹³ There are also growing export opportunities, as neighboring countries such as Kenya offer a potential market for Uganda's wood-based industries to supply plantation-grown timber in the form of sawn timber, poles and wood products (e.g. panel boards and furniture). The tourism sector depends heavily on Uganda's forests and protected areas as they attract more than 80 percent of the leisure tourists for wildlife safaris, bird-watching tours, and gorilla and chimpanzee tracking. Prior to the ongoing COVID-19 pandemic, tourism earnings generated US\$1.6 billion in 2018 (up from US\$1.45 billion in 2017) and sustained 1.17 million jobs (8 percent of total employment).²¹⁴

172. Appropriate public and private sector investments and incentives are needed to encourage the development of the forestry sector and reach a critical mass both in terms of wood volume and processing capacity. Most of the production from Uganda's forests is for low-value wood products. This is partly because value chains are either not developed (e.g. poor-quality sawmills and no timber drying) or not easily accessible for smaller growers (e.g. electricity transmission poles). The current ban on exporting processed timber²¹⁵ is also negatively affecting the timber price and turning potential investors away. Reform of this export ban, alongside efforts or regulations to limit

209 More frequent and intense forest fires pose a growing threat exacerbated by increasing climatic variability and by forest fragmentation, which leaves forests more vulnerable to damage from fires set to clear agricultural land.

210 Assumes full-time equivalent is 250 working days per year.

211 Uganda Bureau of Statistics (2018).

212 *ibid.*

213 Projections based on UNIQUE, 2010. Timber Market Study for SPGS and adjusted based on current population numbers. Main assumptions: rotation of 20 years, 30 percent harvesting losses and final crop standing volumes of 200 m³ per ha.

214 World Travel and Tourism Council (2017).

215 Introduced initially to protect natural forests but has since become an impediment to export of plantation-grown timber and wood products.



illegal logging and/or enforcement of existing forestry conservation laws, would provide Uganda's timber growers with access to a large and under-served regional market. An expanded plantation sector in combination with value chain addition (e.g. sawmills and wood dryers) could substantially boost employment and revenue generation from productive forests. For forest-based tourism, investments are required to provide basic infrastructure and diversification of the range of tourism products.

173. Wetlands are Uganda's most productive ecosystem, but are increasingly threatened and in need of greater policy support. Wetlands coverage decreased from about 16 percent in 1994 to 13 percent in 2017,²¹⁶ due to high population growth, demand for agriculture land, and industrial and urban expansion. Currently, the percentage of Uganda's land area covered by wetlands is estimated at 10.9 percent. Wetlands provide a wide range of direct benefits including safe drinking water, water for irrigation in the dry season, handicrafts, building materials, fish, vegetables, and medicines. Wetlands also provide several environmental services including flood control,²¹⁷ water purification, maintenance of the water table, erosion control, microclimate moderation, habitats for important flora and fauna, aesthetic and heritage values, and stocks of biodiversity of potentially high pharmaceutical value. However, in 2015, the estimated annual cost of wetlands destruction (considering the reduction in services from wetlands) was US\$ 500,000.²¹⁸ With increased climate variability caused by climate change, the environmental services wetlands provide are even more critical. The instruments that the government currently uses to manage wetlands are the *Conservation of Wetlands National Resource Management Policy 1995*, the *draft Wetlands Bill 2009*, and the *Wetland Sector Strategic Plan 2011-2020*. Due to lack of funding at the local and national level to implement the strategy and enforce the policy, coupled with the lack of a specific wetlands law and institutional framework, actions to protect Uganda's wetlands have failed. To reverse the trend of wetland destruction, action is required to update and promulgate the draft Wetlands Bill 2009. In addition,

there is need for support and a statutory instrument so that MWE can code and gazette all wetlands, so that they can then be managed in a sustainable way.

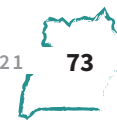
174. Strengthening Uganda's capacity in solid waste and air quality management is crucial to rein in water and air pollution, boost green growth and increase resilience to climate change. Unsafe disposal of solid waste is one of the main causes of water pollution, resulting in increased water treatment costs. Kampala, for example, only has the capacity to dispose of about 50 percent of the more than 1500 tons of solid waste that it generates per day. Simultaneously, Uganda is facing increasing problems of air pollution from industrial, municipal and agricultural sources. High PM concentrations have been observed in the city center, industrial areas and in residential areas with unpaved roads. Nitrogen dioxide (NO₂) and Sulphur dioxide (SO₂) concentrations are also reported to be above the WHO cut-off limits. In general, the air pollution problem is attributed to emissions from traffic and reconditioned motor vehicles, increasing industrial activities, and other anthropogenic activities such as open burning of waste and indoor biomass-fueled cook stoves. Yet, comprehensive data on air pollution is nearly non-existent and there is currently no framework for monitoring and regulating air pollution in Uganda. The absence of reliable data and air quality regulations hinders the quality of monitoring and enforcement. Uganda's Green Growth Development Strategy (2018–2030) promotes an inclusive low emissions economic growth process. The government also revised the *National Environment Act (2019)* to include aspects of air pollution, with an emphasis on measures to control pollution including minimizing emissions of greenhouse gases, as well as promoting resource efficiency, cleaner production and green growth. Promoting a circular economy with a focus on reusing, recycling and reduction of waste among industrial and municipal sectors is important for controlling pollution and improving water and air quality. However, the government needs to first put in place the necessary technical standards and guidance, enforcement mechanisms and financial incentives.

216 NEMA (2019).

217 The cost of flood damage that is mitigated by intact wetlands was estimated at US\$ 1.7 billion annually in 2013. See Kakuru, W. et al (2013).

218 GoU MWE (2015).





5. PRIORITY AREAS FOR ACTION

175. Uganda's broad development narrative has not changed significantly since the 2015 SCD, with the COVID-19 crisis further aggravating existing challenges.

The growth trend remains inadequate for Uganda's lower middle-income status ambitions, especially when considering the medium-term ramifications of the COVID-19 shock. Furthermore, given the impact of the pandemic on the economy, and particularly on the non-farm sector, the growth trajectory over the next five years seems insufficient to absorb the growing number of labor market entrants driven by rapid population growth and sizable refugee inflows. Although poverty was declining in the five-year period prior to the COVID-19 crisis, inequalities and vulnerability to poverty have become more pronounced, with the poverty headcount rate fluctuating as a result of Ugandans' inability to cope with negative shocks. Additionally, while there had been some economic transformation, it was limited and has been reversed somewhat by the COVID-19 crisis. Most of the population still lives off subsistence agriculture or is engaged in small informal enterprises with generally low productivity and little prospects for growth. If anything, developments over the last five years have made some of the existing challenges identified in the 2015 SCD more salient, with the COVID-19 crisis aggravating them further.

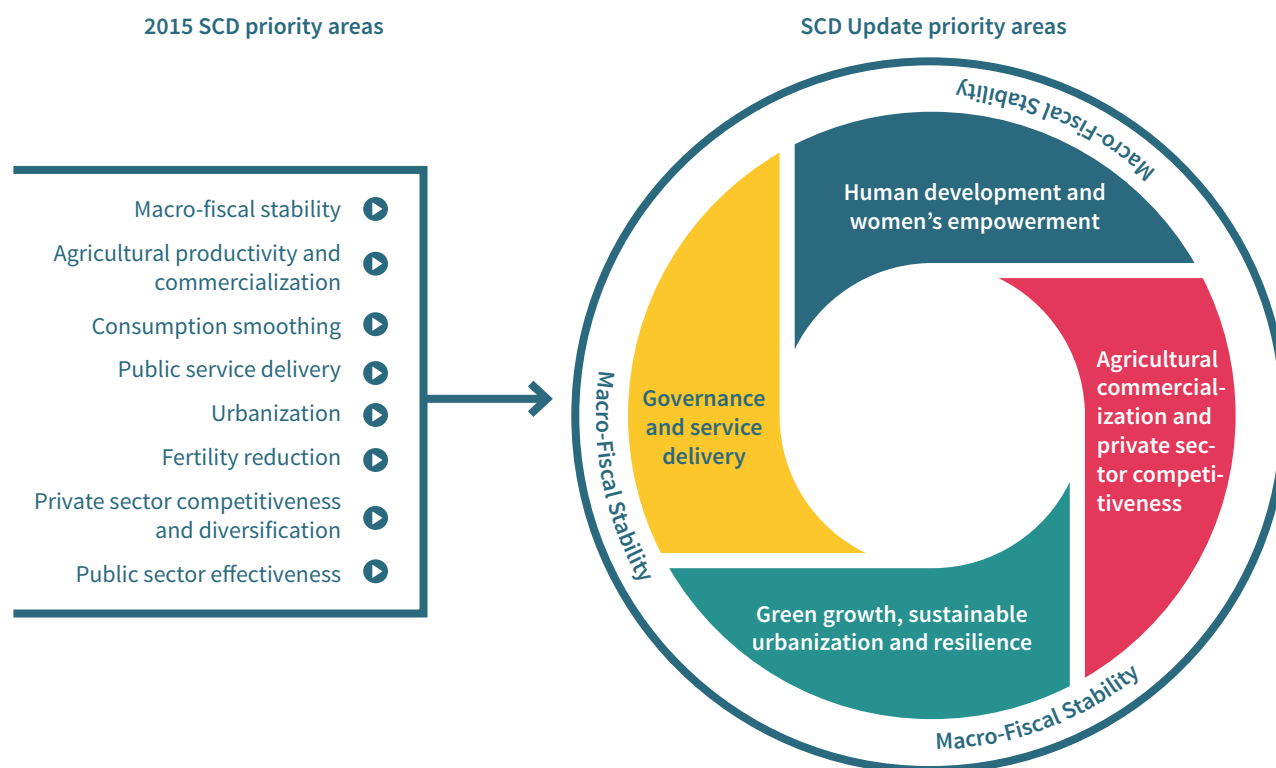
176. The SCD Update revisits the priority areas and actions for Uganda today, based on the latest developments and analysis of constraints discussed in the preceding sections. Prioritization in the SCD Update is based on three criteria: i) level of impact on Uganda's intermediate goal of creating jobs and accelerating economic transformation (see paragraph 34); ii) issues with large or important complementary effects (i.e. would generate benefits beyond one dimension of inequality, growth or sustainability); and iii) area/action validated in the consultation process (see Annex D).

177. Applying these criteria, the prioritized areas and actions from the 2015 SCD are initially considered and then adjusted, enhanced, and streamlined. As detailed in Annex E, there has been progress in certain priority areas from the 2015 SCD or certain aspects of a priority area, whilst in others there has been limited progress. This has provided updated information

for prioritizing and necessitated some revision and streamlining in the SCD Update of the priority areas and key actions (as shown in Figure 20 and Table 6):

- Three priority areas – *macro-fiscal stability, agricultural productivity and commercialization, and private sector competitiveness and diversification* – are largely maintained given their sustained importance for Uganda's development.
- *Agricultural productivity and commercialization and private sector competitiveness and diversification* are, however, merged into a single priority area that recognizes the close interrelation between the agricultural sector and the non-farm sectors in providing job opportunities and stirring Uganda's economic transformation to improve productivity and business opportunities.
- Two priority areas – *public service delivery and public sector effectiveness* – are merged into one priority area – *governance and service delivery* – that more explicitly addresses governance and implementation issues and provides a basis to work within a weakening governance environment.
- A priority area on *human development and women's empowerment* is introduced given the marked deterioration in human development outcomes since the 2015 SCD, its critical role in addressing the inequality of opportunities and fostering economic transformation, and to give prominence to issues that have become more significant as a result of the impacts of the COVID-19 pandemic. Furthermore, the original priority area of *fertility reduction* addressed only a narrow aspect of a bigger context, which is better encapsulated by a broader priority area around *women's empowerment*.
- A priority area on *green growth, sustainable urbanization and resilience* is introduced to give increased prominence to issues that have become more significant since the 2015 SCD. The SCD Update considers these as priorities to ensure more inclusive and sustainable growth. Actions related to *consumption smoothing* specified in the 2015 SCD are incorporated under this priority area, particularly in relation to building the resilience of households and communities to shocks.

