Final Evaluation of Uganda's Second National Development Plan

(NDP II 2015/16-2019/20)

Economic Management Thematic Report

August 2022

Acknowledgement

This Economic Management Thematic Report of NDP II End Term Evaluation was prepared by Research for Transformation and Development. Preparation of this report benefitted from consultation and validation meetings with Government Ministries, Departments and Agencies, and Local Governments. The Consultants extend their appreciation to all stakeholders consulted for their support, patience, knowledge and unwavering good spirit during our work.

Disclaimer

The contents of this Thematic Report are the sole responsibility of the author.

.

Acronyms and Abbreviations

AEO	Authorized Economic Operator
BFP	Budget Framework Paper
BoU	Bank of Uganda
CSO	Civil Society Organisation
DPC	Document Processing Center
EAC	East African Community
EPRC	Economic Policy Research Centre
ESW	Electronic Single Window
FDI	Foreign Direct Investment
GAPR	Government Annual Performance Report
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
GoU	Government of Uganda
ICT	Information Communication Technology
KCCA	Kampala Capital City Authority
LDC	Least Developed Country
LPI	Logistics Performance Index
MAAIF	Ministry of Agriculture, Animal Industries and Fisheries
MDAs	Ministries, Departments and Agencies
MEACA	Ministry of East African Community Affairs
MEMD	Ministry of Energy and Minerals Development
MfPED	Ministry of Finance Planning and Economic Development
MGLSD	Ministry of Gender, Labour and Social Development
MIA	Ministry of Internal Affairs
MICT	Ministry of Information and Communications Technology
MLHUD	Ministry of Lands, Housing and Urban Development
MoD	Ministry of Defence
MoES	Ministry of Education & Science
MoFPED	Ministry of Finance, Planning and Economic Development
MoH	Ministry of Health
MoJCA	Ministry of Justice and Constitutional Affairs

MoWE	Ministry of Water and Environment
MoWT	Ministry of Works and Transport
MPS	Ministerial Policy Statement
MTEF	Medium Term Expenditure Framework
MTIC	Ministry of Trade Industry and Cooperatives
ETE	End-term evaluation
MTWH	Ministry of Tourism, Wildlife and Heritage
NDP	National Development Plan
NPA	National Planning Authority
OBT	Output Based Tool
OPM	Office of the Prime Minister
PIP	Public Investment Plan
PPPs	Public Private Partnerships
PSFU	Private Sector Foundation of Uganda
SACCO	Savings and Credit Cooperative
SDP	Sector Development Plan
SMEs	Small and Medium Enterprises
SWG	Sector Working Group
ToR	Terms of Reference
TPEP	Tax Payer Expansion Program
UBOS	Uganda Bureau of Statistics
UCDA	Uganda Coffee Development Authority
UDB	Uganda Development Bank
UDC	Uganda Development Corporation
UEPB	Uganda Export Promotions Board
UFZA	Uganda Free Zone Authority
UNBS	Uganda National Bureau of Standards
URA	Uganda Revenue Authority
URSB	Uganda Registration Services Bureau
VAT	Value Added Tax
WEF	World Economic Forum

Table of Contents

Acknowledgement i
Acronyms and Abbreviations ii
Table of Contents iv
List of Tables vii
List of Figures viii
Executive Summary ix
CHAPTER 1: INTRODUCTION 1
1.1 Background 1
1.3 Purpose and Scope of the Economic Management Thematic Area ETE 4
1.4 Approach to the Economic Management ETE 4
1.5 Organisation of the report 7
CHAPTER 2: PERFORMANCE OF THE REAL ECONOMY 9
2.1 Real Gross Domestic Product Growth 9
2.2 Real Gross Domestic Product and Sector Contribution 10
2.3 Sources of Growth 14
2.4 GDP per Capita 19
2.5 Improvement in Competitiveness of the Ugandan Economy 20
2.5.1 Uganda's Global Doing Business Rankings 20
2.5.2 Global Competitiveness Ranking Index 23
2.6 Competitiveness Ranking of Uganda's Logistics Sector 3
2.7 Government Efforts to Leverage Private Sector Investment in productive sectors of the Economy for industrialization 5
2.8 Conclusions 16
CHAPTER 3: FISCAL STRATEGY 17
3.1 Fiscal Performance 17
3.2 Public Debt 22
3.3 Domestic Revenue Mobilisation 27
3.4 Composition of expenditure 33
3.5 NDP II Funding 37

3.6 Financing of NDP3 42
CHAPTER 4: PRICE AND MONETARY DEVELOPMENTS 45
4.1 Monetary Policy Stance and Inflation 45
4.2 The Foreign Exchange Market 46
4.3 Credit Financing to the Private Sector 47
4.4 Lending Interest Rates 50
Conclusion 53
CHAPTER 5: EXTERNAL SECTOR PERFORMANCE 54
5.1 External trade growth and Performance 54
5.1.1 Merchandise Trade 54
5.1.2 Growth of Exports 54
5.1.3 Exports as a Percentage of GDP 55
5.2 Balance of Payments 55
Conclusion 59
CHAPTER 6: OECD EVALUATION CRITERIA ANALYSIS 60
6.1 Relevance 60
6.2 Effectiveness 61
6.3 Efficiency 64
6.4 Impact 65
6.5 Sustainability 66
CHAPTER 7: RECOMMENDATIONS 71
7.1 Performance of the Real Economy 71
7.2 Fiscal Performance 74
7.3 Price and Monetary Developments 78
APPENDICES 79
Appendix 1: Selected BoP memorandum indicators 79
Appendix 2: Progress of Key Development Indicators as of end of NDPII 80
Appendix 3: Implementation progress of Flagship Infrastructure Projects 81
Appendix 3: Implementation status of National roads NDP11 as of June 2020 86
Appendix 3-1: Completed Projects 86
Appendix 3-2: Ongoing Projects 87
Appendix 3-3: Projects Under Procurement for Civil Works 88
Appendix 3-4: Projects with Completed Feasibility Studies and Detailed Engineering Designs 88

Appendix 3-6: Outstanding Projects 90
Appendix 4: Implementation status of Works on Bridges, June 2020 91
Appendix 5: Implementation Status of Expressways 92
Appendix 6: Progress on Implementation of Works in the Water Sector 93
Appendix 7: Implementation Progress of Selected Power Transmission Lines in FY 2019/20 93

List of Tables

Table 1: OECD evaluation criteria 6
Table 2: NDP II Real GDP Growth Projections........ 10
Table 3: NDP II Sectoral Shares and Implied Growth Projections 12
Table 4: Real GDP by economic activity (% contribution to GDP at basic prices (= value added)) 13
Table 5: Real GDP growth by main economic activity 14
Table 6: GDP per capita at constant 2009/10 prices 19
Table 7: Uganda's Doing Business Ranking Across the Ten Topics 21
Table 8: Uganda Global Competitiveness Index Ranking Index 1
Table 9: LPI ranking of Uganda and other regional countries 3
Table 10: Industrial Park Development for FY2019/20 11
Table 11: Medium-Term Fiscal Framework (UGX bn) 20
Table 12: Debt Distribution Total Public Debt by Source Category as at 31st December 2019 (US$ Billion)........ 26
Table 13: Trends in URA tax collections (UGX Billion) 2010/11 to 2019/20 31
Table 14: Tax and Non-Tax Revenue collection as a Percent of GDP........ 32
Table 15: Allocation of spending for the five years of NDP II 39
Table 16: Government Actual Expenditure and NDP II Sector Allocation Alignment (Percentages) 41
Table 17: Selected indicators of central Government Operations (FY2014/15-2019/20) 41
Table 18: Sector Distribution of Outstanding Credit to the Private Sector (% of GDP) 49
Table 19: Exports as a Percentage of GDP 55
Table 20: Percentage annual growth of the main export commodities........ 56
Table 21: Balance of payments (USD million) 57
Table 22: Current account – NDP II targets and Outturns (percent of GDP) 58
Table 23: Gross International Reserves – NDP II targets and Outturns 58
Table 24: OECD Evaluation Criteria Analysis 68

List of Figures

Figure 1: Real GDP Growth (y-o-y percent change) 10
Figure 2: Sectoral share of GDP 11
Figure 3: Annual GDP growth rates by Sector 2010-2019/20 14
Figure 4: Fiscal deficit (% of GDP) 17
Figure 4: Fiscal deficit (% of GDP) 18
Figure 5: Expenditure (% GDP) 19
Figure 6: Sources of financing for Deficit 22
Figure 7: Financing instruments-NDP II (Billion Uganda shillings) 23
Figure 8: Public Debt (% of GDP) 24
Figure 9: Trend and distribution of interest payments 26
Figure 11: Distribution of Domestic debt holding by Category 27
Figure 12: Development and recurrent spending 33
Figure 13: Budget outturn over the review period 38
Figure 15: Trends in Annual Inflation 45
Figure 15: Average exchange rate (UShs per 1 US$) 47
Figure 17: Outstanding credit to private sector (percent of GDP) 48
Figure 18: Sectoral shares of credit to the private sector as of June 2018 & June 2020 50
Figure 19: Lending Interests rates among EAC countries 51
Figure 20: Trends in CBR, Core Inflation and lending interest rates 52
Figure 21: Value of Uganda’s External Trade ($ Million) 54

Executive Summary

This report presents the findings of the end-term evaluation (ETE) of the second National Development Plan (NDP II) 2015/16 to 2019/20, for the economic management thematic theme. This economic management thematic report covers four broad performance areas, namely, real economy, fiscal policy, monetary policy and external sector. The thematic report looks broadly at the extent to which the economy performed and whether the rates of growth were sufficient to meet the NDP II targets. The assessment also interrogates the extent, to which the economic management reforms were implemented, the results of these reforms and the impact they had on public expenditure management and accountability during the course of NDP II.

Over the five years of NDP II, Uganda registered an average annual real GDP growth of 5.9%, below the NDP II projection of 6.0% average growth over this period. The slow growth rates were partly attributed to drought that affected the agricultural sector, the poor performance of the manufacturing sector, the COVID-19 pandemic and slow implementation of the prioritised infrastructure projects. Equally, NDP II implementation has not led to changes in the structure of GDP. Services continued to dominate contribution to GDP over the review period. As expected, Services continued to dominate contribution to GDP over the review period. In 2019/20, the Services accounted for 43% of GDP, while agriculture, forestry and fishing and Industry were 24% and 27% respectively. From the base year (2014/15), the contribution of the Services sector to GDP decreased by 5.0 percentage points, while the contribution of agriculture, forestry and fishing remained virtually unchanged and that of Industry increased by 7 percentage points.

Food crops remain the dominant contributor to GDP, followed by livestock and forestry. However, the contribution of all agriculture sub-sectors registered a decline except cash crops and fishing, which registered a 1 and 25 percentage point increase respectively. Manufacturing remained the dominant contributor to output in the industry sector followed by electricity. The contribution of Industry increased by 6 percentage point as a result of increase in the contribution of the manufacturing sub-sector by 18 percentage points from 8.7% in the base year (2014/15) to 16% in 2019/20. NDP II, higher than the projected increase in the share of manufacturing in GDP from 9.0% in 2015/16 to 14.0% in 2019/20. The services sector contribution decreased by 2.0 percentage points on account of a decreases in most categories, notably a 11-percentage point

decrease in the contribution of information and communication technology (ICT). Trade and repairs still dominate services but it registered an average 7.0 percentage point decline in contribution to GDP. The NDP II did not delivered the rapid growth in GDP per capita required to enable the country to achieve middle income status by 2020.

Uganda's competitiveness improvement has been assessed based on two global business competitiveness indices, namely the Doing Business ranking/index, the global Competitiveness Index and the Logistics Performance Index. Over the five years of NDP II, Uganda improved her ranking in the global doing business rakings by 19 positions but is but is nevertheless lagging behind the target by 5 positions. In other words, the quality of the business environment has improved (in relative terms), but not by as much as hoped – perhaps because other countries have improved faster. On the other hand, Uganda's ranking in the Global Competitiveness Index (GCI) has declined. The NDP II target was for Uganda to attain the rank of 90 out of 148 countries by 2019/20, but according to the 2019 GCI report, Uganda was ranked 104th of 140 countries, showing that the country was still lagging behind the target by 14 positions, even with the number of comparators reduced by 8 countries. Uganda's competitiveness ranking has deteriorated over the review period. Uganda's GCI rank was 113 out of 135 countries in the 2017 GCI report and 115 out of 140 countries 2016 GCI report. The Logistics Performance Index (LPI), 2018 ranked Uganda 72th out of 167 countries, lagging behind Kenya at 63nd, Rwanda at 65st and Tanzania at 67nd, but better than DRC ranked at 143rd and Burundi at 154th out of the 167 countries.

Industrial development has been accelerated which is premised on the promotion and pursuit of sustainable private investment, a conducive business environment, adoption of appropriate technologies and appropriate infrastructure. The proportion of the industrial sector's contribution to GDP in Uganda rose from 20.6 percent in 2012/13 to 24.5 percent in 2019/20. The economy reported strong growth in 2019, estimated at 6.3 percent. Industrial growth was at 6.2 percent, largely driven by construction and mining. Currently, it is estimated that industrial productivity is seven to eight times higher than that in the services and agriculture sectors. However, it is not growing fast enough to absorb the approximately 600,000 youth entering the job market annually. Following Government appreciation of the challenges that came with privatisation, especially, failure to attract private sector investment in critical but high risk investments and those requiring large capital investment, Government re-established the Uganda Development Corporation (UDC)

to serve as the investment arm of Government. It has since made investments in strategic areas in agro-processing, mineral development, and infrastructure development. Other initiatives to enhance industrialization and private sector development included industrial parks development, operationalization of Uganda Free Zone Authority (UFZA, and the re-capitalization of Uganda Development Bank (UDB) and re-orienting its operations to support NDP II priorities.

Uganda has continued with an expansionary fiscal policy, characterized by a widening primary deficit. The fiscal deficit including grants increased from 2.8% of GDP in 2014/15 to 4.8% in 2017/18, and reached 8.7% in 2019/20. The fiscal deficit excluding grants has increased from 4.5% in 2014/15 to 6% in 2017/18 and reached 10.2% in 2019/20. However, an expansionary fiscal stance was projected in NDP II. In fact, the actual deficits have been smaller than projected in NDP II. For instance, in 2019/20 the actual deficit (excluding grants) was 10.2% of GDP, whereas the projected deficit was 4.8 percent in 2019/20.

This fiscal expansion has seen aggregate spending increasing over the five years of NDP II except in 2016/17 when it declined by 1.1%. Expenditure increased from 18.9% of GDP in 2014/15, reaching 27.4% in 2019/20 higher than the projected in NDP II, at 20.83% in 2019/20. Throughout the NDP II, actual expenditures have come in consistently below budget, although expenditure has increased as a share of GDP.

The fiscal deficit has been financed through a combination of domestic and external borrowing. Over the five years of NDP II, Government relied more on external funding sources than domestic financing of the deficit. External borrowing has been dominated by concessional and non-concessional project loans. Over the five years of the NDPII, concessional project loans accounted for 51% of external financing, while non-concessional project loans accounted for 39%, budget support accounted for 5% while revolving credit funds account for 4%. Government's continued reliance on public debt to finance the budget deficit has increased public debt to unprecedented levels. Public debt as a percentage of GDP increased from 31.2% in 2014/15 to 41 % in 2019/20. Domestic debt peaked at 13.1% of GDP in 2015/16 before falling to 12% of GDP in 2019/20. On the other hand, external debt continued to increase over the review period from 18.9% in 2014/15 reaching 40% of GDP in 2019/20. Notwithstanding higher public debt, the increase is lower than projected in NDP II. In 2019/20 the actual level of public debt was 41% of GDP, compared to the

NDP II projection of 42.0%. This reflects lower than projected expenditure and deficits. Even though the increase in debt is well within sustainability limits, it is nevertheless causing actual or potential problems. Domestic debt is leading to crowding out of lending to the private sector, and it is not yet clear that investments financed by external debt will generate the returns necessary to service the debt. This raises questions as to whether the (higher) projected increase in debt in NDP II would have had an adverse impact, given the implications for domestic borrowing and on crowding out.

In line with Government's increasing deficit financing Government interest payments rose from 1.70% of GDP in 2015/16 to 2.3% of GDP in 2019/20. Interest payments are projected to increase further in the medium term on account of increased borrowing. The increase in interest payments is largely attributed to increased use of short term domestic financing to finance government spending. Indeed, the domestic share of interest payments is very high, it accounted for 87.4% of interest payments in 2015/16, decreasing to 84.1% in 2018/19 and 83.4% in 2019/20, reflecting the burden of using short-term domestic borrowing instruments to finance the budget deficit.

The NDP II financing strategy emphasises increased domestic revenue mobilisation to finance NDP II implementation. The NDP II target was to increase tax to GDP ratio from 13.0 percent in 2014/15 to 15.3 per cent in 2019/2020. Within the five years of NDP II implementation, the tax to GDP ratio increased by 4 percent, from 11.7% in 2014/15 to 12.2% in 2019/20. This improvement in the tax to GDP ratio is less than the NDP II projections, which envisaged a tax to GDP ratio of 15.7% in 2019/20. Despite this performance, in line with NDP II, revenue mobilisation has faced challenges. The government and URA have faced difficulties in reining on tax concessions, despite this being a commitment in NDP II – hence the poor performance of corporate tax revenues. Collections and compliance are also considered to remain weak in some areas.

Both development and recurrent spending are driving the recent fiscal expansion, although development spending is expected to increase faster than recurrent spending. The share of recurrent expenditure decreased from 60.8% in 2015/16 to 49.5 % in 2019//20, while over the same period, the share of development expenditure increased from 39.2% to 50.5%. Whereas expenditure reached 22% of GDP in 2019/20, average spending over the five years of NDP II averaged 18.9% of GDP. This is lower than the projected NDP II spending that was projected to

peak at 23.0% of GDP in 2016/17. Lower overall spending is partly attributed to the slow implementation of some infrastructure projects. It is also quite unlikely that such a large and growing development budget can be implemented efficiently. First, there is an absorptive capacity issue, and whether the economy can absorb such an increase in spending without running into capacity problems leading to inflation. Second, robust process for selecting development projects for inclusion in the national development plan, i.e. focusing on high return projects with proper appraisal before inclusion in the National Development Plan. Third, low efficiency in implementing development projects on account of wastage and leakages.

A review of the annual budgets for the five years under NDP II revealed that the total approved budgets for the five years was 152 trillion. However, total expenditure over the five years was 112 trillion, equivalent to 73% of the NDP II budget. A review of budget expenditures revealed a 69.8% outturn in 2015/16 (i.e. the percentage of the approved budget that was actually spent), 66.2% in 2016/17 and 70.5% in 2017/18, 74% in 2018/19 and 82% in 2019/20. Accordingly, the budget outturn over the review period is estimated at 73% of the total budget.

Of the 107.610 trillion spent over the five years of NDP II, 55.432 trillion (52%) was recurrent expenditures. This is higher that the projected allocation of 48% of NDP II budget going to recurrent expenditures. On the other hand, 45.406 trillion (48%) of spending was towards development expenditure, which is lower than the NDP II target of 52% of the budget. The allocation of spending for the five years of NDP II. Overall, whereas the thrust of the NDP II funding strategy is to frontload infrastructure investment, by allocating more budgetary resources under the development budget, the development budget expenditure has been less than projected under NDP II. The reason for the under spending on the development budget could be mainly because of delays in project implementation as most of the development expenditure was to be funded through external loans. The effectiveness of public spending in boosting growth could be improved through establishment of a project bank. This would mean that projects are subject to sufficient preparatory work to (i) establish a reliable costing figure and (ii) undertake a pre-feasibility assessment including a cost-benefit appraisal. This would enable the implementation period to be shortened, due to the preparatory work undertaken, as well as ensure that projects are not constrained by inadequate funding due to poor initial costing. It would also enable the prioritisation of projects to have the greatest development impact.

On the monetary side, the NDP II target is to maintain core inflation within a band centered on 5 percent. The band is currently +/- 2%, resulting in a target range of 3% - 7%. Annual inflation peaked at 6.6% 2015/16 before reducing to 3.6% in 2019/20. The monetary policy stance has been effective in containing inflation over the review period, despite some volatility in food and energy / fuel prices.