Figure 20: Summary of updated priority areas



178. The SCD Update priority areas and actions will also better prepare the economy for the start of oil production and help limit the potential negative impacts from developing the oil sector. Although Uganda’s oil sector was identified as an opportunity in the 2015 SCD, given the delays and ongoing uncertainty in the sector, the priority areas and actions in the SCD Update do not explicitly address developments in the sector. An economic strategy today that relies on oil as a major driver of economic development is an increasingly risky one and may not be as conducive to sustainable development as a diversified strategy with more emphasis on other economic drivers.²¹⁹ As a result, there is more focus in the SCD Update on building and strengthening other sectors of the economy (e.g. development of the agriculture and broader private sectors) ahead of a potential oil bonanza. This will put the domestic economy in a better position to benefit from the oil investments to come (e.g. through

improved governance and public service delivery), but also ensure it is sufficiently diversified and resilient to withstand any potential shocks, such as real exchange rate appreciation, associated with an oil economy and maintain macro-fiscal stability. The priority areas and actions could also help address and limit the potential negative impacts when oil investments and production finally take off, by trying to improve environmental sustainability (e.g. green growth).

179. **Macro-fiscal stability.** Uganda’s fiscal and debt sustainability has deteriorated steadily since the 2015 SCD, and vulnerabilities are mounting. Thus, macro-fiscal stability is maintained as an overarching priority area for the country’s development, which also becomes more important as oil revenues draw closer. Commodity prices can be highly volatile, and countries that are exposed to these resource flows need to build strong institutional frameworks to limit the transmission

219 Huxham, M. et al (2020).



of volatility to the domestic economy, and thereby ensure a stable macroeconomic environment in which the private sector can flourish.²²⁰ Raising revenues and using public resources more efficiently to maximize returns on investments are critical for improving fiscal and debt sustainability. More efficient PIM will ensure that infrastructure is built at a better quality, and faster with less resource waste and delays, and therefore at a lower effective cost. This additional infrastructure will improve total factor productivity and thereby increase

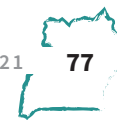
growth, which will feed into higher revenues. However, the increase in growth has to be reflected in budget revenues. Thus, separate measures – as prescribed in the DRMS – need to be implemented to increase tax revenues. Furthermore, budget planning and credibility have to improve, which is being increasingly undermined by the growing use of supplementary budgets, with a large share going to classified expenditures. Proposed key actions under this priority area are shown in Table 6.



220 Kojo (2014).

Table 6: Proposed key actions under each priority area

Priority Areas	Proposed Key Actions
Macro-fiscal stability	<ol style="list-style-type: none"> 1. Improve domestic revenue mobilization, including institutional framework for managing oil revenues, and strengthen public debt management 2. Strengthen budget processes, credibility, and compliance with existing PFM regulations, and enhance PIM and modernize public procurement
Governance and service delivery	<ol style="list-style-type: none"> 1. Improve the demand side of good governance by promoting the voice and accountability of citizens 2. Enhance the capacity of public institutions to provide services, including through leveraging digital technologies 3. Improve the adequacy, equity and effectiveness of financing and oversight, management and delivery of local government (LG) services 4. Continue to integrate refugees into national development systems and strengthen LG's ability to provide services more effectively to refugees as part of the host population 5. Improve access to electricity, internet connectivity and digital technology infrastructure and solutions 6. Encourage private sector participation (through appropriate and effective models) to deliver critical services and complement public sector provision
Human development and women's empowerment	<ol style="list-style-type: none"> 1. Continue to promote prevention measures against COVID-19 and prepare a well-designed distribution plan for COVID-19 vaccines 2. Increase public health, education and water supply/sanitation expenditures with efficiency and quality improvements, and with a focus on educating girls and enhancing access to reproductive health and childcare services 3. Promote technical and vocational training through partnerships and targeted programs for youth and women 4. Implement laws and policies that promote women's economic participation, entrepreneurship, and land ownership, empower women's role in the household, and reduce gender-based violence
Green growth, sustainable urbanization and resilience	<ol style="list-style-type: none"> 1. Strengthen implementation and coordination of environmental policies and laws, and incorporate climate adaptation policies into sector policies, laws and development plans 2. Prevent and reverse further land degradation, deforestation, and wetland destruction and develop the productive sectors (e.g. tourism and commercial forestry) that rely on the sustainable use of natural resources 3. Expand sustainable land, water, and livestock management practices, and incentivize the private sector and landowners to adopt such practices 4. Improve urban policy and legal frameworks, urban planning and institutional capacity, urban land administration systems, housing availability, and coordination among LGs to address urban congestion and pollution issues 5. Increase road maintenance, improve district and rural roads, enhance urban transport systems, invest in the Southern, Eastern and Albertine trade corridors, and develop multimodal connectivity along the corridors and around Lake Victoria 6. Expand a national-level shock-responsive social protection system that has a dynamic single registry and flexible digital payment system, improve access to financial services for resilience (e.g. savings and insurance), and enhance disaster risk management capacities
Agricultural commercialization and private sector competitiveness	<ol style="list-style-type: none"> 1. Increase farmers access to markets (i.e. reliable commercialization opportunities) – including through better post-harvest handling, storage facilities, rural feeder roads, use of digital technologies and SPS measures – and adoption of high-quality agro-inputs 2. Increase low-cost access to finance for firms, informal sector and farmers, including loans for short-term COVID-19 recovery and longer-term finance 3. Strengthen land tenure security, rental markets, and institutions for land administration, and reduce administrative costs associated with business activities 4. Strengthen agricultural research and extension services, including through adoption of digital technology solutions 5. Promote vertically integrated agri-business operations and the development of small and medium-scale agro-industrial firms 6. Develop secondary cities/towns, by applying a growth corridor or spatial strategy, and add value and diversify export products (particularly higher value) and markets



180. Governance and service delivery. Since the 2015 SCD, the government has increasingly focused on investments in large infrastructure projects. This has been accompanied by a corresponding deterioration in the financing of basic service delivery (e.g. in health and education), and fast expansion in the cost of public administration through subdivision of administrative units. At the same time, decision-making has become increasingly centralized, there have been emerging weaknesses in governance, and corruption remains a major and intransigent issue (as discussed in Section 4.1). With financing of social service delivery being further constrained, this also limits the ability of those sectors to address emerging governance constraints undermining service delivery. Yet, innovative solutions do exist to help address the underlying governance constraints, build strong coalitions focused on service delivery, and deliver results in a low accountability and difficult governance environment. These include broadening partnerships across government entities, developing institutional capacity of local government and agencies, enhancing citizen engagement, and deeper collaboration amongst development partners. Furthermore, great potential exists where political objectives can be achieved and constraints to service delivery addressed simultaneously. This can also be spurred on by results-based approaches that strengthen the link between service delivery performance and financing. If investments in education, health, water supply and sanitation, electricity and digital connectivity are not shifted to a higher trajectory in the short-term, the human capital and productivity gap will keep deteriorating and closing the gap at a later stage will prove extremely difficult. Proposed key actions under this priority area are shown in Table 6.

181. Human development and women's empowerment. Uganda is entering a pivotal stage of its development path, as its population is projected to increase by 60 percent in the next 20 years. This presents an enormous imperative to invest in human capital so that the soon-to-be working age population will have the capacity, skills and health necessary to be fully productive and contribute strongly to the country's development. At the same time, this sharp increase in the size of the population will aggravate the country's ongoing challenges in the delivery of basic services. For

Uganda to benefit from the demographic dividend, the country will require substantial resources to serve a larger population and achieve much needed improvements in the quality of social services. Ugandan women and girls also face significant structural, institutional and societal barriers to access economic opportunities on equal terms compared to men and boys. This has been exacerbated by the COVID-19 pandemic, which has had serious impacts on women's economic empowerment. Many women bear the brunt of the increasing poverty, job losses, school closures, and food insecurity that have accompanied the COVID-19 pandemic. As a result, the SCD Update elevates women's empowerment to a major priority area over the next five years, with a broader set of actions compared to the 2015 SCD – these include reducing gender-based violence and implementing laws and policies that enable women's economic participation, entrepreneurship and land ownership. In the meantime, containing a resurgence of COVID-19 cases will be critical for Uganda's next two to three years' development strategy. To facilitate the containment, vaccines will need to be distributed quickly when they are widely available – probably only in 2022 and 2023. The distribution of vaccines is likely to be complex and, without adequate planning, it will take a long time to inoculate the majority of the population. Therefore, government needs to have an effective information campaign on who is eligible and where vaccination takes place. The government also needs to know where hospitals and local clinics are located, whether they have appropriately trained nurses and doctors, and proper cold chains. Matching both the demand and supply of vaccines will be difficult. It is essential to collect data on both demand and supply-side information and coordinate them in advance. Proposed key actions under this priority area are shown in Table 6.

182. Green growth, sustainable urbanization, and resilience. Although Uganda is endowed with an abundance of natural resources, these resources are being rapidly depleted and polluted, which is threatening sustainable growth and poverty reduction. Climate change is already exacerbating the strain on these natural resources, which heightens the imperative to invest in greater resilience. At the same time, a large portion of Uganda's population remains vulnerable to

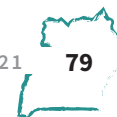


poverty and significant welfare setbacks in the wake of a shock. Historically, droughts and floods are amongst the most dominant and widespread climatic shocks in Uganda, and their nature, frequency, and intensity are changing. Given increasing climate variability and pest outbreaks in Uganda, it is vital to increase the resilience of agricultural systems and rural livelihoods. To this end, farmers should be equipped with climate-smart land, water and livestock management practices, irrigation infrastructure, and access to climate and disaster-risk information. Displaced refugees and internal climate migrants pose additional challenges for the environment and to building resilience among Ugandan households and communities. Uganda is now also facing severe impacts from the COVID-19 pandemic, which are being felt differently to past climatic shocks and has pushed many more households into poverty. The current response to COVID-19 and other shocks in Uganda has shown that social protection programs in the country are inadequate to respond quickly to such crises, including an inability to effectively target those affected by shocks. The path forward from the current COVID-19 crisis also presents an opportunity to invest in green recovery approaches that generate jobs, support livelihoods, help build resilience through protecting ecosystem services, and generate environmental and climate change co-benefits. Finally, a special emphasis needs to be given to Uganda's urban areas, and GKMA in particular, to make sure they are fit for purpose in supporting the economic transformation. GKMA has experienced challenges from overcrowding, inadequate planning and coordination, underemployment and informality, poor infrastructure and basic services, and limited capacity for disaster risk management. The same challenges are emerging across secondary cities, and the COVID-19 crisis has accentuated some of these challenges. Proposed key actions under this priority area are shown in Table 6.