The exchange rate was reasonably stable from 2010/11 to 2013/14, weakened dramatically through to 2015/16, and was more stable up to the end of the NDPII. Over the period as a whole, the UGX has depreciated on average by 8% a year against the USD. However, over the five years of NDP, the exchange rate depreciation was lower than the 17.7% depreciation experienced over the five years of NDP I.

The ratio of private sector credit to GDP decreased by 10.4 percentage points over the five years of NDP II compared to a 6.5 percentage points increase over the five years of NDP I. The average lending interest rate (%) in 2020 was 20.1%, a slight decline from 23.9% in 2016, 22.6% in 2015, 21.6% in 2014, 23.3% in 2013 and 26.2% in 2012. The average lending rate in Uganda in 2020 was the highest in the region compared to 16,7% in Tanzania, 16.3% in Rwanda, and 12.0% in Kenya. The high interest rate spread in Uganda may be attributable to a variety of different factors: the SME nature of Ugandan companies that are associated with higher risks and higher loan losses; high overhead costs reflecting the large number of banks and duplication of infrastructure; and the high levels of capital held by Ugandan banks. In addition, the high interest rates on treasury bills and government bonds provide a lower bound for the risk-free lending rate and continue to crowd out lending to the private sector. Real GoU bond yields are exceptionally high, which has an impact on spreads and lending rates. The high interest rate increases the cost of financing by business community, making Ugandan products uncompetitive in the regional market. Accordingly, high levels of government spending and deficit financing have a wider, negative impact on the economy that may counteract the beneficial impact of government spending on infrastructure.

Uganda's external trade performance has improved over the last five years. According to Bank of Uganda external trade statistics, Uganda's exports have registered a 41% growth in normal value over the five years of NDP II compared to a 19.2% growth registered during the NDP I period. On the other hand, imports have growth by 8.1% compared to 6.3% registered during NDP I. Over the

five years of NDP II, Uganda has continued to experience a negative trade balance, but which improved by 27.5% compared to an improvement of 2.2% registered during NDP I.

NDP II strategy aimed at increasing the ratio of exports to GDP to 9.95% by 2020. With the improved export performance, Uganda surpassed her target of attaining the export to GDP ratio of 9.95% by 2020 in 2015/16 as shown in table 18. There is some evidence, therefore, that the NDPII objective of export-led growth was achieved.

The current account balance improved on account of improved performance of exports and decline in imports. The current account balance (excluding grants) has improved from a deficit of $1,356.81million in 2015/16, reaching $1028.57million in 2016/17 before deteriorating to $2,512.57 million in 2019/20. The capital account has registered positive and improving balances albeit from a low base. The outturn for the current account balance is substantially better (smaller) than the projected current account deficit in NDP II.

The level of gross international reserves turned out to be lower in absolute terms than projected in NDP II, but higher in terms of import cover. This may reflect that the actual level of imports is lower than projected in NDP II, which is most likely related to the slower than anticipated progress in implementing major infrastructure projects

In conclusion, various factors have seemingly contributed to the lower than expected growth performance during the first half of NDP II: these include drought, the slow implementation of infrastructure and energy projects, and delays in achieving improvements in the business environment and global competitiveness, compounded by the very high costs of domestic credit. This was aggravated by the COVID-19 disruptions that affected most of the 2019/20.

The monetary policy has largely been effective in controlling inflation and maintaining stability of the economy as evidenced by low and stable inflation and the relatively stable exchange rate. The whole structure of interest rates in Uganda is high, in real terms, due to a combination of factors, including high policy rates (CBR), crowding out through higher government borrowing (bond rates), and structural factors in the banking system (high NPLs, over-capitalisation, and high operating costs).

External sector performance has been generally positive during the first half of NDP II. There have been growing exports, stable imports (volatile but with no upward trend), and a declining trade deficit. This suggests that the external account has responded positively to the depreciation of the Uganda shilling in the latter years of NDP I. The positive assessment of external sector performance is supported by the smaller than projected current account deficit, and higher than anticipated international reserves (measured in terms of import cover). Nevertheless there are some future external account risks, given that imports are expected to rise sharply as major infrastructure projects are implemented, and this could lead to larger current account deficits, hence greater reliance on capital inflows, and potential pressure on the exchange rate and international reserves.

Applying the OECDE Criteria, shows that on the whole, the analysis shows that the plan as designed was relevant but the implementation reduced this relevance to the attainment of the national priorities. This means that even with meticulous planning, without effective implementation of the priorities in the plan, this limits the relevance of the plan. On the effectiveness measure, the analysis shows that the plan was not effective in growth and productivity promotion especially due to the misalignment in expenditure away from productive sectors of the economy. This means that the quality of expenditure is as important as the increase in dispensed resources especially in promoting growth, productivity and competiveness in the economy.

On the efficiency analysis, the plan execution was shown not to have been efficient in using resources to target the most impactful priorities outlined in the plan. Therefore, the per-dollar outcome could have been better is the resources were more efficiently deployed. The impact analysis, showed that the plan generally had a positive impact on the livelihoods of the population. The outcomes shows impactful spending and some positive budgeting and execution in spite of the shortcomings indicated above. On the sustainability measure, the analysis found a mixed bag, with some positive outcomes on debt but poor ones on climate change and credit to the private sector.

To improve performance of the Real Economy the ETE recommends strengthening: delivery of Infrastructure projects; and Alignment of NDP II, MTEF and the National Budget through: a) reviewing the certificate of compliance issuance framework of the national budget to NDP II, to include minimum deviations (flexibility) that can be allowed on both recurrent and development budgets and releases for the different sectors, and b) adoption of penalties for sector agencies who significantly deviate from planned and approved development priorities under the NDP. With regard to fiscal performance, there is need to: continue implementing measures to strengthen tax

administration and efficiency; reduce borrowing from domestic market; and explore new options for funding NDP Implementation and extend the tax bracket to sectors or areas that have largely remained untaxed including commercial agriculture and provincial wholesale and retail trade and matching tax policy needs to be better matched with sectoral development with the most profitable sectors attracting the highest taxes as determined by research and analysis. In terms of price and monetary developments, monetary policy has largely been effective in controlling inflation and maintaining stability of the economy as evidenced by low and stable inflation and the relatively stable exchange rate. The ETE recommends that the BoU/MoFPED investigate in more detail the appropriate level of the CBR should be to achieve the desired inflation objective.

Chapter 1: Introduction

1.1 Background

1. This report presents the findings of the end term evaluation (ETE) of Uganda's second National Development Plan (NDP II) on the economic managementthematic theme, which forms one part of the six parts of an independent end-term evaluationof NDP II, 2015/16 to 2019/20, commissioned by the National Planning Authority (NPA). The five other thematic areas of the ETE are: results framework; policy and strategic direction; institutional framework;development partnerships; and political economy; as well as an overall synthesis report. Separate work has been conducted on the cross-cutting issues of gender, environment, social protection, nutrition and food security, human rights, child rights and well-being, and democracy and political governance which has been included in the end-term evaluation thematic reports.

2. The terms of reference for the evaluation emphasised the importance of highlighting the challenges encountered during the five years of implementation of the plan and of making recommendations for the NDP III.

1.2 Uganda's Macroeconomic Policy/Vision

3. The over-riding aim of Uganda's economic policy is sustained economic growth and transformation from a least developed country (LDC) to a middle income country. Within this framework, the Vision 2040[1] has been formulated as a long-term development planning framework. Uganda Vision 2040 provides development paths and strategies to operationalise Uganda's Vision statement which is *"A Transformed Ugandan Society from a Peasant to a Modern and Prosperous Country within 30 years"*. The Vision 2040 is conceptualized around strengthening the fundamentals of the economy to harness the abundant opportunities within and outside the country, including her geographical location and trade that are to date considerably under-exploited.

[1]National Planning Authority: Vision 2040 document, National Development Plan II

4. The Vision 2040 identifies nine specific opportunities: oil and gas, tourism, minerals, ICT business, abundant labour force, geographical location and trade, water resources, industrialization, and agriculture. On the other hand, the fundamentals include: infrastructure for (energy, transport, water, oil and gas and ICT); science, technology, engineering and innovation; land; urban development; human resource; and peace, security and defence.

5. The Vision 2040 strategy adopts a quasi-market approach, which includes a mix of Government investments in strategic areas and private sector market-driven actions. Government has committed to promote and encourage Public-Private Partnerships (PPPs) in a rational manner, and invest in areas of strategic and national interest with potential to stimulate the establishment of secondary and tertiary industries. Some of these industries require large amounts of capital, have high risks and long turn-around times, and may thus be less attractive to the private sector alone; the involvement of Government through PPPs can potentially help to mitigate some of these disadvantages. In addition, the Government will continue to pursue outward-oriented policies by encouraging inward foreign investment,and exports with high value addition, as well as pursuing sound macroeconomic policy and management.

6. Government is committed to exploiting Uganda's location to develop it into a regional hub for industrial production, trade and transit, and air transport. To exploit these opportunities, Government has undertaken to invest in integrated state of the art infrastructure development and maintenance in the areas of energy generation, road and railway infrastructure connecting to all major border points. This will be achieved in partnership with the neighbouring countries, South Sudan, Kenya, DRC, Rwanda and Tanzania. The Vision 2040 is operationalised through five year NDPs and Sector Development Plans. As such, NDPs each of 5 years are envisaged to support the transformation of Uganda's economy from a low-income, subsistence agriculture baseto a diversified, prosperous country within 30 years. At the moment Uganda has gone through NDP1 for the period 2010/11 to 2014/15, the NDP11 over 2015/16 to 2019/2020, and is halfway through the implementation of the NDP III.

7. Specifically, NDP I sought to: 1) increase per capita income to US$ 850; 2) enhance labour productivity; and 3) improve human development outcomes. NDP11 sought to consolidate the achievements of NDPI and to secure Uganda's transition to a middle income economy by 2020. NDP II sought to achieve the following objectives: 1) increasesustainable production, productivity and value addition in key growth opportunities; 2) increasethe stock and quality of strategic infrastructure to accelerate the country's competitiveness; 3) enhance human capital development; and 4) strengthen mechanisms for quality, effective and efficient service delivery. Achieving the aforementioned objectives will involve the following strategies: 1) sustaining peace and security; 2) prudential macro-economic management with fiscal expansion for frontloading infrastructure investments; 3) industrialization and export-oriented growth through value addition, agro-processing, mineral beneficiation, and selected heavy and light manufacturing; 4) employment creation through fast-tracking skills development and harnessing the demographic dividend; 5) appropriate PPPs for sustainable development; 6) continued support for private sector development within a quasi-market approach; and 7) strengthening governance mechanisms and structures.

8. The NDP II is the second in a series of six five-year Plans aimed at achieving the Uganda Vision 2040. The goal of this Plan is to propel the country towards middle income status by 2020 through strengthening the country's competitiveness for sustainable wealth creation, employment and inclusive growth. In propelling Uganda's transition to a middle-income economy, NDP II focuses on reducing the infrastructure deficit while at the same time leveraging on human capital development gains made during NDP I. It was expected that strategic infrastructure investments such as the 1) standard gauge railway (SGR); 2) oil refinery; 3) energy generation and transmission; 4) ICT; 5) roads; 6) water; and 6) improving facilities for air transport would go a long way in enhancing Uganda's competitiveness. With regard to development opportunities, NDP II focused on agriculture, tourism and mining and oil and gas. It was expected that investment in infrastructure and development opportunities would be across the entire value chains while leveraging from sectoral linkages and ensuring efficiency in resource utilization. With respect to fiscal policy, NDP II effort were targeted towards maintaining macroeconomic stability while at the same time positioning Uganda competitively to leverage from the EAC Common Market.

1.3 Purpose and Scope of the Economic Management Thematic Area ETE

9. The purpose of the NDP II ETE on the economic management thematic area is to assess the progress made against set objectives and results, identify challenges and emerging issues and recommend specific actions to address them in the remaining period of NDP III and for the design of NDP IV. It includes details of policy actions undertaken as per commitments in the NDP II, economic performance outcomes, and identifies where policy commitments have been met or not.

10. The thematic report is aimed at generating information and documenting progress in implementing Uganda's national economic vision. The ETE assessment focuses on the efficiency and efficacy of the national economic governance and management framework in terms of enhancing opportunities and poverty reduction for the ordinary citizen's welfare.

11. The ETE assessment of the NDP II economic management thematic area covers four broad areas, namely:

    (i) Real Economy: this involves documentation of Uganda's economic growth, including analysis of the contribution of key sectors of the economy, and drivers of the growth.
    (ii) Fiscal Sector Performance: assessment of fiscal policies of the NDP period and its performance in terms of tax revenue, NDP II funding and government expenditure,
    (iii) Monetary Sector Performance: assessment of the monetary sector, including progress with achieving key monetary sector targets of macroeconomic stability in terms of inflation, exchange rates, credit to the private sector and money supply.
    (iv) External Sector Performance: assessment of the performance of the external sector in terms of trade (exports and imports of goods and services), and external funding on NDP II priorities through debt and other instruments.

1.4 Approach to the Economic Management ETE

12. The ETE of the economic management thematic area has mainly relied on desk review and analysis of official statistics and published reports of the Government Ministries Departments and Agencies (MDAs), especially the Uganda Bureau of Statistics (UBOS),

Bank of Uganda (BOU) and the Ministry of Finance Planning and Economic Development (MfPED). Information from these reports has been trangulated with Key Informant Interviews and Focus Group Discussions with various stakeholders in the economic management thematic area. The following process was followed in preparing this report:

(i) Review of literature on Uganda's Economic Management framework, including the economic management strategy of NDP II, and evaluating its dynamics over the 5 years of implimentation.

(ii) Secondary data collection and synthesis. Data was collected from official statistics, databases and published reports of Government and international organisations. The data sources used include UBOS, BoU, Uganda Revenue Authority (URA) reports, MFPED, and Ministry of Trade Industry and Cooperatives reports, among others.

(iii) Trangulation with information collected from Key Informant Interviews and Focus Group Discussions with stakeholders in the economic management cluster of the economy.

(iv) Drafting the report, focusing on generating evidence and understanding of consequences of the economic management strategy as outlined in NDP II and how it has been implemented during the first three years of the NDP II.

13. The approach of the economic management ETE assessment is to assess the extent to which the macro-economic co-ordination that was instituted between MoFPED, NPA and BoU supported the achievement of the macro-economic objectives and targets of the NDP II. The theme also looks broadly at the extent to which the economy performed, the case for the current rate of performance, and if current rates of growth were sufficient to meet the NDP II targets. The assessment also interrogates the extent to which the economic management reforms were implemented, the results of these reforms and the impact they had on public expenditure management and accountability in the five years of the NDP II implimentation.

14. The Consultants adopted the OECD evaluation criteria as espoused in the ToR to determine the extent to which the NDP II was relevant to the development context of the time; the

efficiency of utilization of resources at hand; the effectiveness in delivery of its intended purpose and results; the impact felt after its implementation and the impact of the reforms. These criteria are summarised in the table 1 below.

Table 1: OECD evaluation criteria

OECD Criterion	Overall Evaluation Questions
Relevance	Was the NDP II design well-conceived given the social, economic and political situation? Was it relevant and appropriate in addressing the country's development challenges? To what extent did it contribute to directing the strategic direction of the Government and its partners?
Effectiveness	What is the level of achievement of planned NDP II development outcomes? What are the reasons for the state of achievement? What support and barriers affected achievement of development results?
Efficiency	Did NDP II deliver development outcomes in a timely and cost effective manner? Do the results (quantitatively and qualitatively) justify the resources expended?
Impact	To what extent did NDP II contribute to the National Vision 2040 outcome targets and goals? Were there unanticipated positive and negative consequences?
Sustainability	Was there an enabling environment that support on-going positive impacts? Can the positive outcomes and impacts be sustained for achievement of middle-income status and Vision 2040?

15. Within the above are the overarching evaluation questions, the economic management thematic report followed the following review questions:

EM1	**Were the macro-economic objectives/targets articulated in NDPII achieved?**
EM2	• The extent to which the NDPII macro-economic framework strengthened the country's competitiveness for sustainable wealth creation, employment and inclusive growth • How did the NDP influence macro-economic strategy and related reforms in Uganda?
EM3	Extent of pursuance of macro-economic stability with fiscal expansion for frontloading infrastructure investments and industrialization
EM4	To what extent were reforms in economic management guided by NDPII
EM5	To what extent were NDPII priorities were effectively budgeted for and financed
EM6	To what extent were the NDPII focus areas adopted as priorities for implementation
EM7	How well were macro policy instruments used to achieve economic stability and growth?
EM8	To what extent was public expenditure and related accountability systems changed to ensure alignment of budgets, spending and financial reporting with the NDP objectives

EM9	What progress was made on unlocking the key economic constraints to growth?
EM10	How did NDP implementation contribute to improvements in productivity, private sector development and competitiveness?
EM11	To what extent did deregulation take place and how well did this facilitating private sector growth and competitiveness?
EM12	To what and how did additional private sector funds harnessed to finance NDP priorities?
EM13	How environmentally sustainable has been Uganda's economic growth?
EM14	From an EM perspective, what can be done to improve the next version of the NDP?

1.5 Organisation of the report

16. The report is organised in three parts. Part one presents preliminary information which includes the title page, table of contents, acknowledgment, list of abbreviations, an executive summary and indicators summary sheet.

17. Part two is the main body or report text. The main text is organised in five chapters which comprise:

(i) Chapter 1 that explains the context in which the economic management thematic area report for the end-term evaluation has been prepared including the background to the ETE itself, economic management framework and NDP II strategy, the approach that has been used in preparing the thematic paper, and the way in which the paper has been organised.

(ii) Chapter 2 presents an overview and findings on real economy performance and sources of growth over the five years of NDP II;

(iii) Chapter 3 presents fiscal Sector Performance in terms of tax revenue, NDP II funding and government expenditure,

(iv) Chapter 4 presents monetary Sector Performance, highlighting achievement of key monetary sector targets of macroeconomic stability in terms of inflation, exchange rates, credit to the private sector and money supply to facilitate economic growth.

(v) Chapter 5 presents the External Sector Performance, highlighting the achievements of the external sector in terms of trade (exports and imports of goods and services), and external funding on NDP II priorities through debt and other instruments.

(vi) Chapter 6 draws together the main conclusions and makes recommendations.

18. Part three contains appendices or supportive information for the main text such as reference documents and detailed analysis tables.

Chapter 2: Performance of the Real Economy

2.1 Real Gross Domestic Product Growth

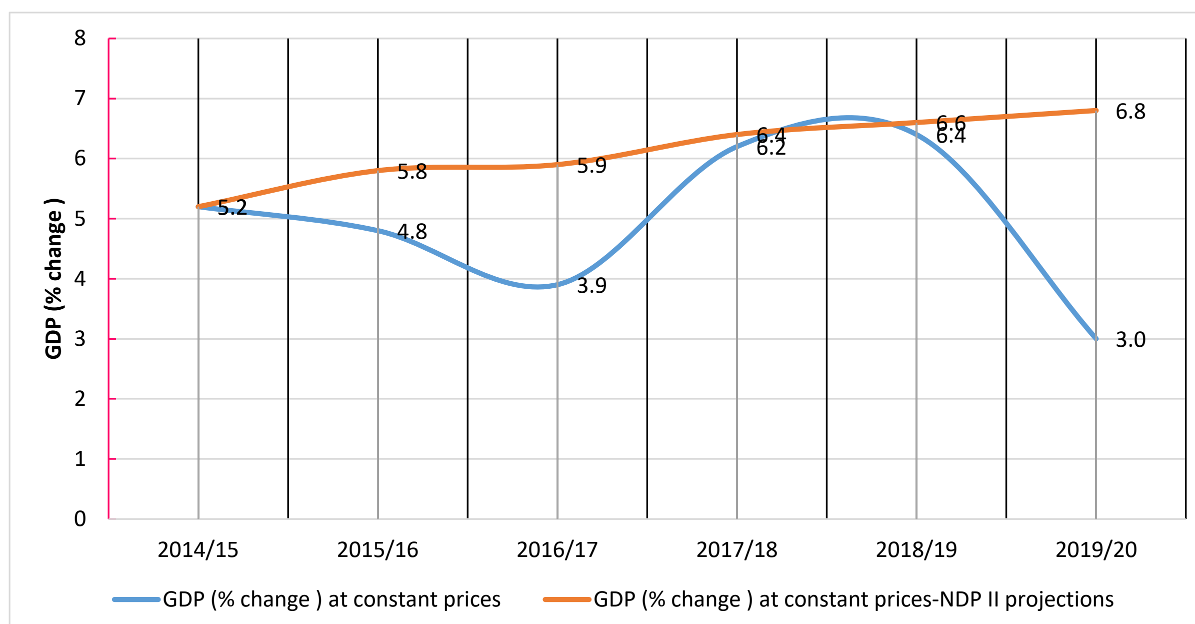
19. NDP II anticipated a gradual increase in real GDP growth, from 5.5% in 2015/16 to 6.3% in 2019/20. This was not achieved. From the base year (2014/15 – the final year of NDP I) real GDP growth rate of 5.2%, Uganda registered a decline in real GDP growth, falling to 4.8% in 2015/16 and 3.9% in 2016/17. The economy then recovering strongly to 6.2% in 2017/18 and 6.4 percent in 2018/2019 before falling sharply to 3.0 percent in 2019/2020. The slow growth rates in 2015/16 and 2016/17 were partly attributed to drought that affected the agricultural sector and the poor performance of the manufacturing sector while the sharp drop in 2019/2020 was mainly due to COVID-19 which resulted in the lock down of the economy in the first half of 2020.