183. Agricultural commercialization and private sector competitiveness. To increase the productivity and hence reliability of primary production – as the foundation for agricultural commercialization – access to and the adoption of high-quality agro-inputs (e.g. seeds, fertilizers, agrichemicals) is essential. This requires

a strengthening of regulatory measures and their full implementation, land tenure security, enhanced input quality controls, increasing access to finance, and fully implementing ongoing extension reforms to increase knowledge transfer. At the same time, access to stable prices and market opportunities has to be enhanced, so that farmers are incentivized to invest and buy improved inputs. Producer arrangements and integration into agri-food value chains should be supported to increase farmers' access to finance and markets and to enhance the competitiveness of the sector more broadly by enabling value addition. Ensuring that food-safety standards are upheld through enhanced sanitary and phytosanitary (SPS) controls is essential for Uganda's survival in established high-income export markets and to penetrate new markets. Reaping the full benefit of observed sector trends will also require strengthening institutional processes and stakeholder coordination, as well as steering public agriculture investments towards the provision of public goods such as research, extension and infrastructure. Looking beyond the farm gate, COVID-19 is a significant threat to the emerging economic transformation in Uganda and puts the prospects of significant non-farm job creation in danger. As a result, Uganda's economy needs to become more productive and diversified. Restarting and sustaining the economic transformation will require leaner and more efficient firms, rapid adaptation to new market conditions, the capacity to identify new markets and sources of demand – particularly for new and exporting firms – and the provision of new loans and, potentially, products in the market. This will need to be underpinned by continued improvements in the business environment, given the significant challenges with, amongst others, obtaining a business and investment license, regulatory enforcement, contract enforcement, and the public-private interface. Even before the COVID-19 shock, the Ugandan financial sector was unable to provide the types of services required to fuel economic transformation. Proposed key actions under this priority area are shown in Table 6.

184. Although the statistical capacity of Uganda is one of the best in the SSA region, several data and knowledge gaps emerged during the SCD Update

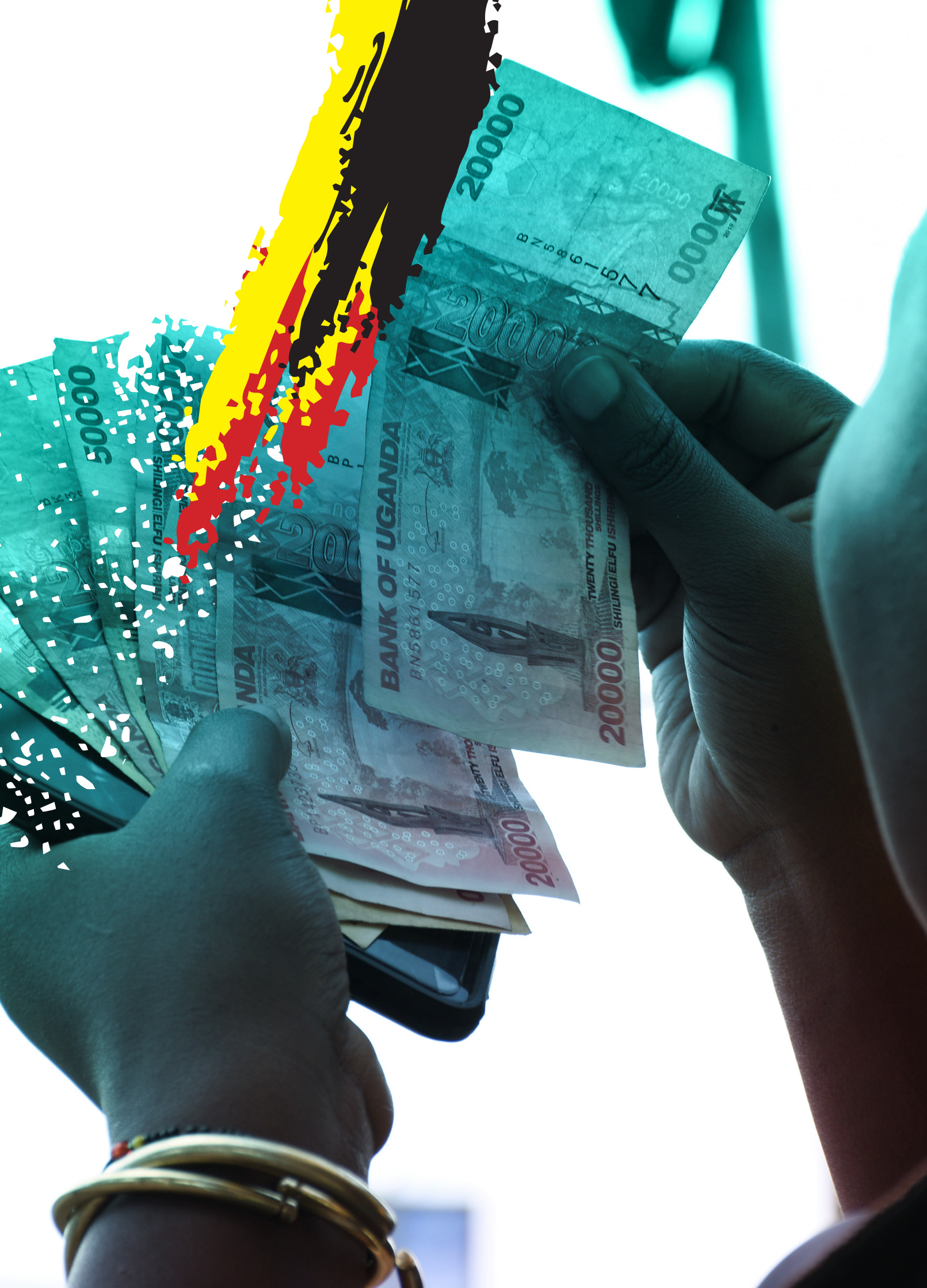


process.²²¹ These gaps can be filled through future TA, advisory services and analytical work.

- a) **Population, labor force, and human development statistics.** Official poverty data have been published every three years, and multiple household surveys have collected data on socio-economic conditions. In collaboration with the World Bank, UBOS conducted the COVID-19 UHFPS, which provided data on the living conditions, employment, social assistance, and preventive activities against COVID-19 in a timely and frequent manner. UBOS has also been active in collecting data on refugees and host communities. However, statistics on the labor force, population and some human development indicators are outdated (e.g. some of the data used for the HCI is already quite old, including the data on harmonized test scores which is from 2007). It is urgent to more frequently collect these datasets as the process of economic transformation proceeds. An updated population census, including refugees, needs to be undertaken, given this is the foundation of sampling for all household surveys.
- b) **Agricultural statistics.** Although there have been recent improvements with the Agricultural Integrated Survey happening twice per year since 2018, there are still inconsistencies and gaps in information pertaining to yields and output across all agricultural sub-sectors.
- c) **Firm and technology data.** Update firm level data and data on technology adoption, and implement a technology adoption survey.

- d) **Integrating natural capital accounting as part of the regular national statistics,** using the System of Environmental-Economic Accounting-Ecosystem Accounting (SEEA-EA). The NDP III already includes this commitment and a good foundation for this has been laid with support from various initiatives, including the Bank-led Wealth Accounting and Valuation of Ecosystem Services Program and Global Program for Sustainability.
- e) **Social protection.** Household consumption and expenditure data needs to be collected regularly to help poverty profiling/ranking of the national single registry.
- f) **Informality in Uganda.** Although the Jobs Diagnostics (2018) and Jobs Strategy (2019) provide a better understanding of the challenges for informal sector workers and ways of addressing these, more work is required to get a better understanding of the nature and challenges of a sector where most of the poor and those in the bottom 40 percent work. This is especially apparent given the disruption that the COVID-19 crisis caused to this sector, particularly in urban areas.
- g) **Political economy.** Given the increasing complexity of Uganda's political economy in recent years, it may be useful to more fully analyse the country's political economy and how to build more political space for reform.

221 According to the World Bank's statistical capacity indicator (SCI), Uganda's overall score is 71.1, which is far better than the IDA average (58.2) and the SSA average (57.1).



20000

20000

BZ586-577

20000

50000

SHILINGI ELFU ISHIRI

B P

BANK OF UGANDA

B.N.5864 577

TWENTY THOUSAND SHILLINGS

20000

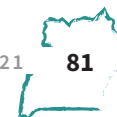
SHILINGI ELFU ISHIRI

ND

20000

TWENTY THO

SHILINGI ELFU IS

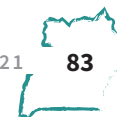


REFERENCES

- AGRA (2017). *Africa Agriculture Status Report: The Business of Smallholder Agriculture in Sub-Saharan Africa* (Issue 5), Nairobi, Kenya: Alliance for a Green Revolution in Africa (AGRA)
- Ali, D.; Bowen, D.; Deininger, K.; & Duponchel, M. (2016). *Investigating the gender gap in agricultural productivity: Evidence from Uganda*. World Development Vol. 87, pp. 152–170.
- Alibhai, S.; Buehren, N.; Coleman, R.; Goldstein, M.; & Strobbe, F. (2018). *Disruptive Finance: Using Psychometrics to Overcome Collateral Constraints in Ethiopia*. World Bank: Washington, DC.
- Alibhai, S.; Buehren, N.; & Papineni, S. (2018). *Better Loans or Better Borrowers? Impact of Meso-Credit on Female-Owned Enterprises in Ethiopia*. Policy Research Working Paper; No. 8511. World Bank: Washington, DC.
- Ambler, K.; Jones, K.M.; & O'Sullivan, M. (2019). *Role of Men in a Women's Empowerment Initiative: Evidence from Uganda*. International Food Policy Research Institute.
- Arriens, J. (2019) *Uganda's Coffee Farmers Show There's No One-Size-Fits-All Solution for Climate Change Adaptation*. World Resources Institute. Available at: <https://www.wri.org/insights/ugandas-coffee-farmers-show-theres-no-one-size-fits-all-solution-climate-change-adaptation>.
- Arouna, A., Michler, J. D., & Lokossou, J. C. (2019). *Contract farming and rural transformation: Evidence from a field experiment in Benin* (No. w25665). National Bureau of Economic Research.
- Atamanov, A.; Yoshida, N.; Beltramo, T.; Rios Rivera, Laura A.; Sarr, I.; Waita, P.; & Yoshimura, K. (2021a). *Monitoring Social and Economic Impacts of COVID-19 on Refugees in Uganda: Results from the High-Frequency Phone Survey – First Round*. Monitoring COVID-19 Impacts on Refugees in Uganda. World Bank: Washington, DC.
- Atamanov, A.; Yoshida, N.; Alemi, C.; Beltramo, T.; Ilukor, J.; Rios Rivera, Laura A.; Sarr, I.; Waita, P.; & Yoshimura, K. (2021b). *Monitoring Social and Economic Impacts of COVID-19 on Refugees in Uganda: Results from the High-Frequency Phone Survey – Third Round*. Monitoring COVID-19 Impacts on Refugees in Uganda. World Bank: Washington, DC.
- Bachas, P. J.; Brockmeyer, A.; & Semelet, C. M. (2020). *The Impact of COVID-19 on Formal Firms: Micro Tax Data Simulations across Countries*. Policy Research Working Paper No. 9437. World Bank: Washington, DC.
- Bandiera, O.; Buehren, N.; Goldstein, M. P.; Rasul, I.; & Smurra, A. (2019). *The Economic Lives of Young Women in the Time of Ebola: Lessons from an Empowerment Program*. World Bank: Washington, DC.
- Bashir, S.; Lockheed, M.; Ninan, E.; & Tan, Jee-Peng. (2018). *Facing Forward: Schooling for Learning in Africa*. World Bank: Washington, DC. Available at: <https://openknowledge.worldbank.org/handle/10986/29377>
- Bastiaanssen, W.; & Perry, C. (2009) *Agricultural Water Use and Water Productivity in the Large-Scale Irrigation (LSI) Schemes of the Nile Basin*. Report for the Efficient Water Use in Agriculture Project, Nile Basin Initiative.
- Bergquist, L.; Burke, M.; & Miguel, E. (2019, May) *Sell Low and Buy High: Arbitrage and Local Price Effects in Kenyan Markets*. Quarterly Journal of Economics, vol. 134, no. 2, 785–842.
- Bernard, T.; de Janvry, A.; Mbaye, S.; & Sadoulet, E. (2017). *Expected Product Market Reforms and Technology Adoption by Senegalese Onion Producers*. *American Journal of Agricultural Economics*. Available at: <https://onlinelibrary.wiley.com/doi/abs/10.1093/ajae/aax033>.
- Biryabarema, E. (2021, February 25) UPDATE 2-*Uganda sees work on oil pipeline with Total starting shortly*. Reuters.
- Campos, F.; Goldstein, M.; McGorman, L.; Boudet, A. M. M.; & Pimhidzai, O. (2015). *Breaking the metal ceiling: female entrepreneurs who succeed in male-dominated sectors*. World Bank: Washington, DC.
- Center for Domestic Violence Prevention (2012). *Economic Costs of Domestic Violence in Uganda*. Available at: <https://www.cedovip.org/download/economic-cost-of-domestic-violence-in-uganda/>
- Cherchi, L., Goldstein, M., Habyarimana, J., Montalvao, J., O'Sullivan, M., Udry, C., & Gruver, A. (2019). *Empowering Women through Equal Land Rights: Experimental Evidence from Rural Uganda*. Gender Innovation Lab Policy Brief 33, World Bank, Washington, DC.