20. Over the fve years of NDP II, Uganda registered average annual real GDP growth of 4.9%, below the NDP II projection of 6.0% average growth over this period. Average annual GDP growth over the five years of NDP II is also lower than the average growth rate of 5.4% recorded during NDP 1. Over the review period, the annual GDP growth rates have consistently been lower than the projected growth rates under NDP II except in 2017/18 when it barely touched it as summarised in figure 1.

21. To attain the NDP II target average GDP growth rate of 5.9% by end of NDP II (2019/2020), Uganda needed to implement development projects such as the standard gauge railway project and road projects quicker while increasing the productivity of the agricultural sector and the manufacturing sector which did not materialrize as expected.

22. One problem with assessing progress in achieving the NDP II growth projections is inconsistencies within the NDP II document itself. For instance, the summary Table 5b (Objectives Level Indicators) has a different set of GDP growth projections than the text Table 2, as follows:

Figure 1: Real GDP Growth (y-o-y percent change)



Source: UBOS

Table 2: NDP II Real GDP Growth Projections

	2015/16	2016/17	2017/18	2018/19	2019/20	Average NDP II
NDP II Table 5B	5.5	5.7	6.0	6.1	6.3	5.9
NDP II Table 5.3	5.8	5.9	6.4	6.6	6.8	6.3

2.2 Real Gross Domestic Product and Sector Contribution

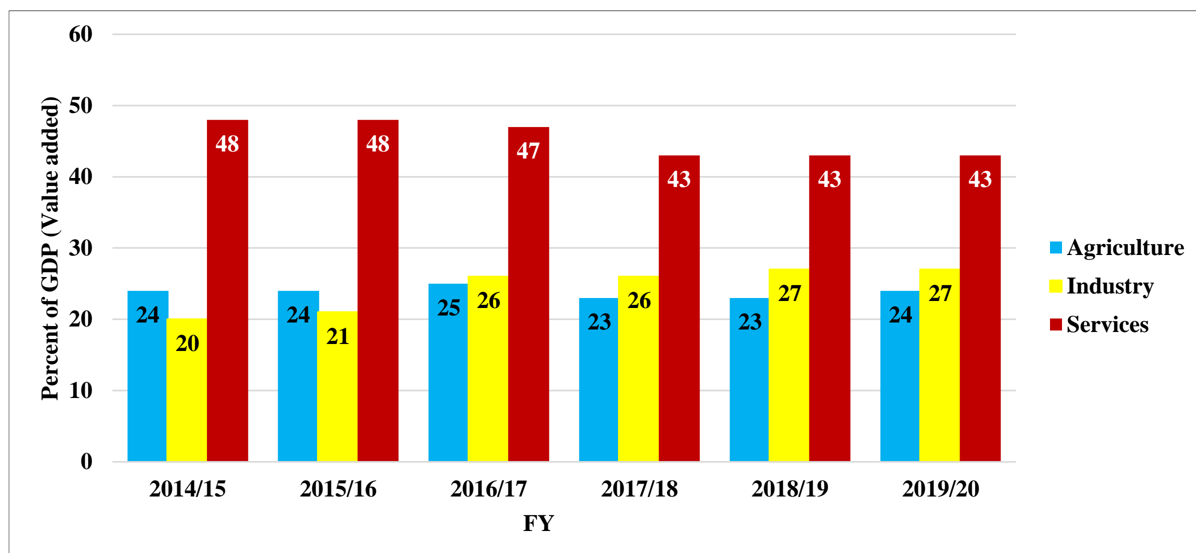
23. NDP II envisaged a small change in the structure of GDP during the Plan period, with agriculture gradually declining (from a projected 21.7% in 2015/16 to 19.9% in 2019/20), with Industry and Services both increasing their shares over the same period. Hence the growth rate of the agricultural sector was projected to be lower than those of industry and services during NDP II. Services were projected to account for 51% of the GDP during NDP II, with industry 28% and agriculture 21%.

24. As expected, Services continued to dominate contribution to GDP over the review period. In 2019/20, the Services accounted for 43% of GDP,while agriculture, forestry and fishing and Industry were 24% and 27% respectively. From the base year (2014/15), the contribution of the Services sector to GDP decreased by 5.0 percentage points, while the contribution of

agriculture, forestry and fishing remained virtually unchanged and that of Industry increased by 7 percentage points. The services sector contribution has mainly been driven by the contribution of information and communication services.

25. The major differences between the outturn and the NDP II projections for sectoral shares reflect the lack of anticipated transformation of the economy during NDP I. When NDP II was prepared, the most recent (baseline) data was for 2012/13; and major changes were expected between that time and the start of NDP II in 2015/16. For instance, the share of Industry was projected to have increased from 20.7% to 27.3% of GDP over the three year period from 2012/13 to 2015/16 (an unrealistic projection, as explained below). In fact, it was 20.4% in 2015/16, so slightly below the NDP II baseline and well below the NDP II projection for that year. The counterpart to this was that the share of services was much larger in 2015/16 (55.7%) than in the NDP II projection for that year (50.8%).

Figure 2: Sectoral share of GDP



Source: UBOS

26. As noted above, the contribution of Industry is significantly lagging behind NDP II projections. However, this is partly because the projections were not soundly based. As Table *3*3 shows, the projected change in sectoral shares of GDP over the five years from 2014/15 to 2019/20 imply average annual real growth rates for agriculture, industry and services of 0.1%, 6.5% and -2.1% respectively – which appear to be unrealistically high for Industry and low for

Services. As a result, the NDP II projected sectoral shares of GDP are not a useful guide by which to assess progress.

Table 3: NDP II Sectoral Shares and Implied Growth Projections

Sector	Share of GDP, 2012/13 (NDP II baseline)	Share of GDP, 2015/16 (NDP II proj)	Implied average annual real growth rate, 2012/13 – 2015/16	Implied average annual real growth rate, 2014/15–2019/20
Agriculture	23.6	21.7	2.6%	0.1%
Industry	20.7	27.3	15.7%	6.5%
Services	55.7	50.8	2.3%	-2.1%
Total	100	100	5.5%	4.5%

Source: NDP II, Table 5B, and authors' calculations

27. The projected increase in the industry sector contribution of reaching 27.3% in 2015/16, the first year of NDP II was ambitious and there is no evidence of rigorous analysis that informed projections for increased contribution of the industry sector. However, the average increase of 6.5 percent was impressive and enabled the share to be reached by 2018/2019. The contribution of each sector of the economy is presented in table 4 and briefly discussed below;

    (i) **Agriculture, forestry and fishing:** Food crops remain the dominant contributor to GDP, followed by livestock and forestry. However, the contribution of all agriculture sub-sectors registered a decline except cash crops and fishing,which registered a 1 and 25 percentage point increase respectively. The increase in cash crops contribution is attributed to increase in production and productivity of coffee, following government efforts that have seen increased investment and production of coffee while fishing improved as a result of the efforts that were put in stopping illegal fishing.

    (ii) **Industry:** Manufacturing remains the dominant contributor to output in the industry sector followed by electricity. The contribution of Industry increased by 6 percentage point as a result of increase in the contribution of the manufacturing sub-sector by 18 percentage points from 8.7% in the base year (2014/15) to 16% in 2019/20. NDP II, higher than the projected increase in the share of manufacturing in GDP from 9.0% in 2015/16 to 14.0% in 2019/20.

(iii) **Services:** The services sector contribution decreased by 2.0 percentage points on account of a decreases in most categories, notably a 11 percentage point decrease in the contribution of information and communication technology (ICT). Trade and repairs still dominate services but it registered an average 7.0 percentage point decline in contribution to GDP. The contribution of information and communication technology (ICT) which had recorded impressive growth rates up to 2015/16 have now since cooled. The recent tax legislation on mobile money and social media likely dampened the growth opportunities of information and communication services.

Table 4: Real GDP by economic activity (% contribution to GDP at basic prices (= value added))

	2014/15	2015/16	2016/17	2017/18	% change, 3 year	2018/19	2019/20	% change 5-Year
Agriculture, forestry and fishing	**25%**	**24%**	**23%**	**23%**	**-2%**	**23%**	**24%**	**0%**
Cash crops	2%	2%	2%	2%	0%	2%	2%	**1%**
Food crops	13%	12%	12%	12%	-1%	12%	12%	**-2%**
Livestock	4%	4%	4%	4%	-1%	3%	4%	**-3%**
Agriculture Support Services	0%	0%	0%	0%	0%	1%	1%	**1%**
Forestry	4%	4%	4%	4%	-1%	4%	4%	**-1%**
Fishing	1%	1%	1%	1%	0%	2%	3%	**21%**
Industry	**20%**	**20%**	**20%**	**20%**	**0%**	**27%**	**27%**	**6%**
Mining & quarrying	2%	2%	2%	2%	0%	2%	2%	**1%**
Manufacturing	9%	8%	8%	8%	-1%	16%	16%	**18%**
Electricity	1%	1%	1%	1%	0%	1%	1%	**8%**
Water	2%	2%	2%	2%	0%	1%	2%	**7%**
Construction	7%	7%	7%	7%	0%	6%	6%	**-4%**
Services	**55%**	**56%**	**56%**	**57%**	**2%**	**43%**	**43%**	**-4%**
Trade and Repairs	12%	12%	12%	12%	-1%	9%	8%	**-7%**
Transportation and Storage	3%	3%	3%	3%	0%	3%	3%	**2%**
Accommodation and Food Service Activities	3%	3%	3%	3%	0%	3%	3%	**1%**
Information and Communication	9%	10%	11%	11%	3%	2%	2%	**-11%**
Financial and Insurance Activities	3%	3%	3%	3%	0%	3%	3%	**-2%**
Real Estate Activities	6%	6%	6%	6%	0%	6%	6%	**2%**
Professional, Scientific and Technical Activities	3%	3%	3%	3%	0%	2%	2%	**-5%**
Administrative and Support Service Activities	2%	2%	2%	2%	0%	2%	2%	**-1%**
Public Administration	4%	4%	4%	4%	0%	3%	3%	**-3%**
Education	6%	6%	6%	6%	1%	4%	4%	**-6%**
Human Health and Social Work Activities	3%	3%	3%	3%	0%	3%	3%	**0%**

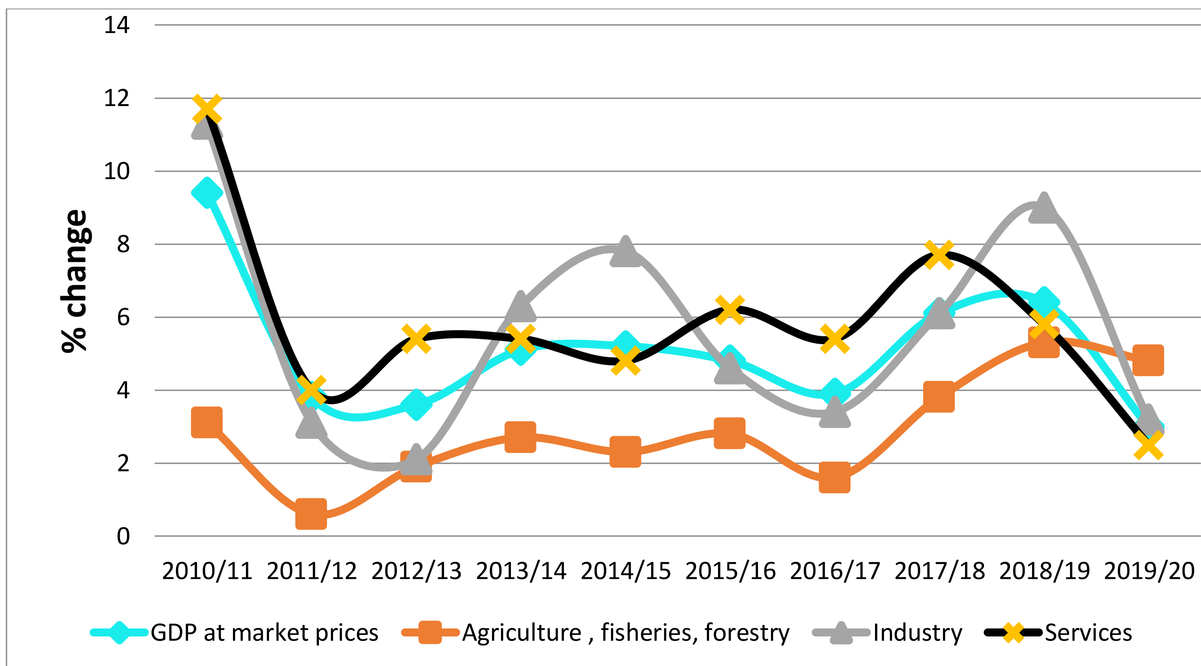
Arts, Entertainment and Recreation	0%	0%	0%	0%	0%	0%	0%	**-3%**
Other Service Activities	1%	1%	1%	1%	0%	2%	3%	**20%**
Activities of Households as Employers	1%	1%	1%	1%	0%	1%	1%	**12%**

Source: UBOS.

2.3 Sources of Growth

28. All sub-sectors registered positive annual GDP growth rates over the review period except in 2019/20, though the growth rates have not reached the average of 7% recorded for the two decades ending 2010, as summarised in figure 3.

Figure 3: Annual GDP growth rates by Sector 2010-2019/20



Source: UBOS

29. The performance by sub-sector is summarized in table 5, and briefly presented immediately after.

Table 5: Real GDP growth by main economic activity

Economic Activity	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	NDP II Average	NDP I Average
GDP at market prices	5.2	4.8	3.9	6.1	6.4	3.0	4.9	5.4

Agriculture, forestry and fishing	2.3	2.8	1.6	3.8	5.3	4.8	3.4	***2.1***
Cash crops	4.0	7.9	7.7	4.6	4.7	7.8	6.1	2.6
Food crops	2.2	1.3	2.0	5.3	1.6	4.6	2.8	1.1
Livestock	2.9	2.8	1.6	2.0	7.3	7.9	4.1	2.6
Agriculture Support Services	17.6	-4.6	2.6	6.1	8.8	6.4	6.2	3.2
Forestry	1.7	4.7	-2.3	2.5	3.6	3.3	2.3	5.7
Fishing	1.5	4.8	1.7	-2.1	39.2	0.3	7.6	0.1
Industry	***7.8***	***4.6***	***3.4***	***6.1***	*9.0*	*3.2*	*5.7*	***6.1***
Mining & quarrying	18.1	12.4	-5.7	26.1	17.5	16.5	14.2	11.8
Manufacturing	11.6	0.6	2.2	1.7	7.7	1.3	4.2	4.4
Electricity	5.7	4.0	8.3	6.3	2.5	10.9	6.3	6.9
Water	6.1	6.3	6.8	6.0	4.7	4.1	5.7	6.2
Construction	1.9	7.3	5.3	6.9	14.2	3.8	6.6	7.5
Services	***4.8***	***6.2***	***5.4***	***7.7***	5.8	2.5	5.4	***6.3***
Trade and Repairs	3.2	3.5	1.6	2.2	4.9	-1.3	2.4	2.9
Transportation and Storage	6.6	8.2	3.5	5.6	0.8	-1.7	3.8	7.0
Accommodation and Food Service Activities	-0.5	5.7	7.5	1.2	0.5	-8.6	1.0	5.9
Information and Communication	-1.8	14.1	13.9	15.2	-6.8	19.6	9.0	14.1
Financial and Insurance Activities	10.9	9.6	2.3	8.3	11.1	9.6	8.6	10.3
Real Estate Activities	6.5	6.1	5.6	6.5	10.1	5.1	6.7	5.0
Professional, Scientific and Technical Activities	-5.6	-0.3	-3.0	5.3	6.4	2.8	0.9	1.6
Administrative and Support Service Activities	25.5	-13.9	-4.8	11.9	17.2	7.5	7.2	10.1
Public Administration	24.2	8.4	2.1	10.6	4.2	16.2	11.0	7.6
Education	5.2	7.8	9.3	6.7	9.1	-2.0	6.0	7.2
Human Health and Social Work Activities	5.4	3.4	4.4	6.2	5.3	1.0	4.3	4.8
Arts, Entertainment and Recreation	5.3	-5.0	-2.4	18.9	22.1	-8.1	5.1	4.5
Other Service Activities	7.9	9.2	13.3	19.2	4.7	1.4	9.3	6.9
Activities of Households as Employers	2.8	3.4	4.1	4.9	2.8	2.8	3.5	2.3

Source: UBOS

30. **Agricultural sector GDP growth**: For the five years of NDP II, the Agriculture sector continued to register the lowest annual growth, averaging 3.4 %. This reflects an improvement compared to the average annual growth rate of 2.1% registered over NDP I. Starting at annual growth of 2.8% in 2015/16, agricultural sector GDP growth decreased to 1.6% in 2016/17 before rebounding to 4.8% in 2019/20. Growth in the agricultural sector GDP has been driven by:

(i) ***Rebound in growth of cash crops output***: The GDP from cash crops averages 6.1% over the five years of NDP II compared to the average of 2.6% over the five year NDP I period. This is a positive result, but not enough to lift the growth rate of the sector overall. This is attributed to Government efforts to revamp key cash crops especially coffee, cocoa and tea. The Government invested heavily in inputs distribution, especially under operation wealth creation, and development of value chains of these cash crops, resulting into increases in output. Equally, there have been strengthened efforts to controlling pests and diseases especially the coffee wilt through adoption of pest and disease resistant verities and training farmers on recommended crop management practices.

(ii) ***Sluggish but improving growth of food crops output***: The food crop output growth annual average was 2.8% for the five years of NDP II compared to 1.1% registered over the NDP I period. Starting at an annual growth rate of 2.2% in 2014/15 (base year), food crop output growth reduced to 1.3% in 2015/16 due to bad weather, before increasing to 2% in 2016/17 and rebounding to 4.6% in 2019/20. The improved growth in the food crop sub-sector is attributed to the good weather experience in 2017-2019 that lead to a bumper harvest across all the main food crops, increased distribution of quality seeds and planting materials through operation wealth creation. Indeed, the prices of some food crops like maize collapsed because of the high production levels and inadequate storage facilities.

(iii) ***Weak growth of Forestry output***: The forestry sub-sector has experienced moderate growth averaging 2.3% over the five years of NDP II compared to the average annual growth rate of 5.7 percent registered during NDP I. This is mainly attributed to the increased destruction of the forestry cover and environmental degradation.

(iv) ***Improving growth of livestock and fisheries output***: The the annual growth rates for livestock and fisheries over the five years of NDP II was 4.1% and 7.6 percent compared to the average of 2.6% and 0.1 % during NDP I, respectively. The gain in fisheries output is partly attributed to the strengthened regulation and enforcement of sustainable fishing practices especially on lake Victoria while that in livestock relates to the concerted investments in improved breeds and dairy production.

31. **Industry sector GDP growth**: For the five years of NDP II, Industry sector growth averaged 5.7%, reflecting a decline compared to the average annual growth rate of 6.1% during NDP I. Starting at an annual growth of 4.6% in 2015/16, industrial sector GDP dropped to 3.4% in 2016/17 before rebounding to 9% in 2018/20 but declining sharply to 3.2% in 2019/20. Growth in the industry sector GDP has been driven by:

(i) ***High growth of mining and quarrying output***: The GDP from mining and quarrying averages 14% over the five years of NDP II compared to the average of 11.8% over the five year NDP I period. This is attributed to Government efforts towards attracting private sector investment in the mining and quarrying sub-sector and progress in implementing key oil projects. The mining sub-sector is also growing from a very low base (1.5% of GDP), making high growth rates uneasier to achieve.