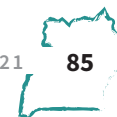
- CIAT, BFS/USAID (2017). *Climate-Smart Agriculture in Uganda*. CSA Country Profiles for Africa Series. International Center for Tropical Agriculture (CIAT); Bureau for Food Security/United States Agency for International Development (BFS/ USAID), Washington, D.C. 22 p.
- Cust, J. and Mihalyi, D. (2017). *The Presource Curse*. IMF. Finance & Development, Vol 54. No.4. Available at: <https://www.imf.org/external/pubs/ft/fandd/2017/12/cust.htm>
- Delgado, C. (2018, October). Uganda: *A Reform Agenda for More and Better Jobs through Agriculture*. A background paper to the Jobs Strategy.
- Diisi. (2017). National Environment Management Authority, 2010; FAO, 2017.
- EABI (2017) *East African Bribery Index Report*. Transparency International, Kenya.
- European Commission, DFID, WB IEG, and Irish Aid. (2015, May). *Joint Evaluation of Budget Support to Uganda*. Volume 1.
- FAOSTAT (United Nations Food and Agriculture Organization – Data) Available at: <http://www.fao.org/faostat/en/#data>
- Fowler and Rauschendorfer (2019). *Agro-industrialisation in Uganda. Current status, future prospects and possible solutions to pressing challenges*. International Growth Centre. Ref: F-IH-UGA-006-2
- Golooba-Mutebi, F. & Hickey, S. (2013). *Investigating the Links between Political Settlements and Inclusive Development in Uganda: Towards a Research Agenda*. Available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2386684
- Golooba-Mutebi, F., & Hickey, S. (2016). *The master of institutional multiplicity? The shifting politics of regime survival, state-building and democratization in Museveni's Uganda*. Available at: <https://www.tandfonline.com/doi/abs/10.1080/17531055.2016.1278322>
- Global Financing Facility (2020). Brief: *Preserve essential health services during the COVID-19 pandemic: Uganda*. Washington DC, World Bank. Available at: https://www.globalfinancingfacility.org/sites/gff_new/files/documents/Uganda-Covid-Brief-GFF.pdf
- Goldstein, M.; Gonzalez Martinez, P.; Papineni, S.; & Wimpey, J. (2020). The Global State of Small Business during COVID-19: Gender Inequalities. The World Bank. Available at: <https://blogs.worldbank.org/developmenttalk/global-state-small-business-during-covid-19-gender-inequalities>
- Government of Uganda, Ministry of Agriculture, Animal Industry and Fisheries (MAAIF) and Ministry of Water and Environment (MWE) (2017). *National Irrigation Policy: Agricultural Transformation Through Irrigation Development*. MAAIF and MWE, Entebbe and Kampala. Available at: <http://www.mwe.go.ug/sites/default/files/library/Uganda%20National%20Irrigation%20Policy.pdf>
- Government of Uganda, Bureau of Statistics (2018) *Uganda Demographic and Health Survey (UDHS) 2016*.
- Government of Uganda, Ministry of Education and Sports (2015-2019). *National Strategy for Girls' Education (NSGE) in Uganda*.
- Government of Uganda, Ministry of Education and Sports (2015-2020). *Gender in Education Sector Strategic Plan*.
- Government of Uganda, Ministry of Education and Sports (2015). *Education Policy and Planning Department. The Education Statistical Abstract*.
- Government of Uganda, Ministry of Education and Sports (2017). *Education Policy and Planning Department. The Education Statistical Abstract*.
- Government of Uganda, Ministry of Finance, Planning and Economic Development (2018, July) *Public Financial Management Reform Strategy*.
- Government of Uganda, Ministry of Finance, Planning and Economic Development (2019/2020-2021/2022) *Resource Enhancement and Accountability Programme (REAP) – Implementation Document*.
- Government of Uganda, Ministry of Finance, Planning and Economic Development (2019, October). *Domestic Revenue Mobilization Strategy*.
- Government of Uganda, Ministry of Finance, Planning and Economic Development (2019, August). *Adjusted macroeconomic indicators and measures of comprehensive wealth. Macroeconomic Policy Department*.



- Government of Uganda, Ministry of Finance, Planning and Economic Development (2019, September). *A Diagnostic Study to Strengthen PIMS Reforms in the Works and Transport and the Energy and Mineral Development Sectors*.
- Government of Uganda, Ministry of Gender, Labour and Social Development & UNICEF (2015, June). *National Strategy to End Child Marriage and Teenage Pregnancy A Society free from child marriage and teenage pregnancy*.
- Government of Uganda, Ministry of Gender Labour and Social Development (2016). *The National Policy on the Elimination of Gender Based Violence in Uganda. (Revised 2019, July)*.
- Government of Uganda, Ministry of Health (2020, November). Aide Memoire: *26th National Health Sector Joint Review Mission and 3rd National Tuberculosis Stakeholder's Conference*.
- Government of Uganda, Ministry of Health (2021, May). Press Statements: *Update on the Response to COVID-19 Pandemic*. Kampala. Available at: www.moh.go.ug
- Government of Uganda, Ministry of Water and Environment (2015) *Uganda Wetlands Atlas Volume Two*.
- Government of Uganda, Ministry of Water and Environment (2016) *Sector Performance Report 2016* Available at: <https://www.mwe.go.ug/library/sector-performance-report-2016>.
- Government of Uganda, Ministry of Water and Environment (2017) *Sector Performance Report 2017* Available at: <https://www.mwe.go.ug/library/sector-performance-report-2017>.
- Government of Uganda, Ministry of Water and Environment (2018-2022). *Water and Sanitation Gender Strategy*.
- Government of Uganda, Ministry of Water and Environment (2018) *Proposed Forest Reference Level for Uganda*.
- Government of Uganda, Ministry of Water and Environment (2019). *Wood fuels overview. Technical Report*.
- Government of Uganda, Ministry of Water and Environment (2019). *Water and Environment Sector Performance Report*.
- Government of Uganda, (2020) *National Public Investment Management Policy [Version 7]*.
- Heifer International Uganda (2020). *COVID-19 Impact Study Report*. Available at: https://media.heifer.org/Our_Work/Heifer-International-Uganda-COVID-19-Report-2020.pdf.
- Hicks, J. H.; Kremer, M.; Mbiti, I.; & Miguel, E. (2011). *Vocational Education Voucher Delivery and Labor Market Returns: A Randomized Evaluation Among Kenyan Youth*. Report for Spanish Impact Evaluation Fund, Phase I.
- Hill, Ruth & Mejia-Mantilla (2017). *With a Little Help: Shocks, Agricultural Income, and Welfare in Uganda*. Policy Research Working Paper; No. 7935. World Bank, Washington, DC. <https://openknowledge.worldbank.org/handle/10986/25944> License: [CC BY 3.0 IGO](https://creativecommons.org/licenses/by/3.0/).
- Huxham, M.,; Anwar, M.; Strutt, E; & Nelson, D. (2020). *Understanding the impact of a low carbon transition on Uganda's planned oil industry*. Climate Policy Initiative (CPI).
- Institute of Health Metrics and Evaluation (2020). <http://www.healthdata.org/uganda>
- International Growth Centre (IGC). (2020). *Welfare & Distributional Consequences of the COVID-19 Crisis in Uganda*. Available at: https://www.theigc.org/wp-content/uploads/2020/09/2_1_Ntungire-Effects-of-the-Crisis-on-the-Poor-and-Social-Protection-Measures.pdf
- International Monetary Fund, (2017). *Technical assistance report – enhancing the performance of public investment management*. Country Report No. 17/269
- Jamison, D. T.; H. Gelband, S; Horton, P; Jha, R. Laxminarayan, C. N. Mock, and R. Nugent, editors. (2018). *Disease Control Priorities: Improving Health and Reducing Poverty. Disease Control Priorities (third edition)*, Volume 9. Washington, DC: World Bank.
- Jayne, T.S., & Kray, H. (2018). *Unmistakeable Signs of Agri-food Systems Transformation in Africa*. Agricultural Working Group (AWG) seminar, Dar es Salaam, Tanzania (9 April 2018)
- Kakuru, W.; Turyahabwe, N.; & Mugisha, J. (2013). *Total Economic Value of Wetlands Products and Services in Uganda*. The Scientific World Journal. Vol. 2013, Article ID 192656
- Kalemli-Ozcan, S.; Ryder, H.E.; & Weil, D.N. (2000). *Mortality decline, human capital investment, and economic growth*. Journal of Development Economics, Vol 62, Issue 1, pages 1-23. Available at: <https://www.sciencedirect.com/science/article/abs/pii/S0304387800000730>.