(ii) ***Moderate growth in manufacturing output***: The manufacturing output growth annual average was 4.2% for the five years of NDP II compared to 4.4% during NDP I. Starting at an annual growth rate of 11.6% in 2014/15 (base year), manufacturing output growth fell to 0.6% in 2015/16, before increasing to 2.2% in 2016/17, reducing to 1.7% in 2017/18, rebounding by 7.7 percent in 2018/19 before reducing again to 1.3% in 2019/20. The weak growth of the manufacturing sector is due to a number of business environment challenges facing the manufacturing sector that has hindered its competitiveness, and hence, continues to be outcompeted with imported cheap products. The high costs of utilities (power and water) continue to undermine the competitiveness of the Industry sector. The sector is also challenged with use of old inefficient technology, while the business environment (for example high interest rates that stifle access to credit) also continues to negatively impact the performance of the manufacturing sector. The very low increase in manufacturing in 2019/20 were mainly due to the disruptions caused by the COVID-19 lockdowns in the second half of 2019/20.

(iii) ***Moderate growth of Electricity, Water and Construction sub-Sector outputs***: The Electricity, Water and Construction sub-sector outputs have experienced moderate growth averaging 6.3%, 5.7% and 6.6% over the five years of NDP II, which are consistent to the average annual growth rate of 6.9%, 6.2% and 7.5% respectively registered during NDP

I. Completion of Karuma hydro-electric dam and the increased uptake in solar technology should further improve the performance of the electricity sub-sector.

32. **Service sector GDP growth**: For the five years of the NDP II, the service sector GDP growth averaged 5.4%, lower than the 6.3% average annual growth rate registered over NDP I. Starting at annual growth of 6.2% in 2015/16, service sector GDP dropped to a minimum of 5.4% in 2016/17 before rebounding to 7.7 % in 2017/18 later dropping sharply to 2.5% in 2019/20. Growth in the service sector GDP has been driven by:

(i) ***Moderate growth of Information and Communications output***: The annual GDP growth from Information and Communication activities averaged 9% over the five years of NDP II lower than the 14.1% over the five year NDP I period. This is because, whereas Government has put efforts at increasing access to telephone, internet and development of ICT tools for delivery of goods and services across a wide range of sectors, there is some possible saturaration in telecom services and need for more inniovations. Again, whereas, the laying of the backbone ICT infrastructure has slightly reduced the cost of the internet and continues to increase production and productivity of ICT based production and delivery of services, the recent tax legislation on mobile money and social media likely dampened the growth opportunities of information and communication services.

(ii) ***Sluggish and disappointing growth of trade and repair output***: The ***trade and repair*** output growth annual average was 2.4% for the five years of NDP II compared to 2.9% registered over the NDP I period. The slow growth in the trade sector directly impacts the growth in productive sectors of the economy, notably agriculture and manufacturing. Imported and cheap sub-standard and counterfeit products continue to dominate the retail markets, and these stifle the local manufacturing and production sectors. The slow growth of the trade and repair sub-sector is attributed to the unfavourable business environment including high costs of utilities and high cost of credit, which stifles expansion.

2.4 GDP per Capita

33. NDP II aimed at transforming Uganda to attain lower middle income status, with atargeted GDP per capita of $ 1,033 by 2019/20. The NDP II ambition was to attain GDP per capita of $833 in 2015/16 and $1,033 by 2019/20. However, available data from UBOS revealed that GDP per capita for 2019/20 was only $916, as shown in table 6 below.

Table 6: GDP per capita at constant 2009/10 prices

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	NDP II Average
GDP per capita (US $)- actual	742	767	774	799	889	916	815
GDP per capita (US $)- NDP II targets		833	888	931	982	1,033	933

Source: UBOS and NDP II

34. The five years of NDP II have not delivered the rapid growth in GDP per capita required to enable the country to achieve middle income status. The GDP per capita value of 2019/20 (five years of NDP II implementation) is just slightly higher than the GDP per capita of $833 that was targeted for attainment in the first year of NDP II. Between 2015/16 and 2019/20, GDP per capita increased by only $149 in absolute terms. To attain the GDP per capita of $1,033 by 2019/20, the increase should have been $266, meaning the actual increase was just 56% of what would have been required to meet the NDP II target. Whereas nominal GDP has grown largely in line with NDP II projections, the depreciation of the Uganda shilling and the high population growth rate have limited growth of GDP per capita, and this is likely to continue in the short to medium term on account of the limited export base. Therefore, the objective of achieving the lower middle-income status by 2020 was not met.

35. It should also be noted that the target of achieving middle income status during NDP II was perhaps unrealistic, and not consistent with other elements of NDP II. For instance, with average real GDP growth during NDP II of 4.9%, and average annual population growth of 2.8%, the projected increase in real GDP per capita in UGX terms during NDP II was 3.5% a year. However, the increase in per capita GDP in USD terms required to achieve the lower middle income target by the end of NDP II was 5.5% a year.Achieving this would require a high level of stability in the UGX/USD exchange rate, as well as a dramatic reduction in the population growth rate.

2.5 Improvement in Competitiveness of the Ugandan Economy

36. The Global Competitiveness and Doing Business indices are useful indicators for assessing the quality of Uganda's business environment. The indices are useful in benchmarking the economy's standing based on standardised indicators across countries and therefore guide where policy and budget allocations should focus, from the perspective of competitiveness and the business environment. The assessment of changes in Uganda's competitiveness during NDP II to date has been done within the framework of three international indices, explained below.

2.5.1 Uganda's Global Doing Business Rankings[2]

37. The Doing Business rankings conducted by the World Bank shows that the business environment in Uganda has improved more slowly than comparative economies across the world. The rankings are based on ten topics in the life cycle of a business: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency and labour market regulation.

38. At the end of NDP I, Uganda's ease of doing business ranking was 135th out of 189 countries. The NDP II target was for Uganda to attain the rank of 111th out of 189 countries by 2019/20, but according to the 2020 Doing business report, Uganda was ranked 116th of 190 countries. Therefore, over the five years of NDP II, Uganda has improved her ranking by 19 positions but is nevertheless lagging behind the target by 5 positions. In other words, the quality of the business environment has improved (in relative terms), but not by as much as hoped – perhaps because other countries have improved faster. Uganda's ranking out of 190 countries over the five years of NDP II are summarized in the table 7 below.

[2]World Bank: Doing Business Reports, 2020, 2019 and 2018

Table 7: Uganda's Doing Business Ranking Across the Ten Topics

Topics	DB 2015 Rank[1] (end of NDP I)	DB 2019 Rank	DB 2020 Rank	Change in Rank (2015-2019)	Change in Rank (2015-2020)
Doing Business Rank	135	127	116	8	19
Starting a Business	168	164	169	4	-1
Dealing with Construction Permits	166	145	113	21	53
Getting Electricity	172	175	168	-3	4
Registering Property	118	126	135	-8	-17
Getting Credit	128	73	80	55	48
Protecting Minority Investors	98	110	88	-12	10
Paying Taxes	101	87	92	14	9
Trading Across Borders	126	119	121	7	5
Enforcing Contracts	78	71	77	7	1
Resolving Insolvency	106	112	99	-6	7

Source: 2019 and 2018 Global Doing Business Reports by the World Bank

39. The Doing Business reforms implemented by Uganda over the years include:

(i) **Paying Taxes:** Uganda eased Paying Taxes by reducing the time required for companies to prepare, file and pay value added tax through improved efficiency of taxpayer services (online portal transactions) and introduced paying taxes through banks. It simplified registration for a tax identification number and different taxes by introducing an online system.

(ii) **Trading across Borders**: Trading across borders was eased by reducing the time required for trading across borders through expanded operating hours of customs authorities, improvements in customs processes, improved border cooperation with other EAC counterparts with the construction and launch of four One Stop Border Posts- Busia, Mirama Hills, Mutukula, Olegu. Uganda has also implemented the ASYCUDA World electronic system, which introduced or improved electronic submission and processing of documents for imports and exports.Uganda also reduced the time needed to export and import by further implementing the Single Customs Territory, as well as by developing the Uganda Electronic Single Window, which allows for electronic submission of documents as well as for exchange of information between trade agencies, developed the Centralized Document Processing Centre, and allowed electronic document submission and processing of certificates of origin online.

(iii) **Access to credit:** Uganda eased access to credit by establishing a credit reference bureau, and has expanded the credit bureau borrower coverage, thereby improving access to credit information.

(iv) **Enforcing Contracts**: Uganda implemented reforms that have improved the efficiency of its court system, greatly reducing the time to file and serve a claim.

(v) **Transferring property**: Uganda eased Registering Property by increasing the efficiency of property transfers by establishing performance standards and recruiting more officials at the land office, digitizing records at the land title registry, increasing efficiency at the assessor's office and making it possible for more banks to accept the stamp duty payment. Uganda also made transferring property easier by eliminating the need to have instruments of land transfer physically embossed to certify payment of the stamp duty.

(vi) **Resolving insolvency**: Uganda strengthened its insolvency process by clarifying rules on the creation of mortgages, establishing the duties of mortgagors and mortgagees, defining priority rules, providing remedies for mortgagors and mortgagees and establishing the powers of receivers. Uganda also made resolving insolvency easier by consolidating all provisions related to corporate insolvency in one law, establishing provisions on the administration of companies (reorganization), clarifying standards on the professional qualifications of insolvency practitioners and introducing provisions allowing the avoidance of undervalued transactions.

(vii) **Starting a Business:** Uganda made starting a business easier by introducing an online system for obtaining a trading license and by reducing business incorporation fees.

(viii) **Getting Electricity**: The utility in Uganda reduced delays for new electricity connections by deploying more customer service engineers and reducing the time needed for the inspection and meter installation.

2.5.2 Global Competitiveness Ranking Index[3]

40. The Global Competitiveness Index (GCI) report, which is published by the World Economic Forum (WEF), measures the micro and macroeconomic foundation of national competitiveness, drivers of their productivity and prosperity across 12 parameters. The NDP II target was for Uganda to attain the rank of 90 out of 148 countries by 2019/20, but according to the 2019 GCI report, Uganda was ranked 104th of 140 countries, showing that the country was still lagging behind the target by 14 positions, even with the number of comparators reduced by 8 countries. Uganda's competitiveness ranking has deteriorated over the review period. Uganda's GCI rank was 113 out of 135 countries in the 2017 GCI report and 115 out of 140 countries 2016 GCI report. Eleven pillars out of the 12 registered a decline in the scores, indicating reduced competitiveness, as summarized in table 8.

41. The most problematic pillars and areas of weakness requiring expedited efforts to move the economy to a higher competitiveness level were:

    (i) **Under Pillar 1**: Institutions, the leading challenging factors to competiveness were organized crime, reliability of police services , incidence of corruption and intellectual property protection, quality of land administration, strength of auditing and reporting standards and conflict of interest regulation.

    (ii) **Under Pillar 2**: Infrastructure, the leading challenging factors to competiveness were efficiency of train services, airport connectivity, efficiency of air transport services, low electrification, exposure to unsafe drinking water and low reliability of water supply.

    (iii) **Under Pillar 3**: ICT adoption, the leading challenging factors to competiveness was low subscriptions to mobile-cellular telephone and internet services.

[3] World Economic Forum: The Global Competitiveness Report several years

Table 8: Uganda Global Competitiveness Index Ranking Index

Indicator	2017		2018		Change, 2017-2018		2019		Change, 2018-2019	
Pillar	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score
Enabling Environment										
Pillar 1: Institutions	97	47.5	104	47.9	7	0.4	101	48	3	-0.1
Pillar 2: Infrastructure	118	43.7	121	43.2	3	-0.5	115	47.9	6	-4.7
Pillar 3: ICT adoption	121	22.4	126	24.5	5	2.1	125	29.4	1	-4.9
Pillar 4: Macroeconomic stability	88	72.6	93	71.6	5	-1	89	74.2	4	-2.6
Human Capital										
Pillar 5: Health	121	43.1	124	44.8	3	1.7	120	53	4	-8.2
Pillar 6: Skills	119	40.5	122	40.9	3	0.4	122	42.3	0	-1.4
Markets										
Pillar 7: Product market	100	51.6	118	48.7	18	-2.9	109	49.1	9	-0.4
Pillar 8: Labour market	64	59.6	63	59.8	-1	0.2	69	60	-6	-0.2
Pillar 9: Financial system	98	51.8	119	48.5	21	-3.3	110	50.3	9	-1.8
Pillar 10: Market size	83	45.9	85	46.4	2	0.5	86	47.4	-1	-1
Innovation Ecosystem										
Pillar 11: Business dynamism	84	55.3	82	55.5	-2	0.2	91	56.4	-9	-0.9
Pillar 12: Innovation capability	104	29.7	107	29.8	3	0.1	111	29.5	-4	0.3
Overall rank	**99.8**	**47.0**	**105.3**	**46.8**	**5.6**	**-0.2**	**104.0**	**49.0**	**1.3**	**-2.2**

Source: Global Competitiveness Index report (2020) by the World Economic Forum[4]. Note; Rank is out of 140 and scores are out of 100.

[4] WEF, 2020. https://tcdata360.worldbank.org/indicators/h9de5a263?country=BRA&indicator=41472&viz=line_chart&years=2017,2019

(iv) **Under Pillar 6**: Skills, the leading challenging factors to competiveness were quality of vocational training, skills set of graduates, digital skills among population, critical thinking in teaching and high pupil-to-teacher ratio in primary education

(v) **Under Pillar 7:** Product market, the leading challenging factors to competiveness were distortive effect of taxes and subsidies on competition, extent of market dominance, trade tariffs

(vi) **Under Pillar 8:** Labour market, the leading challenging factors to competitiveness were low active labour policies, pay and productivity

(vii) **Under Pillar 9:** Financial system, the leading challenging factors to competitiveness were low domestic credit to private sector, venture capital availability, low market capitalization, low insurance coverage,

(viii) **Under Pillar 10:** Market size, the leading challenging factor to competitiveness was high dependence on Imports

(ix) **Under Pillar 11:** Business dynamism, the leading challenging factors to competitiveness were cost of starting a business, time to start a business, insolvency regulatory framework

(x) **Under Pillar 12:** Innovation capability, the leading challenging factors to competitiveness was limited international co-inventions, low patent applications and buyer sophistication.

42. The Government has initiated a number of projects to improve the competitiveness of the Economy. Many infrastructure projects - including roads, the Standard Gauge Railway, airport expansion, energy and ICT projects, as well education and health infrastructure projects - were supposed to be prioritised under NDP II, but implementation of many of the projects has been slow. However, once these projects are completed, Uganda's rankings are expected to improve.

Table 9: LPI ranking of Uganda and other regional countries

		Overall LPI rank	Customs	Infrastructure	International shipments	Logistics quality and competence	Tracking and tracing	Timeliness
Country	Year	rank	rank	rank	rank	rank	rank	rank
Burundi	2018	158	159	146	139	117	156	158
Burundi	2016	107	137	147	119	107	83	63
DRC	2016	127	123	146	135	123	118	102
DRC	2018	120	108	132	127	100	114	133
Kenya	2018	68	67	79	99	64	56	79
Kenya	2016	42	39	42	46	40	38	46
Rwanda	2018	57	64	65	29	60	86	61
Rwanda	2016	62	52	76	59	63	58	69
Tanzania	2016	61	60	60	63	58	60	64
Uganda	2018	102	76	124	78	99	123	110
Uganda	2016	58	51	67	74	57	59	45
Uganda	2010	66	44	89	60	76	114	138

Source: LPI Report 2018, World Bank[5]

2.6 Competitiveness Ranking of Uganda's Logistics Sector

43. The Logistics Performance Index (LPI), an interactive benchmarking tool by the World Bank, offers a comprehensive measure of the efficiency of international supply chains. It helps countries to identify the challenges and opportunities they face in their performance on trade logistics and what they can do to improve their performance. The LPI 2018 ranked Uganda 72th out of 167 countries, lagging behind Kenya at 63nd, Rwanda at 65st and Tanzania at 67nd, but better than DRC ranked at 143rd and Burundi at 154th out of the 167 countries as summarised in the table 9 below.

44. The LPI revealed that Uganda performs relatively better on areas for policy regulation that covers three core areas, namely:

(i) ***Efficiency of customs and border management clearance***: On this pillar, Uganda was ranked 53st out of 167 countries, with a score of 2.78 out of a maximum of 5, where 1 represents very low and 5 represents very high. This suggests that Uganda'scustoms and border management clearance processes are by far the best

[5] World Bank, 2018. https://lpi.worldbank.org/

in the region however; it requires further improvement in terms of speed, simplicity and predictability of formalities if further improvements in the efficiency of customs and border management clearance are to be realised. Logistics associations have an advocacy role to play in achieving the improvement in efficiency.

(ii) ***Quality of trade and transport infrastructure***: On this pillar, Uganda was ranked 96th out of 167 countries, with a score of 2.45 out of a maximum of 5, rated from very low (1) to very high (5). This suggests that the quality of Uganda's trade and transport infrastructure is still poor and quite below average, and therefore needs further improvements of trade and transport infrastructure, including railway, roads, Warehousing and trans-loading and information technology to enhance the efficiency of logistics industry.

(iii) ***The ease of arranging competitively priced shipments***: On this pillar, Uganda was ranked 74th, with a score of 2.84 out of a maximum of 5, rated from very difficult (1) to very easy (5). This suggests that Uganda needs further improvements on the systems and structures for arranging competitively priced shipments. Logistics associations have an advocacy role to play in easing of arranging competitively priced shipments.

45. On the other hand, Uganda was ranked relatively poor on supply chain performance outcomes, corresponding to logistics performance indicators of time and reliability (timeliness, international shipments, and tracking and tracing) as summarised below.

(i) ***Competence and quality of logistics service:***On this pillar, Uganda was ranked 78th out of the 167 countries with a score of 2.70 out of the maximum of 5, rated from very low (1) to very high (5). This suggests that Uganda needs to make improvements through capacity building and training, the logistics associations can contribute to enhancing competences and quality of services by logistics services providers in Uganda.

(ii) ***Ability to track and trace consignments***: On this pillar, Uganda was ranked 86th out of the 167 countries with a score of 2.69 out of the maximum of 5, rated from very low

(1) to very high (5). Ability to track and trace consignments increasingly depends on the reliability and affordability of ICT infrastructure, and the quality of support services from regulatory agencies like URA and policy. To maintain the relatively good performance and even do better, there is need to improve working arrangements between the authorities and the sector players for effective communication and coordination at all times when goods are in transit and logistics associations are pivotal to this good working relationship.

(iii) ***Frequency with which shipments reach consignees within scheduled or expected delivery times***: On this pillar, Uganda was ranked 68th out of the 167 countries with a score of 3.27 out of the maximum of 5, rated from hardly ever (1) to nearly always (5).There is still need for improvement in the timeliness of deliveries which is subject to both internal capacities like the quality of trucks and professionalism of truck drivers to external factors like the quality of road infrastructure, therefore if further improvements are to be realised these areas need to be put into consideration. Logistics associations also have a key role to play in increasing the frequency with which shipments reach consignees within schedule or expected time.

2.7 Government Efforts to Leverage Private Sector Investment in productive sectors of the Economy for industrialization

46. As part of the strategy for implementing NDP II, the Government has undertaken initiatives in key strategic areas of the economy. The achievements and challenges for some of the initiatives are briefly discussed below.

47. Industrial development has been accerelated which is premised on the promotion and pursuit of sustainable private investment, a conducive business environment, adoption of appropriate technologies and appropriate infrastructure. Whereas Government is responsible for formulation of policy and regulatory frameworks to provide a conducive business environment for private investment, the private sector needs to be able to respond to these stimuli by undertaking the investments, particularly to add value to raw materials, create new jobs, etc. The NDP II focus areas included development of value added industries in agriculture and minerals; increasing the stock of new manufacturing jobs; enhancing the use

of Standards; quality infrastructure; promoting and accelerating the use of research, innovation and applied technology; and promoting green industry and climate-smart industrial initiatives. The proportion of the industrial sector's contribution to GDP in Uganda rose from 20.6 percent in 2012/13 to 24.5 percent in 2019/20. The economy reported strong growth in 2019, estimated at 6.3 percent. Industrial growth was at 6.2 percent, largely driven by construction and mining. Currently, it is estimated that industrial productivity is seven to eight times higher than that in the services and agriculture sectors. However, it is not growing fast enough to absorb the approximately 600,000 youth entering the job market annually. To accelerate the country's industrialization agenda and increase the contribution of industry to GDP and job creation, the promotion of investment through a quasi-market approach will be required, particularly in the following areas: a) Agro-industry; b) Beef and dairy products; c) Cotton, textile and apparel; d) Wood products; e) Cassava; f) Palm oil; g) Mineral beneficiation; h) Petro-chemicals; i) Packaging, paper and paper products; etc.

48. ***Uganda Development Corporation revitalised but is yet to bankroll key investment projects***. Following Government appreciation of the challenges that came with privatisation, especially, failure to attract private sector investment in critical but high risk investments and those requiring large capital investment, Government re-established the Uganda Development Corporation (UDC) to serve as the investment arm of Government. The UDC Act was passed and assented to by the President in 2016. From NDP 1 to NDP 11, UDC has been executing projects in the agro-processing, tourism, energy and mineral development. These include:

Agro-processing

i) **Soroti Fruit Factory**: UDC invested in the establishment of this factory in Arapai Sub-county, Soroti District, a US$ 11.4m investment set up to process mainly oranges and mangoes to produce ready-to-drink juice and puree. It has a processing capacity of six (6) metric tons per hour for oranges and two (2) metric tons per hour for mangoes. Investment in a pineapple processing line at the factory is currently under consideration. The Corporation invested with the fruit farmers through the Teso Tropical Fruit Farmers' Cooperative Union (TEFCU), with the Corporation owning 80% and TEFCU 20%. UDC's

long term aim is to exit leaving the farmers with 100% ownership. Korea International Cooperation Agency (KOICA) provided a grant for its construction.

ii) **Luwero Fruit Factory**. This project was conceived in FY2010/11 with expected commissioning in FY2018/19.

iii) **Tea Factories**. UDC in 2018 extended financial support to tea factories in Western Uganda through a 10 year equipment lease financing for KigeziHighland Tea Co. Limited,KayonzaGrowers Tea Factory and Mabale Growers Tea Factory Ltd. UDC investment has increased production capacity factories, to enable them absorb increased tea production resulting from the increased supply of tea seedlings through OWC. The factories are expected to have a combined potential of 2,400 MT of ready-made tea per year worth $4.8m in export earnings.

iv) **Atiak Sugar Factory.** UDC in partnership with the private sector (Horyal Investment Holding Company Ltd (HIHC) invested in setting up 1,650 Tons of cane crushed per day (TCD) sugar processing plant in Atiak , Amuru district. The capacity will be scaled up to 3,500TCD in phases 2 and 5,000 TCD in phase 3. The proposed plant will also produce by –products such as molasses and bagasse to produce ethanol and up to 6MW of electricity in phase 1. UDC holds 40% shareholding in HIHC. Approximately 15,000 outgrowers are integrated into the investment and are expected to supply cane to the factory. The Factory was commissioned on the 22nd October 2020 by H.E Yoweri Kaguta Museveni, President of the Republic of Uganda and is expected to create employment of at least 3,500 workers directly and 15,000 indirectly on the out-grower farms of whom over 4,700 members are women and heads of families.

Mineral development

i) **Cement:** GoU in FY2017/18 embarked on setting up an Integrated Cement Plant which is expected to be completed in FY2020/21. The plant is expected to produce cement, marble and lime at 1250 MT per day, 11,000 squares meters per month, and 300 MT per day respectively. The project is expected to process clinker which will be used locally in the domestic cement industry thereby saving the country of millions of dollars spent on clinker

importation. At the moment exploration license, feasibility study and land acquisition have been undertaken. Both exploration and geo-technical studies are on-going. The project is a joint venture between GoU (45%) and the private sector.

Uganda Development Corporation (UDC) in partnership with the private sector is adding value to the existing limestone/marble deposits in the licensed area in Loyoro - Kaabong district through setting up an integrated lime, cement and marble plants in Moroto district. A special Purpose vehicle - Moroto Ateker Cement Company Ltd (MACCL) was set up to implement the project. UDC holds 45%, Savannah Mines Ltd 40% and Saboo Engineers PVT Ltd 15% shareholding in Moroto Ateker Co. Ltd. The plants will utilize 80% of local raw materials in the production of clinker, cement, lime and marble. The cement plants established in Uganda rely on the importation of clinker a raw material required in the production of cement, thus an increase in foreign exchange outflow. Uganda's foreign exchange outflow on importation of clinker increased from USD 126,518,000 in 2013 to USD 210,981,000 in 2018. Proposed capacity of the integrated cement, lime and marble plants -Cement plant - processing capacity of 1,250 tons per day, Lime plant - 300 tons per day, Marble - 11,000 square meters of marble per month. Approximately 360 skilled and unskilled as well as 1500 part time jobs will be created.

ii) **Glass:** this project started in FY2017/18 and expected was expected to be commissioned in FY2020/21; it is 70% government owned. The project is expected to use white silica sand in Masaka district as the raw material in the making of glass. At the moment both exploration license and feasibility study have been undertaken. Exploration and geo-technical studies are on-going. The proposed sheet glass project is intended to promote the development of value added industries in agriculture and minerals. In this case, to add value to the silica sand and other raw materials like limestone, dolomite, feldspar, soda ash to produce sheet glass and glassware products that are extensively used in construction, motor vehicle industry and vials. The intervention is proposed to establish a plant capacity of 200 metric tons/day in Masaka district to fully exploit the abundant pure white silica sand deposits that exist on the shores of Lake Victoria, particularly Dimu beach in Masaka. The project is to be implemented as a joint venture partnership between UDC and Kimu investments through a Special Purpose Vehicle (Lake Victoria Sheet Glass Company)

which was incorporated. This project is envisaged to create employment opportunities to the neighbouring communities and the country at large and thus increase the revenue base leading to economic development of the country.

iii) **Salt:** GoU is to set up the Lake Katwe Salt Chemical Plant using brine as a raw material. Explorations works on the project are done and its 70 percent government owned.

iv) **Iron Ore:** this is one of the GoU priorities investment areas. At moment UDC is working with NPA and a group of steel companies in Uganda to conduct a feasibility study

Infrastructure development

i) Kalangala Infrastructure Services, this is a government initiative aimed at enabling economic development in Kalangala. It is a joint venture between GoU and the private sector with GoU having 45 percent shareholding. The project brought on board two ferries that offer transport services between Bukakata (Masaka district) and Luuku landing site in Kalangala. The project also brought on board 66 kilometers of roads paid for by GoU. Also the project brought on board 1.6MW of electricity (solar and diesel) on the Kalangala island. Also the project ferries portable safe water to the fishing communities.

49. There were other industrialization initiatives including:

(a) NAADS officially handed over the construction site of Yumbe Mango Processing factory to a new contractor, China Huangpai Food Machinery Company (U) Ltd, to expedite its expansion and completion. This is a value addition initiative by NAADS Secretariat in partnership with Food and Nutrition Solutions Ltd (FONUS) and Aringa Mango Farmers' Cooperative Society.

(b) Balaji Group of Companies constructed SR Afro Chicks and Breeders factory, which was commissioned on 22nd November 2019 by H. E. the President. The factory is set on a 200 acre piece of land. It employs over 1,000 Ugandan youth and produces a million eggs per day. The establishment also breeds off layers, broilers and produces animal and chicken feeds;

(c) Nyakihanga Fruit Processing Factory located in Nyongozi ward, Nyamukana town council in Ntungamo district was commissioned in January 2020. With support from Uganda Industrial Research Institute (UIRI), the factory has the capacity to produce 1,000 litres of juice per hour from 700 pineapples. The factory will be managed by Nyakihanga Fruits and Vegetable Growers Cooperative Society Limited;

50. **One of the main strategies to accerelate industrialization was through Industrial Parks**- Government developed the National Strategy for Private Sector Development (NSPSD) 2017/18-2021/22 to boost investor confidence for enterprise development and industrialization, targeting improvement of business environment and value chains, and supporting firm productivity and professionalism. By the end of NDP11 In FY2019/20, Government had:

(a) Secured US$200 million from UK Export Finance for the development of infrastructure at Kampala Investment Business Park (KIPB) in Namanve, Mukono District. This followed the signature of an MoU with the UK-based contractor, Lagan Group Ltd. This MoU will see UIA oversee the project management and supervision activities. The project is planned to run for 42 months. It is estimated that the project will create 25,484 direct jobs in the construction phase, a further 39,800 in the short term and over 200,000 jobs once the industrial park is fully operational;

(b) Commenced the expansion of electricity network in Kapeeka Industrial Park in Nakaseke District. During this process, UMEME will add a 15km line to pick power from a transmission substation and move it to the manufacturing estate. UMEME will also install 19 transformers to serve the industries therein;

(c) Acquired 78.2 hectares of land strategically located at Oraba, Koboko district for the development of Oraba Industrial Park. Uganda Investment Authority (UIA) will develop the park in an area that is suitable for investors targeting to manufacture goods for consumption in Uganda, Democratic Republic of Congo, South Sudan and Central African Republic, etc.; and

(d) Facilitated the development and works in the Industrial and Business Parks located in the KIBP at Namanve, Mbale and Kapeeka. Most of the ongoing interventions are related to the establishment of requisite infrastructure such as roads, bridges, traffic management systems, water distribution, waste management and electricity. The detailed status is indicated in the Table 10 below.

Table 10: Industrial Park Development for FY2019/20

Industrial and Business Park	Ongoing Interventions	Existing Operations	Projected Impact	Status of the Park
Tankshan in Mbale	• Power supply increased by 10MW by March 2020 • A 50MVA mobile substation will be installed by June 2020. • Comissioning of a 132/33KV substation expected in 2021	• Pearl Light Technology Ltd • UBON Technology Ltd • Victoria Cable Ltd	• 618 sq.km of industrial land for development • 55 factories • 800 jobs created. • 16 percent of workers earn above USHS 50,000 with prospects to increase the wage floor after adequate skill transfer	• 3 factories operational • 6 factories under construction • 20 acres developed
Liao Shen in Kapeeka	•	• Holy Love Industries • Lurtex Textiles • Nana shoe factory • Shenze industries • Gaga processing factory • Namunkekera Agro Industries • Wuxi Tiayui • China Uganda Exchange Club	• 9 factories commissioned in November 2019 • 2,500 jobs created • Projected jobs to rise up to 8,000 by mid-20	
Kampala Industrial Business Park (KIBP) in Namanve	Ground-breaking ceremony was held on 12th February 2020 for a project to revamp the Park's infrastructure About 249 million secured for the revamping of infrastructure.	Over 50 factories are operational	• The development phase of the project is expected to yield 8000high skill jobs, 15000 direct low skill jobs, and 20,000 indirect jobs. • At full operation, KIBP will create 200,000 jobs	• 50 operational factories • Over 11,000 employment opportunities created • About 99 companies are constructing their facilities • Currently, the tarmacked road network, water

			• 291 industries	connection and power network are at 16 percent, 30 percent and 18 percent completion, respe

Source: Uganda Investment Authority, March 2020

51. **Uganda Free Zone Authority (UFZA) operationalised**; first export processing zones established. Following the Free Zone Act 2014, and in accordance with the EAC Customs Union Protocol, the UFZA has been operationalised with the mandate to establish, development, market and supervise export zones. This was aimed at facilitating increased production for exports. For an entity in the export free zone, at most 20 percent of its output can be sold domestically (including the EAC) with 80 percent of its output exported outside the EAC. For the 80 percent of the exported goods and services, customs duties do not apply on any raw materials imported and this has been extended to VAT on imports as well. However, for the 20 percent of output sold domestically, the imported inputs towards producing such output attract customs duties.

52. Since the establishment of the Uganda Free Zones Authority (UFZA), the Free Zones scheme registered an increase in investment and exports, driven by growth in global markets for processed agricultural and high-value mineral products. By the end of Quarter 2 FY2019/20, these Zones had generated US$ 30.4 million in export earnings.

    (i) The Feasibility Study, Master Plan, Architectural and Engineering Designs, and the Environmental and Social Impact Assessment Study of the Entebbe Airport Free Port Zone had been completed by the end of Quarter 3 FY2019/20. The Free Zone will target at least six (6) Private entities and one (1) Anchor firm. The priority is to have Operators engaged in light manufacturing, agro-processing and high value mineral processing activities. .

    (ii) UFZA, in partnership with TradeMark East Africa (TMEA), undertook the Feasibility Study for the development of a Free Zone in Jinja Industrial Park. The Free Zone will target investment in the Textile and Garment Industry.

53. A key challenge now is to use the base of export activity established in the export zones to extend industrialisation and manufacturing beyond the zones. The parameters facing the firms operating in the export zones are quite restrictive, due to the nature of the EAC Customs Union, for instance:

(i) Exports have to be outside the EAC market, yet the EAC market accounts for the biggest market for Uganda. The main exports outside the EAC are primary unprocessed products especially coffee, flowers, fish, etc. Export processing zones as a tool for industrialisation and export growth is constrained by the requirement of 80% of the output having to be exported outside the EAC region.

(ii) Some of the goods being produced in the export zones would also be useful in the domestic economy, and yet only a small proportion of output (20%) can be sold domestically. Examples include fertilizer and glass, both of which are imported into Uganda. The challenge will be to encourage the firms producing in the export zones to use their experience there to establish similar operations outside of the zones to supply the dometic and EAC markets.

(iii)Free zones largely exclude SMEs, who may not afford the high capital requirements. For SMEs to participate, the Government needs to invest in warehousing facilities so that local SMEs only acquire equipment and engage in production for export.

54. **Uganda Development Bank (UDB) re-orients operations to support NDP II priorities but is significantly undercapitalised**. This has involved:

(i) UDB reviewed its priorities to align them with NDP II priorities.Under the current strategic plan, areas of financing in tandem with NDP 11 were identified as: a) Agriculture and agro-processing b) Tourism c) Industrialisation d) Infrastructure development, and e) Human capital development. As a result of resource constraints, UDB has until now overlooked infrastructure investment while focusing more on agriculture and agro-processing, which together take up 46 percent of UDB's loan portfolio. Of recent, UDB has ventured into heavy industries, for example the steel and tube industries, which today has installed capacity that can produce Standard Gauge

Railway grade steel. Taken together with financing to agriculture, agro-processing and other industries constitutes about 60 percent of the UDB loan portfolio. UDB has also recently supported the tourism industry, for example the Boma hotel in Northern Uganda and a hotel in Karamoja. UDB has also supported human capital development through enabling private hospitals to acquire medical equipment and expand physical infrastructure. Similarly, it has also financed education infrastructure developments. With regard to infrastructural and oil related investments, UDB has not been engaged to date. However, an infrastructure development function has been established within the bank.

(ii) Transitioned from short term lending to medium and long term lending. The longest tenure that UDB can lend is 15 years although there is effort to increase it further to at least 25 years. In essence UDB has practically evolved into a development financial institution (DFI), unlike before where it was more interested in financing for example trade.

55. **Demand for credit and capitalisation:** Demand for credit stands at UGX 306 billion monthly, however, UDB can only lend to 30 percent of the demand. Whereas at establishment, Government committed to capitalisation of 500 billion shillings, only 174 billion has been availed. Unfortunately, the optimal capitalisation of UGX 500 billion has been overtaken by events as small development financial institutions within the region deemed to operate at the minimum capitalisation of US$ 1 billion (UGX 3.7 trillion). Suggesting that UDB is overly undercapitalized. The under capitalisation of UDB partly explains why 46 percent of its portfolio is biased towards agriculture and agro-processing.

56. In spite of the low funding, UDB is positioning itself as a lead arranger of credit facilities in the country. In this case, if it deems a project bankable, it engages in the creation of a special purpose vehicle where different funding agencies pool funds together with UDB contributing a certain fraction of the project cost. An example of this kind of the project is the Nyagak III Hydro Power Project.

57. Oil and Gas development continues but a slower rate that estimated under NDP II. Production now estimated to start in 2025: Oil and Gas was prioritised by NDP II among the

five priority investment areas. In the Oil and Gas development priority area, the exploitation of an estimated resource of 6.5 billion barrels of oil with a recoverable potential of 1.4 billion barrels was prioritized. Key investments in this area include: Development of geological surveys; investment in more survey and exploration; faster acquisition of land; construction of 3 pipelines to transport crude oil to Lamu and Mombasa; refined products to Kampala, Eldoret and Kigali, and Liquefied Petroleum Gas (LPG) to Kampala and Gulu; construction of an oil and gas refinery. Key elements of the oil and gas comercialisation plan prioritized in NDP II were:

(i) Development of a green field refinery of 60,000 BOPD to be located in Hoima District was projected for commissioning in 2018/19. During the NDP II ETE, Government had signed the Project Framework Agreement (PFA) with the Albertine Graben Refinery Consortium (AGRC) aimed at accelerating the construction of the oil refinery in Hoima. Oil production is now projected to start in 2025.

(ii) Commence construction of a 22-inch diameter, 1,300Km long oil pipeline from Hoima via Lokichar to Lamu in Kenya. During the NDP II ETE, identification of a lead investor for the East African Crude Oil pipeline was ongoing and negotiations for partnership with the republic of Tanzania in developing the pipeline were on-going. The pipeline is not expected to be completed before end of NDP II.

(iii) Development of Albertine Region Airport: Four Bilateral Air Services Agreements (BASAs) were negotiated (Qatar, Switzerland, Canada and Saudi Arabia), and the feasibility study to undertake an Economic, Financial and Investment appraisal of the proposed development of Kabaale Airport was prepared.

(iv) Development of Albertine region roads: Progress in the development of the roads has been registered. This includes:

(v) Civil works contracts for package 1 (Masindi (Kisanja)-Park Junction Road Upgrading Project (84km) Pakwach (Tangict) -Paraa-Buliisa Road Upgrading Project) package 2 (Hoima- Bukumi-Butiaba Road (55Km) Bukumi-Wanseko Road (56Km)) and package 3 (Buhimba- Nalweyo-Kakindu-Kakumiro – Mubende Road Upgrading Project

(51km) to Bulamagi-Igayaza- Kakumiro Road Upgrading Project (42km)) have been signed and commencement of civil works expected this month

(vi) As for package 4 (Lusalira-Nkonge-Ntusi (55KM) to Lumegere- Ssembabule and Kyotera-Rakai Road Upgrading Project (60km)) and package 5(Masindi- Biiso Road Upgrading Project (54km) Kabale-Kiziranfumbi, Hohwa-Nyairongo-Kyarushesha-Butole and Kaseeta-Lwera Road Upgrading Project (68km)), procurement was projected to be completed in 2018

2.8 Conclusions

58. Various factors have seemingly contributed to the lower than expected growth performance during the first half of NDP II: these include drought, the slow implementation of infrastructure and energy projects, and delays in achieving improvements in the business environment and global competitiveness. This has been compounded by the very high costs of domestic credit (discussed in chapter 4).