- Kikoyo, D. A., & Nobert, J. (2016) *Assessment of Impact of Climate Change and Adaptation Strategies on Maize Production in Uganda*. *Physics & Chemistry of the Earth*, Parts A/B/C, Edition 93, Elsevier Ltd. Available at: <https://www.sciencedirect.com/science/article/pii/S1474706515001060#:~:text=For%20both%20future%20climate%20scenarios,high%20rainfall%20regions%2C%20by%202050>.
- Kojo, N. C. (2014). Demystifying Dutch Disease. Available at: <https://openknowledge.worldbank.org/bitstream/handle/10986/19345/WPS6981.pdf?sequence=1&isAllowed=y> Washington, D.C.: World Bank.
- Mahmud, M. & Riley, E. (2020). *Household response to an extreme shock: Evidence on the immediate impact of the COVID-19 lockdown on economic outcomes and well-being in rural Uganda*. Working Paper.
- Matthews Ofori-Kuma, M., & Gebreyesus, T. (2019) *WASH in health care facilities – A UNICEF scoping study in Eastern and Southern Africa*. Available at: <https://www.unicef.org/esa/media/4826/file/UNICEF-WASH-in-Health-Care-Facilities-2019.pdf>.
- Mbonye and Sekamatte, (2018). *Disease outbreaks and reporting in Uganda*. Available at: [https://www.thelancet.com/journals/lancet/article/PIIS0140-6736\(18\)32414-0/fulltext](https://www.thelancet.com/journals/lancet/article/PIIS0140-6736(18)32414-0/fulltext).
- McSweeney, C.; New, M.; & Lizcano, G. (2010). *UNDP Climate Change Country Profiles: Uganda*. Available at: <http://bit.ly/2fsJ3Lc>.
- Merotto, Dino Leonardo. (2020). *Uganda: Jobs Strategy for Inclusive Growth*. Issue no. 19; Jobs Series Washington, D.C.: World Bank Group.
- Morgan, R.; Tetui, M.; Muhumuza Kananura, R.; Ekirapa-Kiracho, E.; & George, A. S. (2017). *Gender dynamics affecting maternal health and health care access and use in Uganda*. *Health policy and planning*, 32(suppl_5), v13-v21.
- Muratori L. (2016). *Price Gap along the Ugandan Coffee Value Chain*. FAO Working Papers series. ISSN 2385-2755.
- National Assessment of Progress in Education (NAPE) (2000) Uganda National Examinations Board.
- National Environment Management Authority (2019). *National State of the Environment Report (2018-2019)* Available at: <https://www.nema.go.ug/sites/default/files/NSOER%202018-2019.pdf>
- Nkonya, E.; Pender, J.; Kaizzi, K.; Kato, E.; Mugarura, S.; Ssali, H.; Muwonge, J.; (2008): *Linkages between Land Management, Land Degradation, and Poverty in sub-Saharan Africa. The Case of Uganda*. International Food Policy Research Institute.
- Notre Dame Global Adaptation Initiative (ND-GAIN, 2016) Country Index. Available at: <https://environmentalchange.nd.edu/resources/nd-gain/>
- O'Donoghue, J.; Crawford, L.; Makaanu, J.; Otieno, P.; and Perakis, R. (2018). *A review of Uganda's Universal Secondary Education Public Private Partnership programme*. Kampala: Uganda.
- Office of the Prime Minister and UNHCR. (2021, February) *Uganda Refugee Statistics*. Available at: <https://data2.unhcr.org/en/documents/details/85450>
- Ouédraogo, S.; Al-Hassan, R.; Amegashie, D.; Zohonogo, P.; and Sarpong, D. (2018) “*Analyzing Smallholders' Agricultural Commercialization in Burkina Faso: The Role of Transaction Costs and Households' Assets*”. *Review of Agricultural and Applied Economics*. Vol. 21.
- Partnership for Evidence-Based Response to COVID-19 (PERC) (2020, August). *Data Deck of Polling Results: Uganda*. Available at: <https://www.ipsos.com/sites/default/files/ct/publication/documents/2020-09/uganda-data-deck.pdf>
- Patey, L. (2015). *Oil in Uganda: Hard bargaining and complex politics in East Africa*. The Oxford Institute for Energy Studies, University of Oxford.
- ReliefWeb, (2015) *Economic Assessment of the Impacts of Climate Change in Uganda* <https://reliefweb.int/report/uganda/economic-assessment-impacts-climate-change-uganda-final-study-report-november-2015>
- RTI International (2017). *Repetition of Primary-1 and Pre-primary Education in Uganda*. International Development Working Paper No. 2017-02 (2017, June).
- Shneidman, S.; & Okwero, (2016). *Demographic Challenges and Opportunities in Uganda*. Mimeo. World Bank Group, Washington D.C.
- Stucka, Sebudde & Walker (2021, February) *Public Debt Transparency in Uganda, MTI Insights*, Washington, D.C.: World Bank.
- The Economist (2019). Uganda tries to dodge the “presource curse”. April 6th 2019 edition.



Tschirley, D.; Reardon, T.; Dolislager, M.; & Snyder, J. (2015). *The Rise of a Middle Class in East and Southern Africa: Implications for Food System Transformation*. *Journal of International Development*. (27) 5, July. 628–646.

Tsimpo, C., & Q. Wodon. 2019. *Measuring the Returns to Education in Uganda*. Mimeo, Washington, DC: The World Bank.

Uganda Bureau of Statistics (2016). *Uganda-National Panel Survey (UNPS) 2015-2016*, Ref. UGA_2015_UNPS_v01_M. Available at: <https://microdata.worldbank.org/index.php/catalog/3460>.

Uganda Bureau of Statistics (2018). Statistical Abstract. Available at: https://www.ubos.org/wp-content/uploads/publications/05_2019STATISTICAL_ABSTRACT_2018.pdf. Accessed May 22, 2019.

Uganda Bureau of Statistics (UBOS) & ICF (2018). *Uganda Demographic and Health Survey 2016*. Kampala, Uganda and Rockville, Maryland, USA: UBOS and ICF.

Uganda Bureau of Statistics (2019). Statistical Abstract. Kampala: UBOS.

Uganda Bureau of Statistics (2019, October). *National Land Physical Asset Account for Uganda: Technical Report*. Kampala: UBOS. Available at: https://ubos.org/wp-content/uploads/publications/11_2019UG_Physical_National_Land_accounts_Tech_Report_V9.pdf.

Uganda Bureau of Statistics (2020). *Uganda High-Frequency Phone Survey on COVID-19 2020-2021* Ref. UGA_2020_HFPS_v03_M. Rounds 1 and 2. Available at: <https://microdata.worldbank.org/index.php/catalog/3765>.

Uganda Bureau of Statistics (2021). Uganda - *National Panel Survey (UNPS) 2019-2020*

UNCHR (2020). *UNHCR Funding Gap*. Available at: <https://reliefweb.int/sites/reliefweb.int/files/resources/UNHCR%20Uganda%20-%202020%20Funding%20Update%20%28as%20of%205%20January%202021%29.pdf>

UNICEF & KIPPRA (2018). *Education and Training Brief*. Policy brief No. 64/2018-2019

UNICEF (2020) *Harnessing the Demographic Dividend in Uganda: An Assessment of the Impact of Multisectoral Approaches*. Kampala, Uganda.

UNIQUE, 2010. *Timber Market Study for SPGS*. Available at: https://spgs.mwe.go.ug/sites/files/Timber%20Market%20Study%202010_0.pdf

United Nations Uganda (2020, June). *Analyses of the Socioeconomic Impact of COVID-19 in Uganda*. Policy Brief. Available at: [file:///C:/Users/juanc/Downloads/Policy%20Brief%20WEB%20\(1\).pdf](file:///C:/Users/juanc/Downloads/Policy%20Brief%20WEB%20(1).pdf).

United Nations, World Population Prospects (2019). *Methodology of the United Nations population estimates and projections*. Available at: https://population.un.org/wpp/Publications/Files/WPP2019_Methodology.pdf.

United Nations Uganda (June 2020). *Analyses of the Socioeconomic Impact of COVID-19 in Uganda*. Policy Brief. Available at: [file:///C:/Users/juanc/Downloads/Policy%20Brief%20WEB%20\(1\).pdf](file:///C:/Users/juanc/Downloads/Policy%20Brief%20WEB%20(1).pdf).

Uwezo (2019). *Are our children learning? Uwezo Uganda eighth learning assessment report*. <https://learningportal.iiep.unesco.org/en/library/are-our-children-learning-uwezo-uganda-eighth-learning-assessment-report-2019>.

Walter, M. & Aubert, S. (2018). *Powering Uganda's Transformation*. Centre for Development Alternatives & Konrad-Adenauer-Stiftung. <https://cda.co.ug/711/reality-check-10-powering-ugandas-transformation-2/>

Wane, Waly and Gayle H. Martin (2013). *Education and Health Services in Uganda*. Services Delivery Indicators. Available at: <https://www.sdindicators.org/sites/sdi/files/826660ESW0Ugan090Box379862B00OU090%20.pdf>.

Wodon, Q.; Male, C.; Onagoruwa, A.; Savadogo, A.; & A. Yedan (2018). *The Cost of Not Investing in Girls: Child marriage, early childbearing, low education attainment for girls and their impacts on Uganda*. Washington, DC: World Bank.

Wodon, Q. (2019). *Cost-Benefit Analysis of Investments in Secondary School Expansion: Case Study of Uganda*. Unpublished draft.

Wolf, S. & Potluri, V. A. (2020) *Uganda's Oil: How Much, When and How Will it be Governed?* Chapter 14, taken from Mining for Change: Natural Resources and Industry in Africa. Page, J. and Tarp, F. <https://oxford.universitypressscholarship.com/view/10.1093/oso/9780198851172.001.0001/oso-9780198851172-chapter-14>

World Bank Group (2013) *Uganda Enterprise Survey*. Enterprise Analysis Unit (World Bank and IFC).

World Bank and UN Women (2015). *The cost of the gender gap in agricultural productivity in Malawi, Tanzania, and Uganda*.



World Bank and Government of Uganda (2015). *Economic Diversification and Growth in the era of oil and volatility*. Uganda Country Economic Memorandum. Washington, D.C.: World Bank.

World Bank, (2015). *Uganda Systematic Country Diagnostic*. Washington, D.C.: World Bank.

World Bank, (2015). Uganda Economic Update, 5th Edition: *The Growth Challenge: Can Ugandan Cities Get to Work?* Washington, D.C.: World Bank.

World Bank, (2015). *Uganda Economic Update, 6th Edition: Searching for the “Grail”: Can Uganda’s Land Support its Prosperity Drive?* Washington, D.C.: World Bank.

World Bank (2015/2016). *Development Goals in an Era of Demographic Change*. Global Monitoring Report. <https://www.worldbank.org/en/publication/global-monitoring-report>

World Bank, (2016, May). *Uganda Economic Update, 7th Edition: From smart budgets to smart returns: Unleashing the power of public investment management*. Washington, D.C.: World Bank.

World Bank (2018, June). *Closing the potential-performance divide in Ugandan agriculture*. Washington, D.C.: World Bank Group.

World Bank (2018, May). *Uganda Economic Update, 11th Edition: Financing Growth & Development – Options for Raising More Domestic Revenues*. Washington, D.C.: World Bank.

World Bank Group (2019, March). *Profiting from Parity: Unlocking the Potential of Women’s Business in Africa*. Washington, D.C.: World Bank.

World Bank (2019, May). *Uganda Economic Update, 13th Edition: Economic Development & Human Capital in Uganda: A Case for Investing More in Education*. Washington, D.C.: World Bank.

World Bank, Mott MacDonald (2019, 15 May). *Diagnostic Study of the UNRA Transformation*. World Bank, Uganda Office.

World Bank (2019a, June). *Uganda Social Protection Public Expenditure Review*. Washington, D.C.

World Bank (2019b, June). *The Political Economy of Domestic Resource Mobilisation in Uganda. Unpublished internal report*. Washington, D.C.

World Bank (2019, July). *Uganda Poverty Monitoring and Analysis. Detour from the Poverty Reduction Path: Uganda Poverty Update Note – Uganda National Household Survey 2016/17*. Washington, D.C.: World Bank.

World Bank (2020). *World Development Indicators*. Washington, D.C.: World Bank.

World Bank (2020, January). *Uganda Economic Update, 14th Edition: Strengthening social protection to reduce vulnerability and promote inclusive growth*. Washington, D.C.: World Bank.

World Bank (2020, March). *Uganda Oil Revenue Management – Closing Gaps in the Fiscal and Savings Frameworks to Maximize Benefits. Macroeconomics, Trade and Investment Global Practice Africa Region*. Washington, D.C.: World Bank.

World Bank (2020a, June). *Tackling the demographic challenge in Uganda*.

World Bank (2020b, June) *Uganda – Mining Sector Deep Dive*

World Bank (2020, September). *Uganda Trade Diagnosis Analysis. Internal preliminary background note for the SCD Update*. Washington, D.C.: World Bank.

World Bank (2020, December). *Uganda Economic Update, 16th Edition: Investing in Uganda’s Youth*. Washington, D.C.: World Bank.

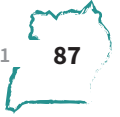
World Bank Development Research Group (2020, December). *Monitoring essential health services in times of COVID-19: Uganda, December 2020 Update*.

World Bank (2021). *World Development Indicators*. Washington, D.C.: World Bank.

World Bank (2021). *COVID-19 Impact Monitoring: Uganda, Round 4-5*. World Bank, Washington, DC.

World Bank (2021, June). *Uganda Economic Update, 17th Edition: From Crisis to Green Resilient Growth: Investing in Sustainable Land Management and Climate Smart Agriculture*. Washington, D.C.: World Bank.

World Bank Group (2021). *Uganda Country Private Sector Diagnostic*. Washington, D.C.: World Bank Group.



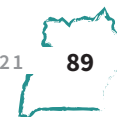
World Food Programme (2020, December) *WFP cuts refugees' food rations in Uganda as funding declines*. Available at: <https://www.wfp.org/news/wfp-cuts-refugees-food-rations-uganda-funding-declines>

World Health Organization (2010). *The World Health Report: Health systems financing; the path to universal coverage*.

World Health Organization (2021, June). *COVID-19 Weekly Epidemiological Report, Uganda Highlights*. 06-12 June 2021. Epi Week 23.

World Travel and Tourism Council. (2017). *Travel & Tourism, Economic Impact 2017, Uganda*.





ANNEX A: Summary of constraints to growth, inclusion and sustainability facing Uganda from 2015 SCD (not ranked)

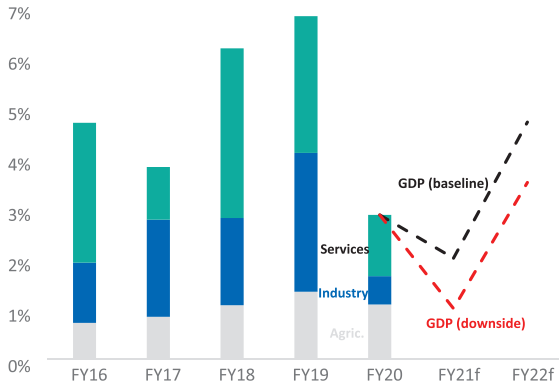
Growth	1	Expanding power generation capacity and investment in the electricity grid network
	2	Increasing maintenance expenditures for the national road network, investing in the northern trade corridor, and developing multimodal connectivity around Lake Victoria
	3	Addressing climate risks including for infrastructure
	4	Increasing low-cost access to finance for firms, including long-term finance
	5	Improving tax administration
	6	Reducing non-tariff barriers in trade
	7	Improving the urban policy and legal framework, land tenure system and markets, housing availability, and institutional capacity
	8	Addressing risks associated with the extractives sector
	9	Increasing the ICT backbone infrastructure
	10	Increasing women's participation in the labor market
Services for inclusion	11	Scaling up and sustaining health interventions in HIV/AIDS, malaria, and maternal and child health
	12	Improving public health services, particularly in the north and east of the country, by increasing input availability, reducing absenteeism, and improving infrastructure
	13	Improving primary and secondary education by targeting underserved areas, reducing the cost of education to households, reforming teacher education and incentive structures, and improving the curriculum, as well as introducing early childhood education/preschool to improve learner readiness
	14	Improving the relevance of and enrollment to vocational education programs to address the skills shortage
	15	Increasing household access to electricity by addressing the affordability of connection drops from the electricity distribution grid
	16	Improving access to and quality of water supply and sanitation
	17	Improving district and rural roads and urban public transport
	18	Improving land dispute resolution, national rate of land registration, land administration services, and landownership by women
	19	Increasing access to credit and financial services, particularly, savings instruments for individuals
	20	Increasing the coverage and targeting of social safety nets
	21	Improving agricultural water management (for crops, fishery, and livestock), storage, and agricultural extension services, particularly in the north and the east
Social and institutional sustainability	22	Preventing further land degradation, deforestation, and overfishing
	23	Improving and preventing further urban pollution
	24	Increasing domestic revenue generation
	25	Strengthening the allocative and financial efficiency of the budget, implementing clear and transparent PFM rules, and strengthening PIM
	26	Improving accountability at the central level by strengthening the functioning of the sanctioning authorities
	27	Improving accountability and horizontal equity at the local level through changes in the intergovernmental fiscal transfers and enhancement of own-source revenues of LGs
	28	Enhancing the provision of family planning services and the use of contraceptives

ANNEX B: Priority areas and proposed actions identified in 2015 SCD (not ranked)

Macro-fiscal stability	1	Improving domestic revenue mobilization and tax administration
	2	Strengthening the allocative and financial efficiency of the budget by implementing clear and transparent PFM rules, strengthening PIM and procurement, and encouraging PPPs to enable delivery of critical services
	3	Strengthening debt management to ring fence rising commercial borrowing and the burden of debt-service
	4	Build awareness of the need for highly resilient fiscal institutions ahead of the onset of oil revenues
Agricultural productivity and commercialization	5	Improving land and water management (for crops, fishing, and livestock) in a sustainable manner
	6	Improving agricultural storage facilities
	7	Strengthening extension services, particularly in the north and the east
	8	Increasing the use of quality agricultural inputs
	9	Improving rural feeder roads, particularly in the north, to reduce input costs and increase market access
	10	Increasing agricultural access to finance
	11	Strengthening land tenure security, rental markets, and institutions for land administration
	12	Reversing and preventing further land degradation, deforestation, and overfishing
	13	Addressing challenges of climate variability and change
Consumption smoothing	14	Strengthening the social protection system
	15	Increasing access to credit and financial services, particularly, savings instruments for individuals and through secure landownership to increase access to collateral-based credit
Public service delivery	16	Increasing public health and education expenditures with efficiency improvements
	17	Increasing access to social and infrastructure services for the bottom 40 percent and for the people in the north and the east of the country
	18	Improving the quality of public services (education, health, water supply and sanitation, electricity, roads, and the Internet) by addressing sector-specific challenges
	19	Improving the demand side of good governance by promoting the voice and accountability of citizens
Urbanization	20	Improving the urban policy and legal framework, land tenure system and markets, housing availability, and institutional capacity
	21	Strengthening urban public transport
	22	Preventing urban pollution
Fertility reduction	23	Enhancing the provision of family planning services and the use of contraceptives
Private sector competitiveness and diversification	24	Increasing low-cost access to finance for firms, including long-term finance
	25	Reducing administrative costs associated with taxes, land, buildings, construction permits, border crossings, and basic infrastructure
	26	Improving land markets by reducing the cost of transferring land
	27	Increasing maintenance expenditures for the national road network, investing in the northern trade corridor, and developing multi-modal connectivity around Lake Victoria
	28	Expanding electricity generation, access, and usage and improving reliability and access to ICT through expanding the NBI
	29	Improving district and rural roads
	30	Promoting technical and vocational training through partnerships and targeted programs for youth and women
	31	Increasing women's participation in the labor market
	32	Enhancing skills for and around the oil sector and in other productive sectors such as tourism
	Public sector effectiveness	33
34		Strengthening sanction mechanisms by consolidating fiduciary management systems and reinforcing central-level institution' accountability
35		Improving LG accountability and horizontal equity at the local level through strengthening of the intergovernmental fiscal transfer and enhancement of own-source revenues of LGs
36		Continuing to build specialized capacity for the oil sector

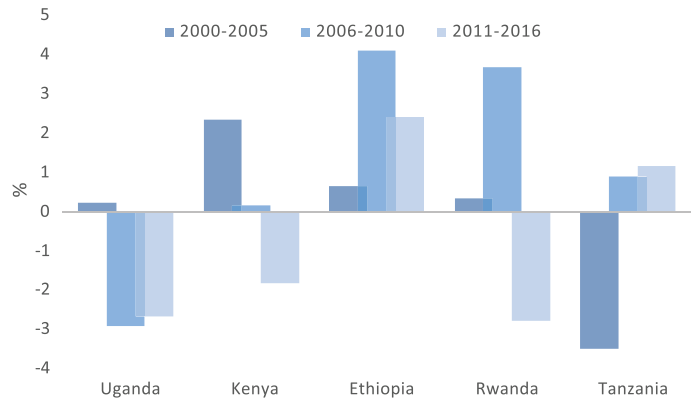
ANNEX C: Selected socio-economic indicators

Figure A1: Real GDP growth, sector contributions & outlook (% y/y)



Source: UBOS and World Bank estimates

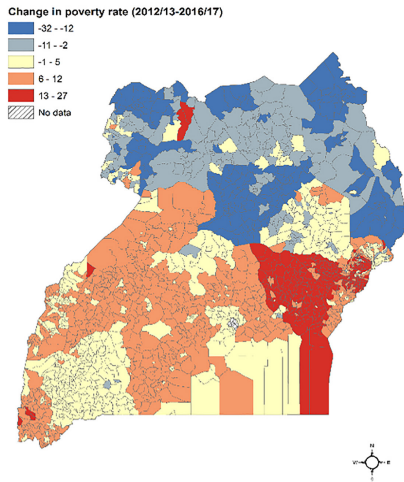
Figure A2: Total factor productivity in agriculture



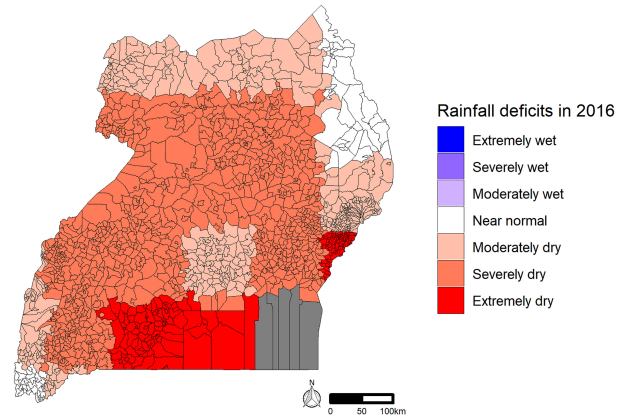
Source: USDA International Agricultural Productivity database

Figure A3: Recent Developments in Uganda

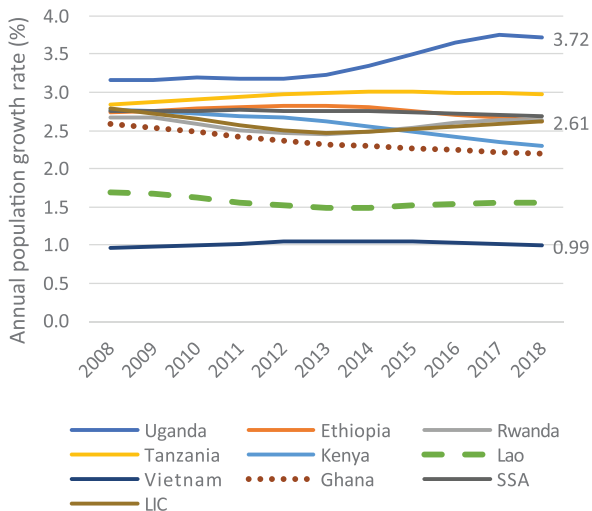
a. Change in poverty rate (2012/13 to 2016/17)



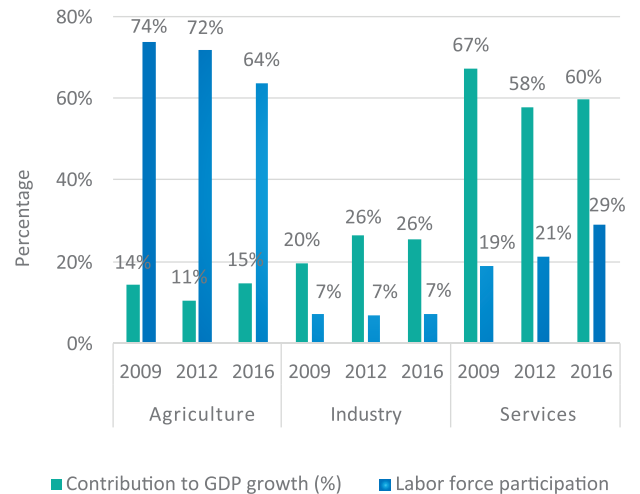
b. Rainfall deficits, 2016



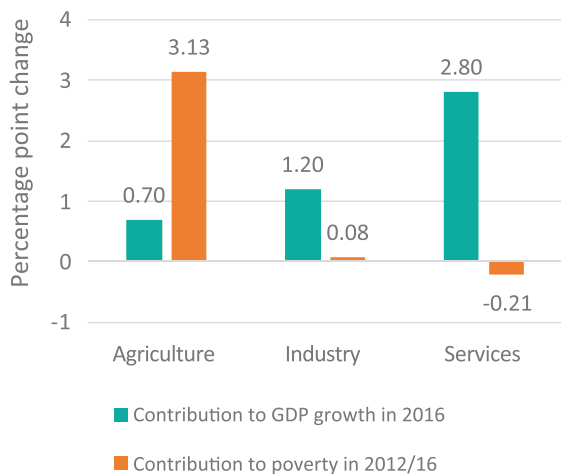
c. Uganda's population growth is considerably higher