Chapter 3: Fiscal Strategy

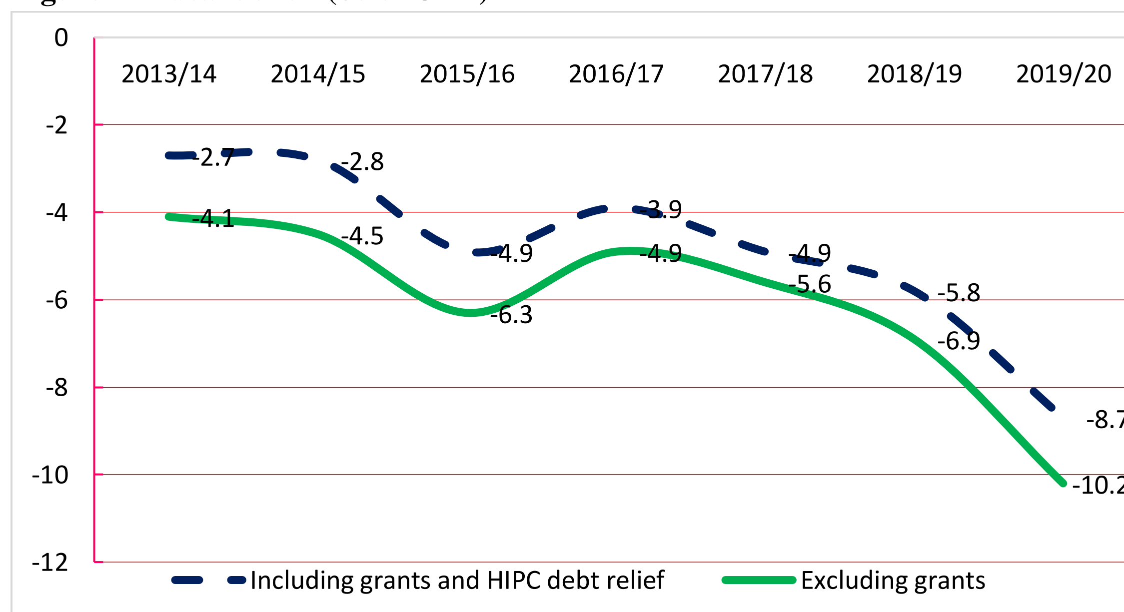
3.1 Fiscal Performance

59. The fiscal strategy of the NDPII is underpinned by the need to maintain macroeconomic stability while supporting economic growth and building competitiveness to enable Uganda to fully benefit from the regional and international markets. For this to be realized, NDP II fiscal policy aimed at addressing some of the key binding constraints to growth, as well as reducing the costs of doing business. The NDP II fiscal strategy focuses on addressing the infrastructure deficit while consolidating the gains in human capital development, with resource mobilisation to raise sufficient revenues to finance development. The resulting fiscal deficit would be mainly driven by additional resources required for infrastructure and human capital development as well as the success of resource mobilisation efforts.

Recent fiscal policy is expansionary to unprecedented levels

60. Uganda has continued with an expansionary fiscal policy, characterized by a widening primary deficit. There was a slight decline in the expansionary stance in 2016/17, but it has since increased, as shown in figure 4.

Figure 4: Fiscal deficit (% of GDP)



Source: MFPED[6]

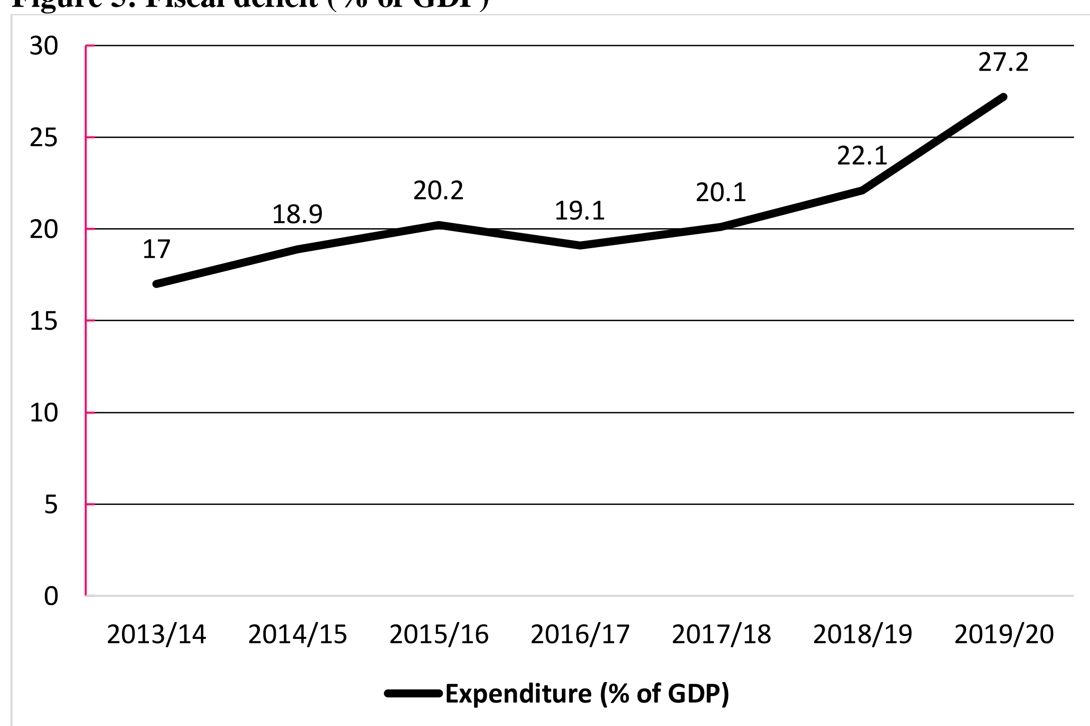
[6] MoFPED, 2020. *Approved estimates of revenue and expenditure (recurrent and development).* Accessed at; https://www.finance.go.ug/budget-documents

61. The fiscal deficit including grants increased from 2.8% of GDP in 2014/15 to 4.8% in 2017/18, and reached 8.7% in 2019/20. The fiscal deficit excluding grants has increased from 4.5% in 2014/15 to 6% in 2017/18 and reached 10.2% in 2019/20.

62. However, an expansionary fiscal stance was projected in NDP II. In fact, the actual deficits have been larger than projected in NDP II. For instance, in 2019/20 the actual deficit (excluding grants) was 10.2% of GDP, whereas the projected deficit was 4.8 percent in 2019/20.

63. Both the actual and projected fiscal deficit are in excess of the EAC Monetary Union macro-economic convergence criteria, which require the fiscal deficit including grants, to be less than 3% of GDP.

Figure 5: Fiscal deficit (% of GDP)



Source: MFPED[7]

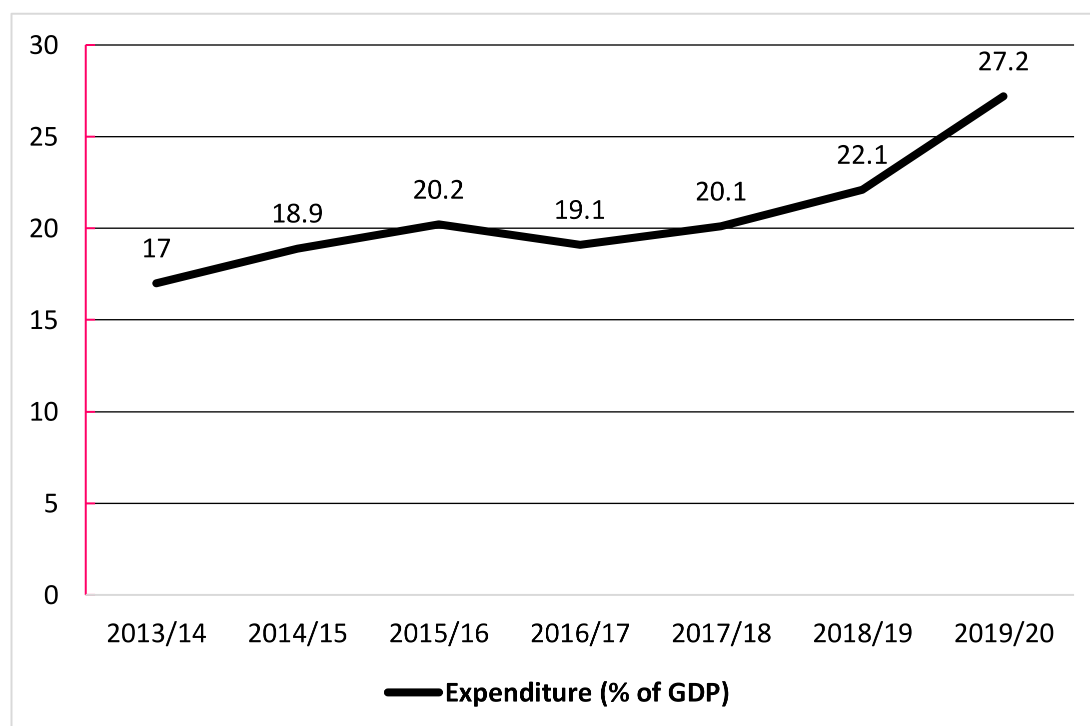
[7] MoFPED, 2020. *Approved estimates of revenue and expenditure (recurrent and development).* Accessed at; https://www.finance.go.ug/budget-documents

64. The fiscal deficit including grants increased from 2.8% of GDP in 2014/15 to 4.8% in 2017/18, and reached 8.7% in 2019/20. The fiscal deficit excluding grants has increased from 4.5% in 2014/15 to 6% in 2017/18 and reached 10.2% in 2019/20.

65. However, an expansionary fiscal stance was projected in NDP II. In fact, the actual deficits have been larger than projected in NDP II. For instance, in 2019/20 the actual deficit (excluding grants) was 10.2% of GDP, whereas the projected deficit was 4.8 percent in 2019/20.

66. Both the actual and projected fiscal deficit are in excess of the EAC Monetary Union macro-economic convergence criteria, which require the fiscal deficit including grants, to be less than 3% of GDP.

Figure 6: Expenditure (% GDP)



Source: MFPED, 2020[8].

[8] MoFPED, 2020. Accessed at; https://www.finance.go.ug/budget-documents

67. This fiscal expansion has seen aggregate spending increasing over the five years of NDP II except in 2016/17 when it declined by 1.1%. Expenditure increased from 18.9% of GDP in 2014/15, reaching 27.4% in 2019/20 higher than the projected in NDP II, at 20.83% in 2019/20. Throughout the NDP II, actual expenditures have come in consistently below budget, although expenditure has increased as a share of GDP. Overall, the actual level of expenditure and the size of the budget deficit has been smaller (less expansionary) than projected in NDP II.The reasons for this under-spending are discussed further below.

68. The expansion has mainly been achieved through domestic and external borrowing, which has increased the primary deficits in excess of 2.7 percent of GDP.

69. Selected indicators underpinning the medium-term fiscal framework are presented in table 10 below.

Table 11: Medium-Term Fiscal Framework (UGX bn)

	Outturn 2014/15	Outturn 2015/16	Outturn 2016/17	Outturn 2017/18	Outturn 2018/19	Outturn 2019/20	Grand total
Total Revenues and Grants (UGX Billion)	11,045	12,645	13,897	15,281	17,839	18,442	89,149
Total Revenues (UGX Billion)	10,114	11,499	12,947	14,507	16,638	17,286	82,990
Revenue Through URA (UGX Billion)	9,773	11,059	12,463	14,076	16,163	15,912	79,447
Non-URA Revenue (UGX Billion)	221	318	354	431	475	1,374	3,172
Oil Revenues (UGX Billion)	120	121	130	-	-	-	371
Total Grants (UGX Billion)	931	1,146	950	774	1,202	1,156	6,159
Grants for Budget Support (UGX Billion)	258	340	259	155	595	455	2,062
Grants for Project Support (UGX Billion)	673	807	690	620	607	701	4,098
Total Expenditure and Lending (UGX Billion)	14,379	16,748	17,437	20,202	24,268	28,403	121,436
Current Expenditures (UGX Billion)	7,689	9,191	9,994	10,934	12,374	15,103	65,285
Current Expenditure on Wages and Salaries (UGX Billion)	2,759	3,075	3,382	3,481	4,213	4,861	21,772
Current Expenditure on Interest Payments (UGX Billion)	1,213	1,682	2,360	2,260	2,525	2,932	12,973
Current Expenditure on Domestic Interest Payments (UGX Billion)	1,077	1,470	1,954	1,936	2,006	2,369	10,812
Current Expenditure on External Interest Payments (UGX Billion)	136	212	406	324	520	563	2,161
Other Current Expenditures (UGX Billion)	3,717	4,435	4,252	5,192	5,635	7,310	30,541
Development Expenditures (UGX Billion)	5,230	5,906	6,718	7,566	10,047	12,064	47,531

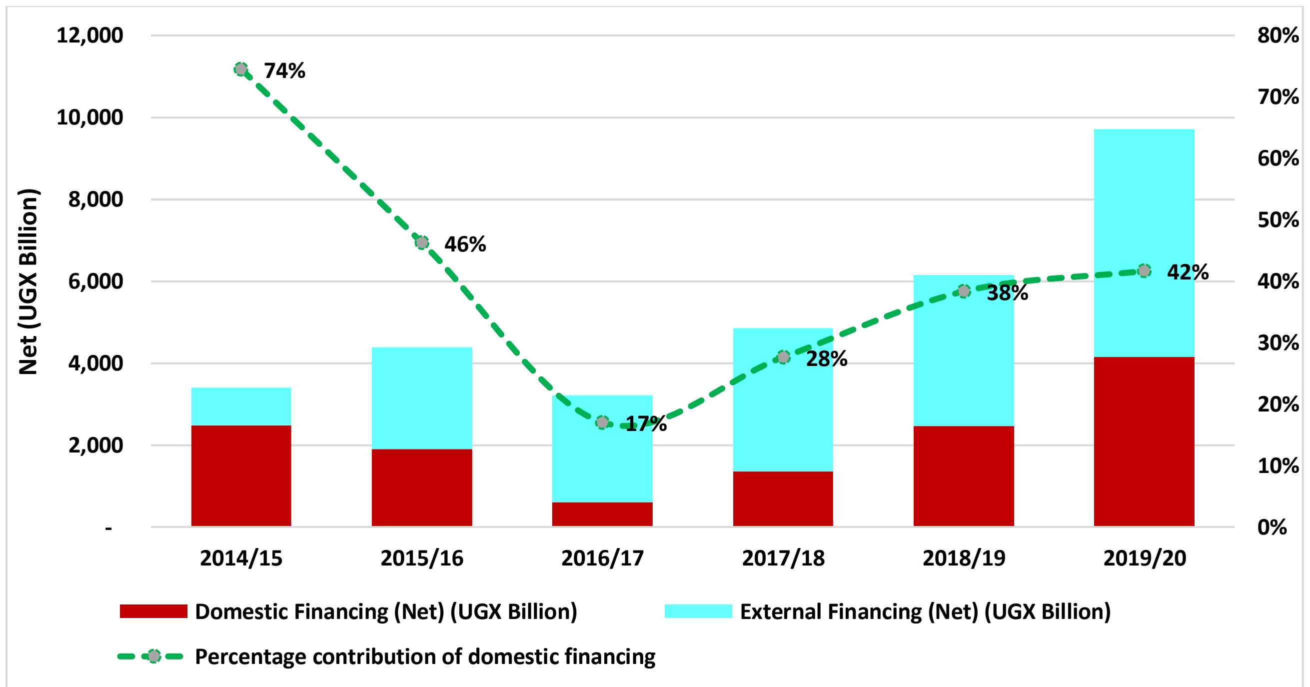
Development Expenditures for Domestic Development (UGX Billion)	3,296	3,523	4,241	4,298	5,899	8,097	29,354
Development Expenditures for External Development (UGX Billion)	1,933	2,383	2,477	3,268	4,149	3,967	18,177
Net Lending/Repayments (UGX Billion)	1,235	1,532	541	1,396	1,428	831	6,964
Net Lending/Repayments HPPs (UGX Billion)	-	-	-	1,396	1,428	631	3,456
Net Lending/Repayments GoU (UGX Billion)	0	0	0	50	88	62	201
Net Lending/Repayments Eximbank (UGX Billion)	0	0	0	1346	1340	569	3255
Net Lending/Repayments BOU Recapitalisation (UGX Billion)	0	0	0	0	0	200	200
Domestic Arrears Repaym. (UGX Billion)	225	119	184	305	419	405	1656
Domestic Balance (UGX Billion)	-2196	-2654	-1607	-756	-1622	-6018	-14853
Primary Balance (UGX Billion)	-2121	-2421	-1181	-2660	-3903	-7028	-19314
Overall Fiscal Bal. (Excl. Grants) (UGX Billion)	-4265	-5250	-4491	-5695	-7630	-11117	-38446
Overall Fiscal Bal. (Incl. Grants) (UGX Billion)	-3334	-4103	-3541	-4921	-6428	-9960	-32287
Financing: Net (UGX Billion)	3,334	4,103	3,541	4,920	6,428	9,960	32,287
External Financing (Net) (UGX Billion)	919	2,494	2,609	3,496	3,680	5,563	18,761
External Financing (Net): Deposits (UGX Billion)	0	0	0	0	0	0	0
External Financing (Net): Disbursements (UGX Billion)	1,177	2,813	2,983	4,306	4,878	6,379	22,538
External Financing (Net): Disbursements for Budget Support Loans (UGX Billion)	-	-	573	141	188	2,415	3,317
External Financing (Net): Disbursements for Project Loans (UGX Billion)	1,177	2,813	2,411	4,165	4,690	3,964	19,221
External Financing (Net): Amortization (UGX Billion)	-258	-319	-375	-813	-1198	-816	-3780
Domestic Financing (Net) (UGX Billion)	2,483	1,899	603	1,360	2,465	4,150	12,959
Bank Financing (Net) (UGX Billion)	1,288	923	(297)	260	1,256	2,290	5,721
Non-Bank Financing (Net) (UGX Billion)	1,195	976	901	1,099	1,208	1,859	7,238
Errors and Omissions (UGX Billion)	-68	-290	329	65	283	248	567
Fiscal deficit (% of GDP)							**Average**
Including grants and HIPC debt relief	-2.8%	-4.9%	-3.9%	-4.9%	-5.8%	-8.7%	-5.2%
Excluding grants	-4.5%	-6.3%	-4.9%	-5.6%	-6.9%	-10.2%	-6.4%
Expenditure(% GDP) – actual	18.9%	20.2%	19.1%	20.1%	22.1%	27.2%	21.3%
Expenditure (% GDP) – NDP II projection[9]	18.9%	21.9%	23.0%	22.5%	21.8%	20.8%	

[9] The expenditure projection for 2014/15 is reported as the baseline figure of 18.9%

3.2 Public Debt

70. The fiscal deficit was financed through a combination of domestic and external borrowing. Over the five years of NDP II, Government has relied more on external funding sources than domestic financing of the deficit, although this has been changing as shown in the figure 6 below.

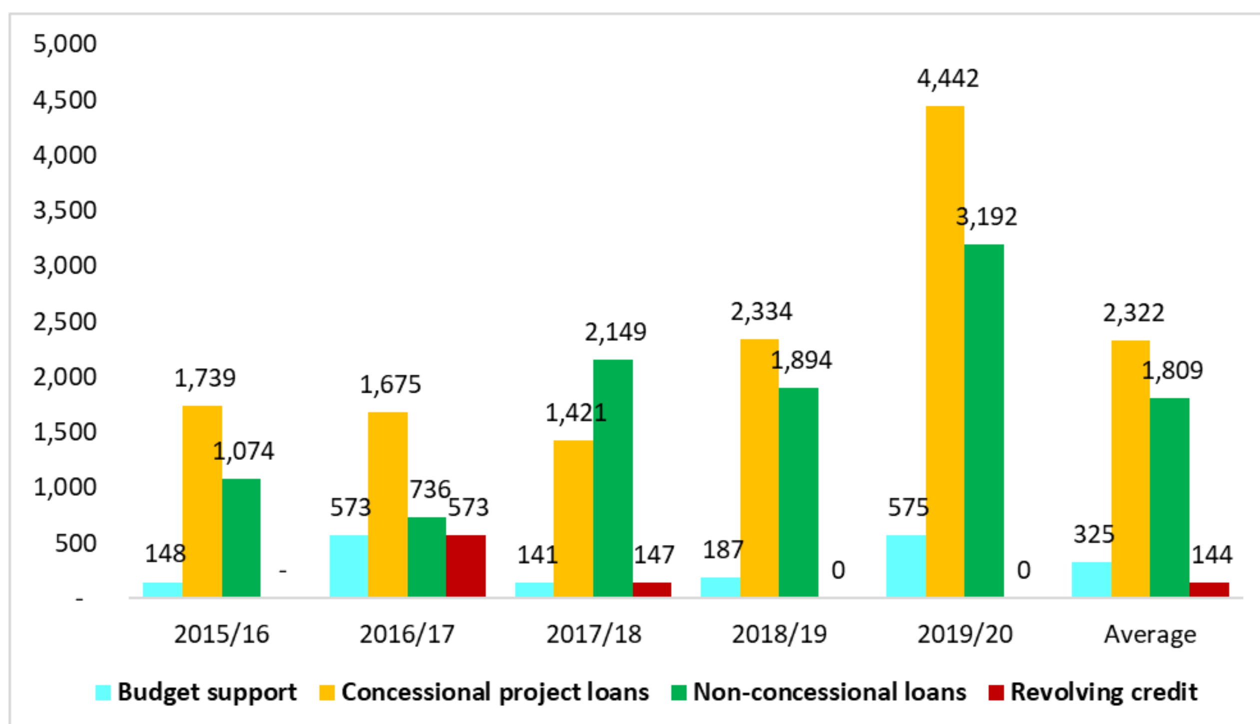
Figure 7: Sources of financing for Deficit



Source: MFPED

71. External borrowing has been dominated by concessional and non-concessional project loans. Over the five years of the NDPII, concessional project loans accounted for 51% of external financing, while non-concessional project loans accounted for 39%, budget support accounted for 5% while revolving credit funds account for 4%. The distribution of the various financing instruments over the four years of NDP II is summarized in Figure 7 below.

Figure 8: Financing instruments-NDP II (Billion Uganda shillings)

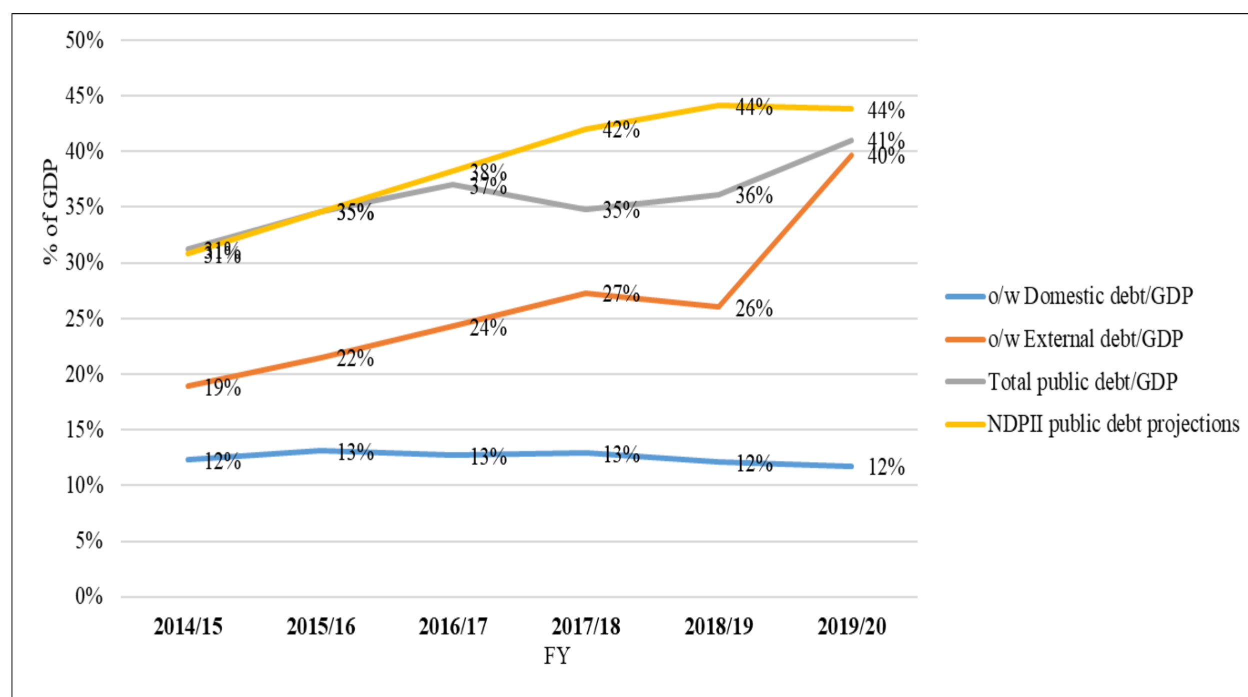


Source: MFPED

Public debt increasing, but less than projected in NDP II

72. Government's continued reliance on public debt to finance the budget deficit has increased debt to unprecedented levels. Public debt as a percentage of GDP increased from 31.2% in 2014/15 to 41 % in 2019/20. Domestic debt peaked at 13.1% of GDP in 2015/16 before falling to 12% of GDP in 2019/20. On the other hand, external debt continued to increase over the review period from 18.9% in 2014/15 reaching 40% of GDP in 2019/20 shown in the figure 8.

Figure 9: Public Debt (% of GDP)



Source: MFPED

73. The build-up in public debt has been in an effort to achieve the government's objective of reducing the infrastructure gap in order to reduce costs and improve Uganda's competitiveness, thereby enabling higher and more sustainable growth over the medium to long term. Whereas the public debt-to-GDP ratio is still below the benchmark level of 56 percent[10]associated with heightened public debt vulnerabilities for medium performers and the EAC monetary Union protocol, the risk of debt stress is high, given that a number of priority infrastructure projects like the standard gauge railway, oil refinery and oil pipeline are yet to be fully implemented and hence will require substantially more debt financing.

74. The increase in public debt is lower than projected in NDP II. In 2019/20 the actual level of public debt was 41% of GDP, compared to the NDP II projection of 44%. This reflects higher than projected expenditure and deficits.

75. Even though the increase in debt is well within sustainability limits, it is nevertheless causing actual or potential problems. Domestic debt is leading to crowding out of lending to the

[10]*MFPED (2018): Report on Public Debt, Guarantees and other Financial Liabilities and Grants for FY 2017/18.*

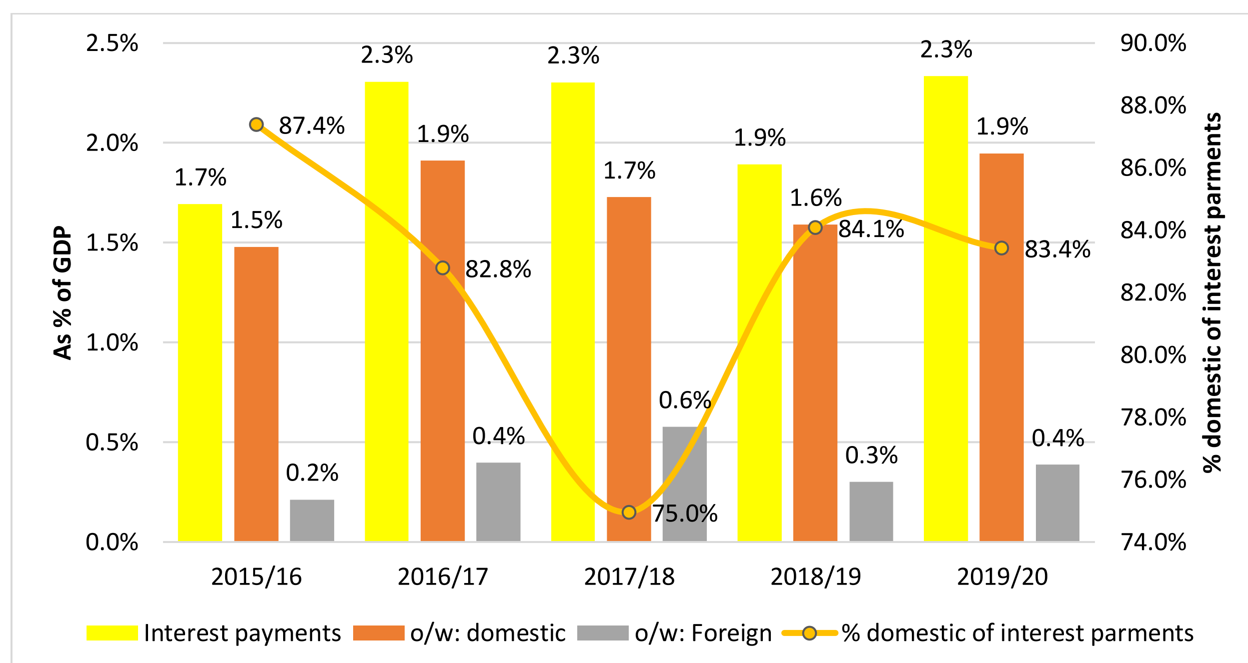
private sector, and it is not yet clear that investments financed by external debt will generate the returns necessary to service the debt.

76. **Government interest payments were on a steady rise throughout the NDPII period**. This is in line with Government's increasing deficit financing. In 2015/16, government interest payments accounted for 1.70% of GDP, increasing to 2.3% of GDP in 2019/20. Interest payments are projected to increase further in the medium term on account of increased borrowing. The increase in interest payments is largely attributed to increased use of short term domestic financing to finance government spending. Indeed, the domestic share of interest payments is very high, it accounted for 87.4% of interest payments in 2015/16, decreasing to 84.1% in 2018/19 and 83.4% in 2019/20, reflecting the burden of using short-term domestic borrowing instruments to finance the budget deficit. Figure 9 show the trend and distribution of interest payments over the period under review. Although domestic debt is much smaller than external debt, the interest rate on domestic debt is much higher than on external debt (although they are denominated in different currencies). Hence exchange rate depreciation continues to increase the Uganda shilling equivalent of the foreign debt stock, which with potential for increasing the debt budget in the long-term – this is one of the trade-offs for the lower interest rate on foreign currency debt.

Domestic Debt Holders

77. Commercial banks remain the biggest holder of domestic debt. As of December 2019, commercial banks were holding 40% of the total domestic debt. High domestic debt holdings by commercial banks have continued to crowd out lending to the private sector and to maintain high interest rates as commercial banks prefer to lend to Government than to the private sector on the account of the high yields on Government bonds and treasury bills. Despite these yields, which are high in both nominal and real terms, holdings of domestic debt by non-residents (offshore) has been declining. This may reflect uncertainty over the stability of the UGX-USD exchange rate.

Figure 10: Trend and distribution of interest payments



Source: Bank of Uganda

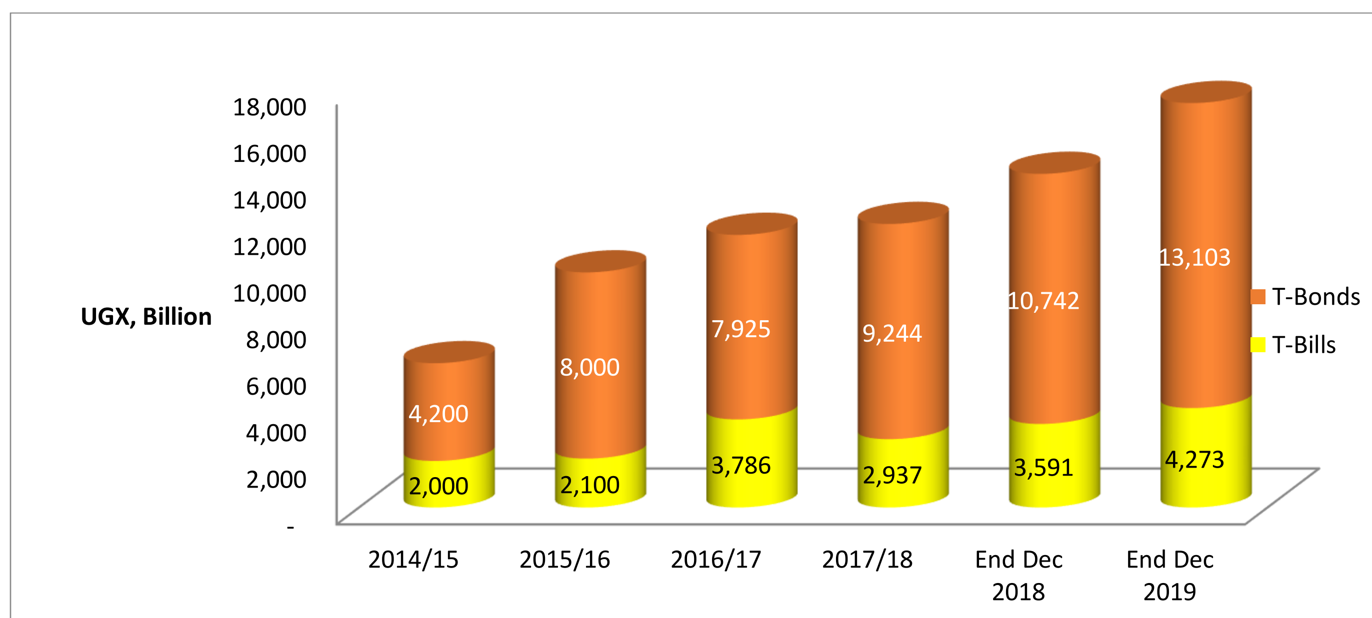
Table 12: Debt Distribution Total Public Debt by Source Category as at 31st December 2019 (US$ Billion)

Creditor category	DEC-15	DEC-16	DEC-17	DEC-18	DEC-19
External	4.8	5.47	6.88	7.66	8.75
o/w:Multilateral	3.69	4.06	4.68	5.02	5.62
o/w:Bilateral	0.94	1.33	2.03	2.59	3.05
o/w:Private banks		0.07	0.17	0.09	0.08
Share of external debt owed to commercial banks		2.6	0.7	1.8%	7.2%
As a % of GDP	20.80%	23.60%	27.40%	27.80%	64.39%
Domestic	2.92	3.25	3.35	3.86	4.74
o/w: Treasury bills	0.83	1.05	0.81	0.97	1.17
o/w: Treasury bonds	2.09	2.2	2.55	2.89	3.57
Share of domestic debt owed to commercial banks		42.5	43.0	40.1	40.2
As a % of GDP	12.40%	13.40%	13.30%	14.00%	35%
Total debt	7.73	8.72	10.24	11.52	13.59
As a % of GDP	33.20%	37.00%	40.70%	41.80%	32.00%

Source: *MFPED- Report on public debt, guarantees, other financial liabilities and grants for fy 2019/20 and the medium term debt management strategy 2020/21 – 2023/24*

78. Government has continued shifting towards issuing more long-term domestic borrowing instruments (Treasury bonds) as compared to short-term domestic borrowing instruments (treasury bills). As of end of 2019, Treasury bonds accounted for 75.4% of the domestic debt stock, while treasury bills accounted for 24.5% of the domestic debt, reflecting continued improvement in domestic debt risk management as reflected in the figure below.

Figure 11: Distribution of Domestic debt holding by Category



Source: MFPED-Annual report on Public Debt and Grants (2017/18 & 2019/2020)

3.3 Domestic Revenue Mobilisation

79. The NDP II financing strategy emphasises increased domestic revenue mobilisation to finance NDP II implementation. Low domestic revenue mobilisation under NDP I was attributed to the large informal sector that constituted 43 percent of GDP; the narrow tax base composed of a few tax payers coupled with a weak tax exemptions regime; and weaknesses in tax administration. The NDP II target was to increase tax to GDP ratio from 13.0 percent in 2014/15 to 15.3 per cent in 2019/2020. This was to be attained through: a) Developing and implementing a policy on mandatory association membership for informal sector players, b)Rationalizing the rental tax regime and integrating e-tax with utilities and other agencies; c)Streamliningnon-standard VAT tax exemptions; d)Developing mechanisms for exploiting capital gains tax; e)Strengthening Inter-Agency collaboration

among agencies concerned with investment promotion i.e. UIA, KCCA, LGs, URA & URBS, to design and implement a mutually beneficial comprehensive investment regime; f)Combating international tax evasion schemes in complex sectors to raise more tax e.g. corporate tax; and g) Strengthening capacity of relevant staff in critical functions of revenue management, audit, forensics investigations and Legal Affairs.

80. To increase the tax to GDP ratio, the Government, through URA, has implemented a number of measures to mobilize more taxes and increase tax efficiency. These have included:

(i) Implementation of the Tax Payer Expansion Program (TPEP), through a partnership between URA, URSB, KCCA and Ministry of Local Governments, as an avenue for taxing "hard-to- tax" sectors mostly the large informal sector players who are out of the taxable bracket yet earn taxable incomes.

(ii) Government stopped doing business with individuals or SMEs (small and medium enterprises) that do not have tax registration numbers. In addition, corporations were required to do business with SMEs that have TIN. This was an attempt to include governments and large corporations' suppliers into the formal tax bracket.

(iii) Government also introduced electronic payment systems. Though for example mobile money technology and pay way systems tax payers can remit their tax obligations. This is aimed at reducing the cost of making tax payments.

(iv) In FY2017/18 Government introduced Block Management System (BMS). The BMS is aimed at providing better services to tax payers, better returns filing services, better assessments, better payment services and handle their queries expeditiously.

(v) In 2015, government established the High Net Worth Unit (HNWU). Any of the core parameters that may trigger a tax payer to be classified as HNWI include if they: 1) generate more than USD 142,000 annually in rental income, or if they engage in the buying and selling of land over the value of USD285,000 in a five-year period; shareholders in private companies whose annual turnover is more than USD14.3 million or shareholders in multiple companies with a turnover between USD4.3 million and USD14.3 million are considered HNWIs for URA's purposes; and they have a loan portfolio of over USD1.5 million in a five-year period or have bank transactions of over USD1 million annually. Non-core indicators include: publicly

known wealthy individuals; importers and exporters of goods exceeding USD 142,000 annually; and individuals maintaining commercial forests, plantations and huge ranches. "Before the unit was established, the LTO collected only about USD390,000 from wealthy individuals in FY 2014/2015. Within less than a year of its establishment (by June 2016), the unit had collected over USD5.5 million in rental tax, personal income tax, VAT and stamp duty. In total, as at June 2017, the unit had collected USD11.4 million"11

(vi) In FY2016/17 Regional Electronic Cargo Tracking system to abate transit trucks from dumping goods in Uganda while facilitating international trade. This was agreed between Rwanda, Uganda and Kenya.

(vii) In FY2016/17, a centralized Document Processing Center (DPC) was set up. Under this framework taxpayers will benefit from a single document processing centre where all documentary check function for all customs declarations will be done. This is also aimed abating collusive behaviour between customs officials and tax payers. This is because the DPC randomly assigns tax payers to customs officials to handle them.

(viii) In FY2016/17, the Electronic Single Window (ESW) was set up to allow importers and exporters submit all regulatory documents including permits, customs declarations documents using a single access point. The success of the ESW is dependent on all the relevant government agencies, economic operators and the private sector coming on board. As of December 2017, 16 border intervening agencies had complied that is URA, UNBS, UCDA, MTIC, and MAIFF and UEPB among others. It is expected that this innovation will improve efficiency and reduce the cost of doing business.

(ix) Authorized Economic Operator (AEO)12 where businesses which comply with customs laws and regulations will benefit from customs preferential treatments such as fast clearance of their goods through simplified procedures, reduced inspection. Over 6,000 declarations are done monthly under this framework.

---

[11]https://opendocs.ids.ac.uk/opendocs/bitstream/handle/123456789/13543/ICTD_14_Summary_%20Brief_HNWI.pdf

[12]https://www.ura.go.ug/Resources/webuploads/INLB/Authorised%20Economic%20Operator.compressed.pdf

81. Through implementation of the above measures, the URA collections in nominal values have increased by an annual average of 11.3% over the five years of NDP II. For example, rental tax collections have increased by 16324% between NDPI and NDP II while Exercises (Incl. Duty on Fuel Imports): Excise Duty on Imports increased by 1414% in the same period. The trends in the value of URA tax collections is summarised in table 11.

82. ***Tax to GDP ratio Increases but slightly behind target:*** Within the five years of NDP II implementation, the tax to GDP ratio increased by 4 percent, from 11.7% in 2014/15 to 12.2% in 2019/20. This improvement in the tax to GDP ratio is less than the NDP II projections, which envisaged a tax to GDP ratio of 15.7% in 2019/20. The Tax and Non-Tax Revenue collection as a Percent of GDP performance is summarised in the table 12.

83. Despite this performance, in line with NDP II, revenue mobilisation has faced challenges. The government and URA have faced difficulties in reining in tax concessions, despite this being a commitment in NDP II – hence the poor performance of corporate tax revenues. Collections and compliance are also considered to remain weak in some areas.

84. ***Tax to GDP ratio Increases but slightly behind target:*** Within the five years of NDP II implementation, the tax to GDP ratio increased by 4 percent,from 11.7% in 2014/15 to 12.2% in 2019/20. This improvement in the tax to GDP ratio is less than the NDP II projections, which envisaged a tax to GDP ratio of 15.7% in 2019/20. The Tax and Non-Tax Revenue collection as a Percent of GDP performance is summarised in the table 12.

85. Despite this performance, in line with NDP II, revenue mobilisation has faced challenges. The government and URA have faced difficulties in reining in tax concessions, despite this being a commitment in NDP II – hence the poor performance of corporate tax revenues. Collections and compliance are also considered to remain weak in some areas.