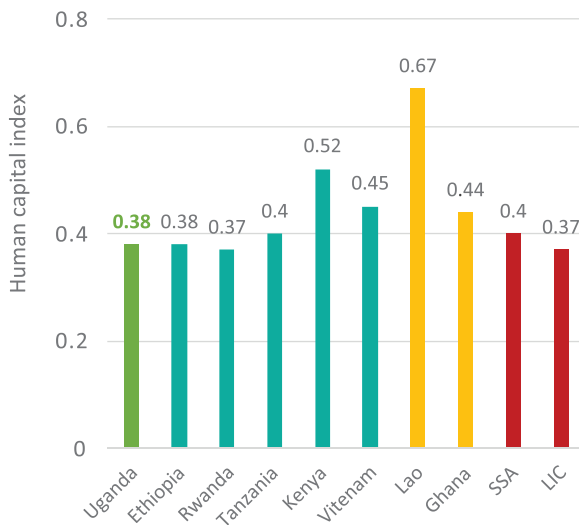
d. Comparison of contribution to GDP growth (%) and labor force participation (%) by sector, over time



e. Sectoral contribution to GDP growth (2016) and poverty reduction (2012 to 2016)



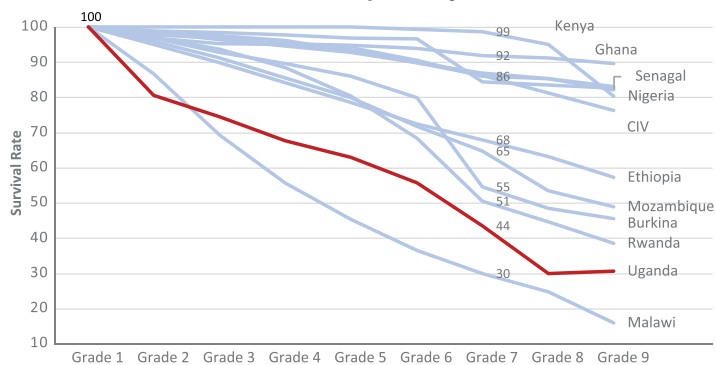
f. Uganda has low levels of human capital



Source: a,b) Own calculations with 2014 Census, UNHS 2016, and Standardized Precipitation and Evaporation Index (SPEI); c) WDI; d,e) Own calculations using UNHS and UBOS national accounts data; f) HCI country briefs.

Figure A4: Education Indicators in Uganda

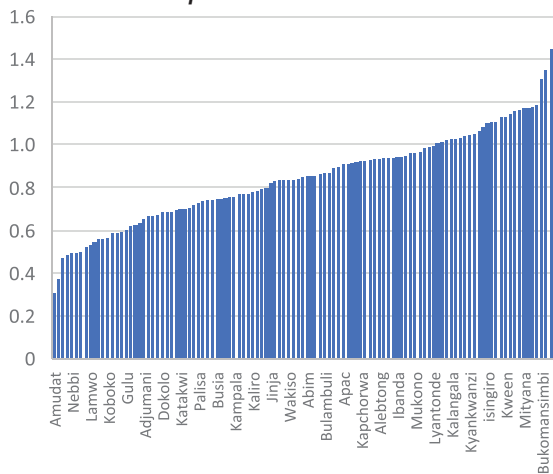
a. Survival rates in primary education



Source: Bashir et al (2018)

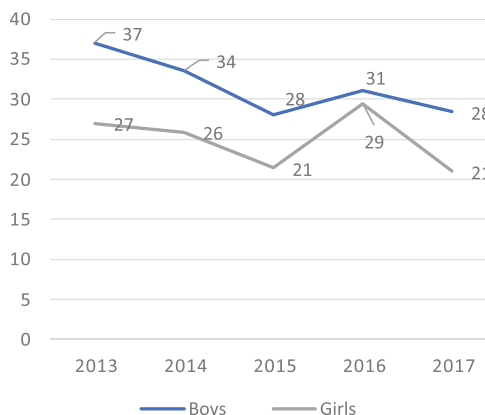
Note: Values had to be adjusted to allow cross-country comparisons, so they differ from national figures.

b. District specific variations in GPI

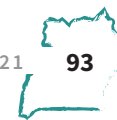


Source: GoU, Ministry of Education and Sports (2015)

c. Transition rates to Senior 5 in Uganda



Source: GoU, Ministry of Education and Sports (2017)



ANNEX D: Findings and implications of stakeholder consultations

From 3-20 March, the World Bank engaged in consultations to inform the preparation of the Uganda SCD Update. These consultations involved a series of virtual focus group meetings with stakeholders in Uganda to present the preliminary SCD Update draft. The objective of the consultations was to discuss the proposed priority areas and actions. Following these focus groups, the participants responded to an on-line survey to rank the priority areas and priority actions under each area. In addition, *Joy for Children Uganda* (a CSO dealing with advocacy for children) arranged a separate national level CSO consultative stakeholder meeting to discuss the priority areas and make further recommendations.

The virtual meetings and survey were complemented by three radio shows on KFM Hot Seat (14 March), Spectrum Show (15 March) and Capital Gang (20 March), where the Bank – led by the Country Manager – presented the priorities proposed in the SCD Update. The objective of the radio shows was to socialize ideas and obtain views from the broader public. These shows were accompanied by a social media campaign to generate further discussion and record additional views. As a result of these activities, the Bank received substantial inputs and views from the Ugandan public, the youth, government officials, project coordinators, parliamentarians, the private sector, CSOs and development partners (DPs).

The main discussions included the importance of enhancing Uganda's human capital to spur the development agenda. This will rely strongly on improving service delivery focusing on education, health and women's empowerment, and translating policies and interventions into real change. Concerns were raised, however, about how the COVID-19 crisis has widened inequalities in relation to human capital development and that interventions going forward will need to specifically target helping poorer households catch up. Participants felt this could also include further emphasis on addressing the deficit in vocational and skills training. Regarding women's empowerment, a strong message came through about getting more women into positions of leadership and governance –

as one participant remarked “women need more seats at the table where decisions are being made”. Also, given that most women work in the informal sector, more attention needs to be given to both supporting the growth of women-owned businesses in this sector, as well as the transition of these businesses into the formal economy. The latter is linked to a strong message concerning the importance of the informal economy in Uganda and how more needs to be done to encourage – “rather than thwart” – activity and productivity in this sector, which is a “critical vestibule for innovation and job creation, particularly amongst the youth”.

There was broad agreement throughout the consultations about the benefits of improving the business environment and enhancing competitiveness of key sectors; sectors mentioned most frequently were agro-processing, manufacturing, logistics and transport, financial services, tourism, and the digital economy. Key to enhancing competitiveness is the provision of broader access to capital and better development and management of urban areas – as one participant remarked “the success of our cities will be key to determining our children's future”. Although the oil sector was highlighted by a few participants as important to the country's future, there was generally a more cautious view of the sector going forward, and a desire to ensure that other aspects of the economy are developed ahead of a potential oil bonanza. For example, the consultations emphasized the importance of the rural sector for Uganda's growth, particularly the agricultural sector and Uganda's “abundant environment”. Issues that came to the fore to enhance prospects for Ugandan farmers included improving market access and productivity, through better infrastructure and extension services, and the “resolute enforcement of quality and standards”.

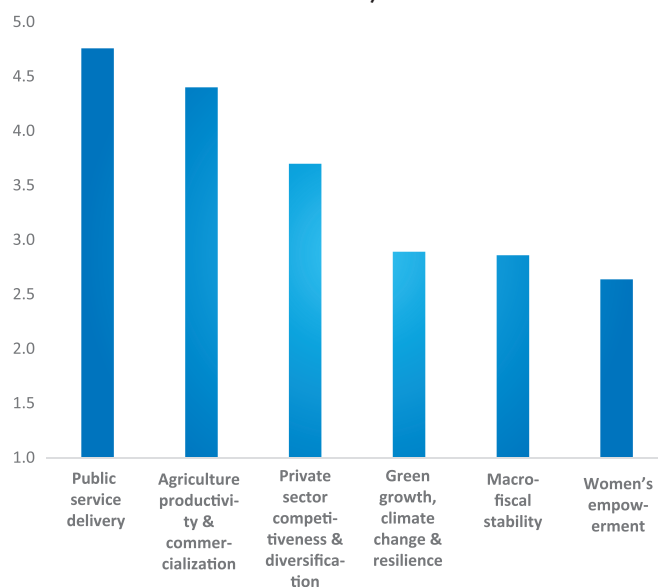
A key cross-cutting discussion in the consultations revolved around issues related to governance, including fiscal sustainability and debt, corruption, institutional capacity building, taxes, and public service delivery. There were mixed views, however, on the state of the political environment, with mainly CSOs and DPs outlining the great risks that the current situation

poses to development outcomes, given the “fragility of institutions” and lack of accountability. Overall, however, there was a strong sense for the need to enhance service delivery and fight corruption. This would include a sustained effort to build institutional capacity, working more closely with civil society and “astutely bringing in the private sector to augment public service delivery”. The consultations also affirmed that the COVID-19 crisis has largely aggravated long-standing development challenges that Uganda was already facing.

There was broad agreement with the proposed priority areas and actions. Participants felt, however, that the Bank could be more explicit in how these priorities are supporting developments in the oil sector. There could also be more emphasis on support to the informal sector, SMEs, refugees, and marginalized areas of the country. The Bank was asked to consider how strengthening of institutions could feature more prominently in the priority actions. Following the consultations, the fourth priority area was adjusted to clearly emphasise long standing environmental and green growth issues, which are being exacerbated by climate change. The consultations clarified that more work is required to have a better understanding of the nature and challenges of the informal sector. Many other issues that were discussed were largely already reflected in the SCD Update, affirming the Bank’s assessment of the key challenges facing Uganda and the priority areas in the medium term.

The on-line survey resulted in the ranking of priority areas, as depicted in Figure A5. The ranking was broadly similar across different groups of respondents (i.e. government, private sector, DP and other). Table A1 shows the top two priority actions by each priority area.

Figure A5: Ranking of priority areas (overall score from 1 to 6)



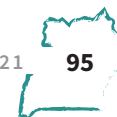
Source: Results from the on-line survey to participants in the World Bank’s Uganda SCD Update Consultations (March 2021)

Note: These were the proposed priority areas in March 2021, which were subsequently adjusted and refined following internal consultations with the Country Team and Country Management Unit in April 2021.

Table A1: Top two priority actions by each priority area

Public service delivery	<ol style="list-style-type: none"> 1. Increasing public health, education and water supply/sanitation expenditures 2. Improving good governance by promoting voice/accountability of citizens
Agriculture productivity & commercialization	<ol style="list-style-type: none"> 1. Increasing access to markets 2. Improving access to and adoption of high-quality agro-inputs
Private sector competitiveness & diversification	<ol style="list-style-type: none"> 1. Increasing low-cost access to finance 2. Adding value and diversifying export products and markets
Green growth, climate change & resilience	<ol style="list-style-type: none"> 1. Preventing/reversing land degradation, deforestation, and wetland destruction 2. Strengthening implementation/coordination of environmental policies/laws
Macro-fiscal stability	<ol style="list-style-type: none"> 1. Improving domestic revenue mobilization and tax administration 2. Strengthening budget processes, credibility, and compliance
Women’s empowerment	<ol style="list-style-type: none"> 1. Educating girls 2. Increasing women’s productivity in agriculture and access to non-farm jobs

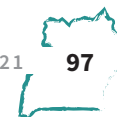
Source: Results from the on-line survey to participants in the World Bank’s Uganda SCD Update Consultations (March 2021)



ANNEX E: Evolution of 2015 SCD Priority Areas

2015 SCD Priority Areas	Evolution since 2015
<p>Macro-fiscal stability</p>	<p>Improving domestic revenue mobilization and tax administration</p> <ul style="list-style-type: none"> Uganda's tax revenues averaged 11.6 percent of GDP between FY16-FY20, well below the government's medium-term target of 16 percent and below the 11.9 percent of GDP in FY15 Despite earlier tax policy reforms and efforts to modernize tax administration, Uganda has made limited progress in enhancing tax revenues over the last half a decade A large informal sector (approximately 80 percent of firms) and generally weak tax administration pose challenges to increasing revenues A sub-optimal tax policy framework and strategy limits Uganda's revenue efforts, with widespread tax exemptions resulting in foregone revenues estimated at 4-6 percent of GDP each year <p>Weak PFM and PIM continue to exacerbate fiscal vulnerabilities</p> <ul style="list-style-type: none"> Persistent under-execution of the Budget and PIM inefficiencies have constrained: i) the ability of government to address infrastructure gaps; ii) arrest cost overshooting; and iii) improve productivity and logistics <p>Debt sustainability has deteriorated steadily since 2015</p> <ul style="list-style-type: none"> Public debt has risen considerably from 27 percent of GDP in FY15, to an expected 50 percent in FY21, while interest payments increasingly diminish the fiscal space The rise in public debt has occurred despite the rebasing exercise in 2019 that raised nominal GDP by about 17 percent, which reflected better the enlarged repayment capacity of the country <p>SCD Update proposal: <i>Maintained as a priority area – raising revenues and using public resources more efficiently to maximize returns on investments are critical for improving fiscal and debt sustainability.</i></p>
<p>Agricultural productivity and commercialization</p>	<p>Agricultural productivity remains stagnant and far below potential</p> <ul style="list-style-type: none"> Low yields of staple crops have remained fairly constant, constrained by distorted input markets due to ineffective interventions by OWC Growing rural density has caused increasing land fragmentation and shrinking farm sizes, which constrains productivity and incentives to commercialize Land and water management has deteriorated, with degradation of soils increasing in recent years Farming is exposed to increasing climate variability and weather shocks, as exemplified by the impacts of the 2016/17 drought <p>Commercialization opportunities have yet to be fully leveraged</p> <ul style="list-style-type: none"> Demand for food and agricultural products has been increasing rapidly, creating opportunities along the agricultural value chain Successes in certain value chains, such as coffee, dairy, and maize, have highlighted the potential benefits from vertical integration <p>SCD Update proposal: <i>Maintained as a priority area – including increasing access to input and output markets (especially reliable commercialization opportunities) and low-cost finance; strengthening agricultural research, extension services and land tenure security; and promoting vertically integrated agri-business operations through transport and storage facilities.</i></p>

<p>Consumption smoothing</p>	<p>Strengthening the social protection system</p> <ul style="list-style-type: none"> • Although a vision for social protection has been articulated in Uganda, the coverage of social protection programs is low. For example, the allocation to social development, which includes social protection programs, was only 0.7 percent of the overall government budget in FY20 • The share of the population receiving direct income support declined, from 4.5 percent of the population in 2013 to 3 percent in 2018, one-third of the East African average of 9 percent and less than half of the low-income country average of 7 percent • COVID-19 has highlighted the need for a stronger, targeted and shock-responsive social protection system <p>Increasing access to credit and financial services</p> <ul style="list-style-type: none"> • The lack of savings and insurance instruments for most households undermines resilience in the face of shocks • Further increasing access to credit and financial services, especially among women, is an essential component of resilience • Opportunities exist to strengthen community institutions such as savings groups <p>SCD Update Proposal: <i>Actions related to consumption smoothing will be incorporated as part of the green growth, sustainable urbanisation, and resilience priority area.</i></p>
<p>Public service delivery</p>	<p>Public service delivery is stressed by a growing population</p> <ul style="list-style-type: none"> • While primary school enrolment is still high, completion rates have declined slightly since 2015 and the downward trend is likely to continue in the short term due to the COVID-19 crisis • Access to secondary education remains low and unequal, insufficient to meet the growing demand. While the total number of students enrolled in secondary education has increased by over 50 percent in the last 10 years, the pace of growth has been too slow to offset demographic growth and the increasing number of primary school graduates, stagnating at a Gross Enrollment Rate of 25 percent since 2010 • Despite recent improvements in health outcomes, Uganda faces many obstacles to achieving the national and global health sector goals. The current level of financing for the health sector, at about US\$ 51 per capita, is far less than the US\$ 72 per capita required to promote universal access and achieve health-related sustainable development goals • Improved water and sanitation access rates have deteriorated over the last five years, especially in rural areas, and meeting the SDG for universal access to sanitation by 2030 will be difficult given the current underinvestment in necessary infrastructure • While households' access to electricity has improved, from 27 percent in 2016 to 43 percent in 2018, limited access to electricity remains a major constraint for Uganda's non-farm sector <p>The quality of public service delivery remains very poor</p> <ul style="list-style-type: none"> • The rapid expansion of the primary education system has not been accompanied by adequate measures to reduce teacher absenteeism, introduce quality standards, boost learning, and reduce over-crowding in early grades; consequently, learning outcomes have continued to worsen. Spatial disparities in education are of concern – completion rates for children in Northern Uganda are 1.6 times less than in Central Uganda • Improving the efficiency of health spending can generate considerable savings in the health budget and create a more sustainable system <p>SCD Update Proposal: <i>Two priority areas (public service delivery and public sector effectiveness) are merged into one (governance and service delivery) to address more explicitly governance and service delivery implementation issues and provide a basis to work within a weakening governance environment. A priority area on human development and women's empowerment is introduced given the marked deterioration in human development outcomes since the 2015 SCD and to give prominence to issues that have become more significant as a result of the impacts of the COVID-19 pandemic.</i></p>



<p>Urbanization</p>	<p>Urban infrastructure is under increasing strain</p> <ul style="list-style-type: none"> Uganda has one of the fastest urbanization rates globally (5.3 percent), which threatens to derail the expected benefits of agglomeration economies as rapid unplanned urban development is putting significant pressure on the delivery of social and infrastructure services Slums and informal settlements provide accommodation for an estimated 60 percent of Uganda’s urban dwellers <p>Urban pollution and environments have worsened</p> <ul style="list-style-type: none"> Congestion, poor roads, lack of commercial space and inadequate housing feed into deteriorating living and working conditions in cities and towns across Uganda <p>Land management is still a major development challenge</p> <ul style="list-style-type: none"> Although it has become somewhat easier to transfer land between different entities (including individuals, households, and firms, due to increased registration and titling), land tenure insecurity has increased; with systems to ensure that government acquisitions are conducted in the public interest and with fair and full compensation under question Weak institutional capacities of land administration agencies have contributed to illiquidity of land markets, constraining the development of the financial sector, land markets and more efficient cities <p>SCD Update Proposal: <i>Maintained as part of a new priority area on green growth, sustainable urbanization, and resilience – it is critical to ensure urban areas, and GKMA in particular, are fit for purpose in supporting the economic transformation.</i></p>
<p>Fertility reduction</p>	<p>Fertility rates remain high</p> <ul style="list-style-type: none"> The TFR in Uganda is still slightly above 5 births per women, associated with early age at marriage and of childbearing With high fertility rates, Uganda’s annual population growth rate has increased from 3.2 percent in 2010 to 3.6 in 2019 (fourth highest globally), and, over the last five years, Uganda’s population growth has been almost 1 percentage point higher than the SSA region and LICs <p>Pace of fertility reduction diverges across regions and by household wealth</p> <ul style="list-style-type: none"> The adoption of modern contraceptives in Uganda has been slow and lags significantly relative to other countries in the region – according to the 2016 UDHS, 35 percent of married women and 47 percent of sexually active unmarried women use any form of modern contraception a relatively wide gap remains between desired fertility and observed fertility – on average, Ugandan women (ages 15-49) have one more child than they plan to have <p>SCD Update Proposal: <i>Issues related to fertility reduction are better encapsulated by a broader priority area around women’s empowerment, including areas that have strong linkages with reduced fertility such as educating girls.</i></p>
<p>Private sector competitiveness and diversification</p>	<p>Although Uganda has improved across several measures of business environment performance in recent years, significant challenges remain</p> <ul style="list-style-type: none"> The substantial increase in mobile phone ownership (almost 70 percent of the population) is laying the foundation for Uganda’s digital transformation and enabling the rapid take-up of digital services, improving productivity by increasing access to information and facilitating greater coordination Processes to obtain a business and investment license are still cumbersome, contract enforcement is tough, there are difficulties with the regulatory environment and the public-private interface, and corruption remains a major issue There is little evidence that firm survival rates have improved since 2015, with SME survival rates being particularly low – only 10-15% survive after 5 years Job creation in the non-farm sector suffered a setback due to the COVID-19 crisis



	<p>The financial sector is unable to provide the types of services required to fuel economic transformation</p> <ul style="list-style-type: none"> • The cost of finance is high, and very few firms have a bank loan or line of credit, and those who do face high costs and large collateral requirements • The high share of informality also poses a challenge for providing financing to small businesses in Uganda • Given the likelihood of a further sharp deterioration in the asset quality of the banking sector, access to finance may become even more limited for firms in the next few years <p>Enabling infrastructure remains largely a work in progress</p> <ul style="list-style-type: none"> • Despite heavy infrastructure investments by government, infrastructure services remain a key binding constraint to many firm operations. For example, only 58 percent of the urban population currently has access to electricity compared to 89 and 84 percent in Rwanda and Kenya <p>Export growth primarily occurs by exporting higher volumes of the same products</p> <ul style="list-style-type: none"> • Formal exports remain concentrated on a narrow range of products with low value addition, including a few agricultural commodities, and its top five markets • Participation in global value chains has deteriorated since 2010 and, at less than 30 percent, is on average lower than in its peer countries • High trade costs and non-tariff barriers (e.g. poor quality, packaging and handling) hamper export performance <p>SCD Update Proposal: <i>Maintained as a priority area – which includes increasing low-cost access to finance (including loans for short-term COVID-19 recovery and longer-term finance), reducing administrative costs associated with setting up and running a business, developing secondary cities/towns and growth corridors, and adding value and diversifying export products and markets.</i></p>
<p>Public sector effectiveness</p>	<p>Emerging weaknesses in governance and corruption remain a major and intransigent issue</p> <ul style="list-style-type: none"> • Political dynamics have diminished the government’s appetite for structural reforms • Cases of high-level corruption continue and put into question accountability of the executive and political leadership <p>Fast expansion in the cost of public administration through subdivision of administrative units</p> <ul style="list-style-type: none"> • Specific human resource gaps, low pay and motivation and inadequate capacity underpin weaknesses in institutional capability • Management and oversight of service delivery is often weak, and accountability systems do not function <p>Decision-making has become increasingly centralized</p> <ul style="list-style-type: none"> • Within and outside the ruling NRM party, power and interests are now more contested, creating a more complex route to decision making <p>SCD Update Proposal: <i>Two priority areas (public service delivery and public sector effectiveness) are merged into one (governance and service delivery) that more explicitly addresses governance and service delivery implementation issues and provides a basis to work within a weakening governance environment.</i></p>



For more information please visit
www.worldbank.org/uganda

Join discussion on

✉ ugandainfo@worldbank.org

📘 <http://www.facebook.com/worldbankafrica>

🐦 <http://www.twitter.com/worldbankafrica>

📺 <http://www.youtube.com/worldbank>



WORLD BANK GROUP