Table 13: Trends in URA tax collections (UGX Billion) 2010/11 to 2019/20

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Grand Total NDP II	Grand Total NDP I	%age Change between NDPI and NDP II
Total Domestic Revenues	6,402	6,634	7,340	8,168	10,114	11,555	12,956	14,507	16,638	17,286	72,941	38,658	89%
Domestic Taxes	6,307	6,528	7,150	8,031	9,893	11,059	12,593	14,076	16,163	15,912	142,745	37,908	277%
Taxes Excl Oil	5,114	6,136	7,150	8,031	9,773	11,059	12,463	14,076	16,163	15,912	139,477	36,204	285%
Taxes on Income & Profits	2,853	2,379	2,426	2,613	3,355	3,688	4,149	4,642	5,484	5,860	93,496	13,626	586%
Pay as You Earn, PAYE	826	997	1,197	1,398	1,613	1,804	2,115	2,396	2,811	3,040	35,988	6,030	497%
Coporate Income Tax	420	554	598	487	715	732	764	885	1,168	1,302	17,017	2,773	514%
Taxes on Oil Sector (Capital Gains Tax)	1,193	392	-	-	120	-	130	-	-	-	4,981	1,705	192%
With Holding Tax	275	329	389	407	547	699	678	754	1,249	1,277	4,787	1,947	146%
Tax on Rental Income	3	1	-	-	28	55	72	89	115	104	5,091	31	16324%
Tax on Interest Income	74	102	223	269	290	355	474	457	74	81	1,875	958	96%
Taxes on Goods & Services	2,882	3,493	3,959	4,496	5,428	5,989	6,776	7,647	8,690	8,287	38,830	20,257	92%
VAT on Goods & Services	1,567	1,921	2,353	2,570	3,117	3,522	3,904	4,448	4,879	4,732	58,875	11,529	411%
VAT on Imports	987	1,156	1,255	1,405	1,784	1,953	2,057	2,417	2,665	2,498	33,075	6,585	402%
VAT on Local Goods	594	775	983	1,050	1,245	1,323	1,012	1,052	1,351	1,447	17,774	4,647	282%
VAT on Services	131	159	296	304	265	450	1,011	1,183	1,204	1,161	11,192	1,155	869%
Value Added Tax: VAT Refunds	-144	-169	-181	-188	-177	-203	-175	-204	-341	-375	3711	-858	-533%
Excercises (IncL. Duty on Fuel Imports)	1,186	1,446	1,466	1,757	2,128	2,300	2,669	2,963	3,572	3,462	13,669	7,983	71%
Excercises (Incl. Duty on Fuel Imports): Excise Duty on Imports	141	181	220	227	292	246	239	197	217	184	16,048	1,060	1414%
Taxes on Specific Goods & Services: Casinos & Loteries	5	5	7	11	14	17	27	29	28	19	1,203	43	2729%

Taxes on International Trade &transactions (ExcL. Duty on Fuel Imports)	45	43	49	51	61	58	62	72	75	1,678	2,067	248	735%
Other Taxes	350	382	476	576	874	1,815	1,445	1,390	1,479	4,134	12,210	2,658	359%

Source: MFPED

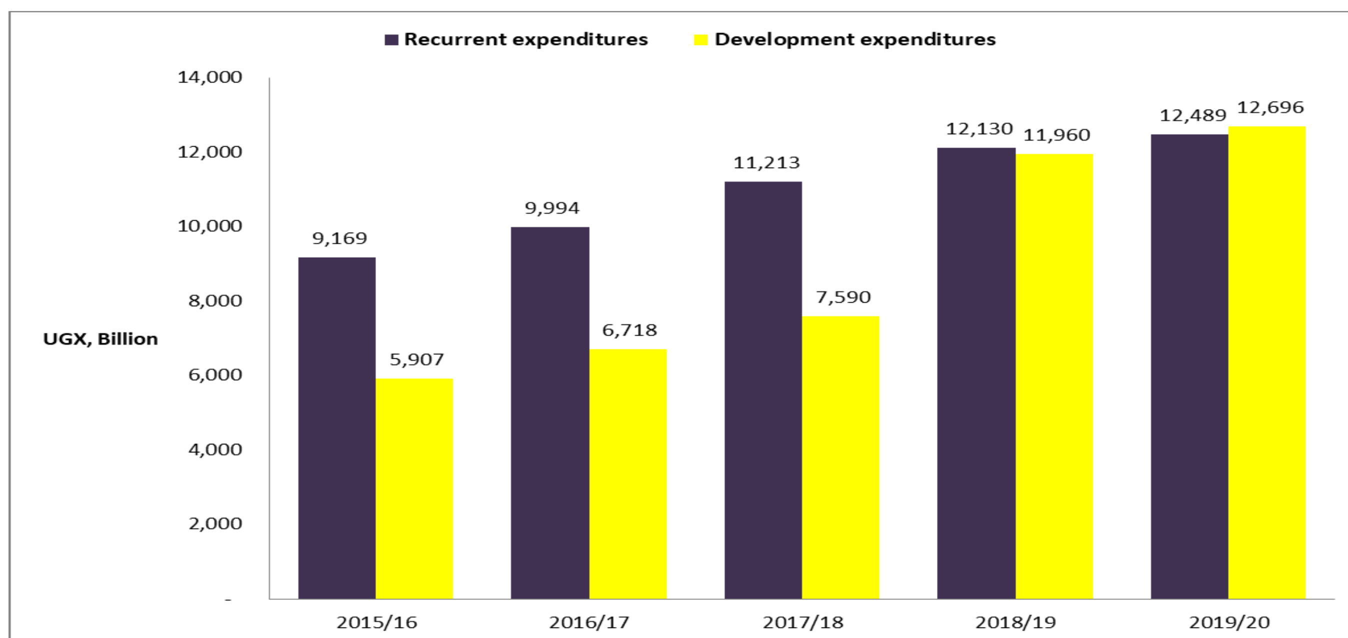
Table 14: Tax and Non-Tax Revenue collection as a Percent of GDP

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Total Domestic Revenues	12.0	11.1	13.0	13.1	13.6	13.3
Domestic Taxes	11.7	10.6	12.7	12.7	13.2	12.2
Taxes Excl Oil	11.6	10.6	12.5	12.7	13.2	12.2
Taxes on Income & Profits	4.0	3.5	4.2	4.2	4.5	4.5
Pay as You Earn, PAYE	1.9	1.7	2.1	2.2	2.3	2.3
Coporate Income Tax	0.8	0.7	0.8	0.8	1.0	1.0
Taxes on Oil Sector (Capital Gains Tax)	0.1		0.1			
With Holding Tax	0.6	0.7	0.7	0.7	1.0	1.0
Tax on Rental Income	0.0	0.1	0.1	0.1	0.1	0.1
Tax on Interest Income	0.3	0.3	0.5	0.4	0.1	0.1
Taxes on Goods & Services	6.4	5.7	6.8	6.9	7.1	6.4
VAT on Goods & Services	3.7	3.4	3.9	4.0	4.0	3.6
VAT on Imports	2.1	1.9	2.1	2.2	2.2	1.9
VAT on Local Goods	1.5	1.3	1.0	0.9	1.1	1.1
VAT on Services	0.3	0.4	1.0	1.1	1.0	0.9
Value Added Tax: VAT Refunds	-0.2	-0.2	-0.2	-0.2	-0.3	-0.3
Excercises (IncL. Duty on Fuel Imports)	2.5	2.2	2.7	2.7	2.9	2.7
Excercises (Incl. Duty on Fuel Imports): Excise Duty on Imports	0.3	0.2	0.2	0.2	0.2	0.1
Taxes on Specific Goods & Services: Casinos & Loteries	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on International Trade &transactions (ExcL. Duty on Fuel Imports)	0.1	0.1	0.1	0.1	0.1	1.3
Other Taxes	1.0	1.7	1.5	1.3	1.2	3.2
NDP II projection	13.0	13.5	14.0	14.4	14.5	15.9

3.4 Composition of expenditure

86. **Both development and recurrent spending are driving the recent fiscal expansion, although development spending is expected to increase faster than recurrent spending.** The gap between recurrent and development spending is declining (Figure 12). The share of recurrent expenditure decreased from 60.8% in 2015/16 to 49.5 % in 2019//20, while over the same period, the share of development expenditure increased from 39.2% to 50.5%. Despite the Government's efforts to direct more spending towards development expenditure, the increasing cost of public administration, as well as slow implementation of projects, have constrained development spending.

Figure 12: Development and recurrent spending



Source: MFPED

87. **Expenditure to Finance NDP II**: As shown in the table 16, whereas expenduture reached 22% of GDP in 2019/20, average spending over the five years of NDP II averaged 18.9% of GDP. This is lower than the projected NDP II spending that was projected to peak at 23.0% of GDP in 2016/17. Lower overall spending is partly attributed to the slow implementation of some infrastructure projects. It is also quite unlikely that such a large and growing development budget can be implemented efficiently. First, there is an absorptive capacity issue, and whether the economy can absorb such an increase in spending without

running into capacity problems leading to inflation. Second, robust process for selecting development projects for inclusion in the national development plan, i.e. focusing on high return projects with proper appraisal before inclusion in the National Development Plan. Third, low efficiency in implementing development projects on account of wastage and leakages.

88. **Infrastructure projects implementation**: Government commitment to accelerate spending on infrastructure projects were attempted but came short of the targets as most of the prioritised projects under NDP II were yet to be implemented by 2019/2020. The main projects that are significantly behind schedule include the Hoima Oil Refinery, oil pipeline, Standard Gauge Railway and the Ayago hydro power plant (600MW). In case of the roads sub-sector, the NDP II target was to increase the stock of national paved roads from 3,795km to 6,000km by 2020 to facilitate socio-economic development. As of June 2020, 5,370 km had been paved, indicating a failure to meet the target. However, 1,373km were under implementation and were expected to be completed by end of FY 2021/22. An analysis of NDPII national roads plans indicated that the following works were planned: Construction of 154km of expressways; Construction of 61km of bypasses; Construction of 18 bridges; Upgrading of 6,785km of national roads; and Opening up of 1 ferry route (ferry and landing sites).

89. The above works required approximately UGX 34.6 trillion to implement compared to the disbursed UGX 11 trillion in the NDPII period. It can thus be concluded that the NDPII plan for national roads was ambitious and was not matched by resources. The following were implemented as of December 2019: Construction of 51km of expressways; Construction of 40km of bypasses; Construction of 13 bridges; and Upgrading of 1,220km national roads. UNRA indicates the the following challenges that limited its ability to fully implement the planned NDP2 projects:

    (i) The NDP2 was not matched with adequate resources: The NDP2 National Road development plans required approximately UGX 34.6 trillion to implement compared to the available UGX 11 trillion in the NDPII period.

(ii) Inadequate funding for land acquisition: Based on the closing debt for the Project Affected Persons (PAPs) every year, UNRA avers that the item was underfunded. Debt in 2016/17 – UGX 49bn; 2017/18 – 149bn; 2018/19 – 179bn; and projected debt for 2019/20 – 170bn. This has resulted in delayed payment of the PAPs, thereby causing distress to communities and affecting progress on the already signed works contracts. This ultimately led to time extension and payment of claims on time related obligations.

(iii) Inadequate counterpart funding: Development Partners commit to financing various development projects in conjunction with the Government of Uganda (GOU) in form of loans and grants. This financing however requires a mandatory GOU contribution towards the project. This involves 100% of the acquisition of right of way (land) and sometimes a proportion of the Civil Works and Supervision contracts. The mandatory GOU contribution is a substantial amount of the UNRA Development GOU budget that is not often considered during the MTEF allocation process. This counterpart funding is very important and failure to provide for it results in halting of funding by the Development Partners and/or delays in project implementation. Therefore, the GOU funded programme suffers budget reduction in order to accommodate the counterpart funding requirements for the new Development Partner financed projects. The counterpart funding requirement has increased as a percentage of the Development GOU budget. The counterpart funding requirement has grown from 34% of the FY 2016/2017 annual GOU budget to 43% of the FY 2020/2021 annual GOU budget.

(iv) Perpetual indebtedness: Efforts to control debt have been made by limiting commencement of new projects and spreading the available budget thinly among the ongoing activities. This has caused the entity to default on contractual obligations to make timely payment to providers on many GoU financed contracts. This has adversely affected planned activities in subsequent financial year workplans. Delayed payment has slowed the progress and increased the final cost of projects. This is compounded by the interest on delayed payments that comes as a result of delayed payments.

(v) Other reasons include: Delays in procurement for project preparation and civil works; and delays in project preparation.

90. In terms of energy infrastrycture, electricity generation increased in the NDP II period. Isimba HPP (180MW) was completed, and the Karuma HPP (600MW) stood at 97.3 percent completion rate by June 2020. Additional generation from Achwa (42MW), Siiti 11 (65MW), Kyambura (7.6MW) and Ndugutu (5.9MW) led to an increase in total installed generation capacity to 1,254MW as at March 2020, up from 1,184 in June 2019. Furthermore, a number of transmission lines are under implementation to facilitate evacuation of power from the newly commissioned HPPs. A summary of the implementation status of the infrastructure projects is attached in Appendix II. Appendix IV-VII provides implementation progress of 83 national roads under rehabilitation, bridges and energy projects prioritised under NDP II.

91. Slow project implementation was carried forward from NDP I, leading to slower economic growth. This also attributed to:

(i) Lengthy procurement processes that undermine project implementation. For example, the procurement process for a road construction project can take upto 2 years;

(ii) Inability to adequately budget for government counterpart funding, leading to delays in implementation;

(iii) Weak management and supervision of projects;

(iv) Weak project preparation before inclusion in the national development plan. Projects are typically included in the NDP on the basis of outline ideas, and before detailed design and assessment of feasibility (even pre-feasbility). Many priority projects are large and require lengthy preparatory work. For example, the design of a road project can take upto two years,while procurement can also take upto two years. Therefore, including a project within the NDP before completion of project preparation means that the NDP can finish before the project is completed, and expenditures on project implemention (which is where most of the expenditures are required) may fall behind schedule.

(v) A further concern is that projects are not subject to cost-benefit appraisal or a pre-feasibility assessment prior to inclusion in the NDP. This means that projects cannot be properly prioritised and matched to the available resources. Without a rational economic basis for prioritisation (based on assessment of socio-economic rates of return), the choice of projects will not maximise the economic development impact of development spending, nor will it support decisions as to which projects to implement, and in which order, given resource constraints.

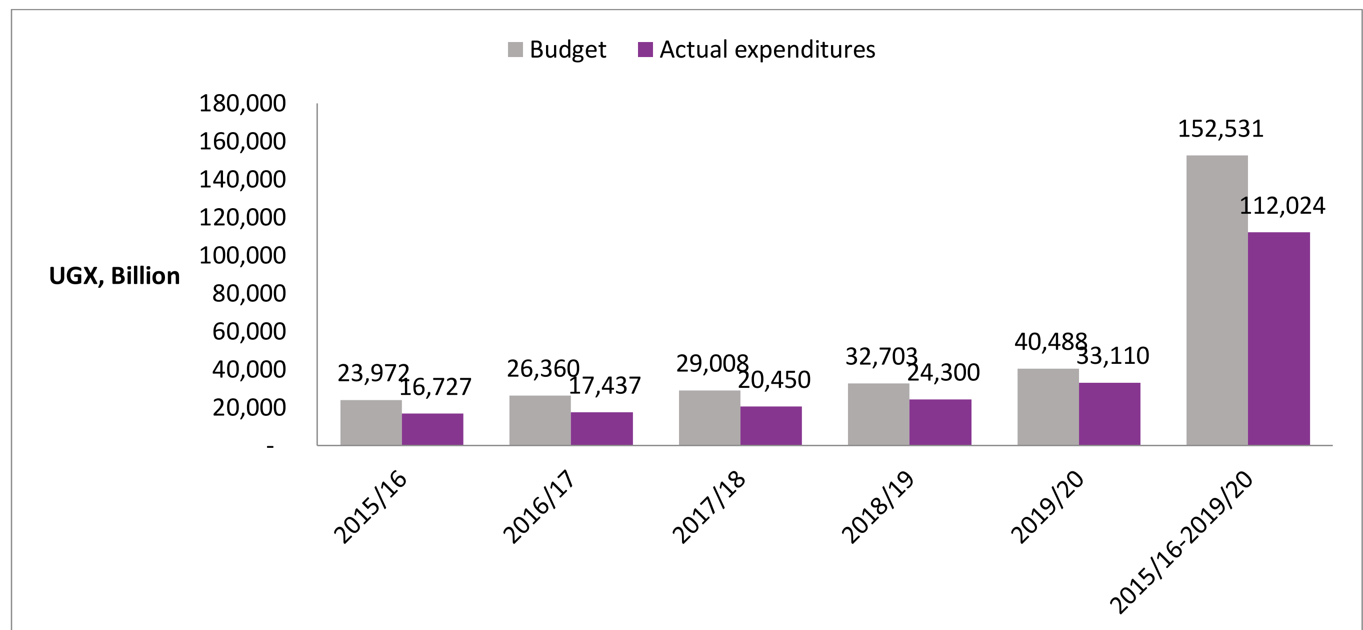
3.5 NDP II Funding

92. Government funding for NDP II over the five years was projected at a total of UGX 107,610 trillion. Of this, 45,406 (52%) was allocated towards development expenditures while 55,432 trillion (48%) was allocated towards financing recurrent expenditures. Of the recurrent expenditures, 18,712 trillion (19% of total budget) was towards wages and salaries, while 24,495 (28% of total budget) was towards non-wage recurrent expenditures.

93. ***Budget out-turn at 73%:*** A review of the annual budgets for the five years under NDP II revealed that the total approved budgets for the five years was 152 trillion. However, total expenditure over the five years was 112 trillion, equivalent to 73% of the NDP II budget. A review of budget expenditures revealed a 69.8% outturn in 2015/16 (i.e. the percentage of the approved budget that was actually spent), 66.2% in 2016/17 and 70.5% in 2017/18, 74% in 2018/19 and 82% in 2019/20. Accordingly, the budget outturn over the review period is estimated at 73% of the total budget as reflected in figure 13.

94. ***Development Budget most affected by spending short-falls:*** Of the 107.610 trillion spent over the five years of NDP II, 55.432 trillion (52%) was recurrent expenditures. This is higher that the projected allocation of 48% of NDP II budget going to recurrent expenditures. On the other hand, 45.406 trillion (48%) of spending was towards development expenditure, which is lower than the NDP II target of 52% of the budget. The allocation of spending for the five years of NDP II is summarized in table 13.

Figure 13: Budget outturn over the review period



Source: MFPED

95. Overall, whereas the thrust of the NDP II funding strategy is to frontload infrastructure investment, by allocating more budgetary resources under the development budget, the development budget expenditure has been less than projected under NDP II. The reason for the underspending on the development budget could be mainily because of delays in project implementation as most of the development expenditure was to be funded through external loans.

Government Budget Expenditure and NDP II Sector Allocation Alignment

96. A review of actual Government expenditure against target NDP II sector allocation reveals significant misalignment between NDP II targets and actual expenditures over the five years of NDP II, as briefly discussed below.

(i) First, out of the 17 sectors in NDP II, only four sectors received funding above allocations in NDP II targets. These were: 1) Social Development, 2) ICT 3)Interest Payments, 4)Water and Environment.

Table 15: Allocation of spending for the five years of NDP II

	2015/16	2016/17	2017/18	2018/19	2019/20	5-Years total, 2015/16-2019/20	%age share NDP II Target	3-Years of NDP II,2015/16-2017/18	%age share in 3 years	%age share in 5 years
Expenditures and net lending	16,727	17,437	20,450	25,474	27,522	107,610		54,614		
Recurrent expenditures	9,169	9,994	11,213	12,170	12,886	55,432	48%	30,376	56%	52%
o/w Wages and salaries	2,966	3,382	3,576	4,242	4,546	18,712	19%	9,924	18%	17%
o/w Non Wage	4,520	4,252	4,989	5,374	5,360	24,495	28%	13,761	25%	23%
o/w Interest payments	1,682	2,360	2,648	2,554	2,981	12,225		6,690	12%	11%
Development expenditures	5,907	6,718	7,590	11,960	13,231	45,406	52%	20,215	37%	42%
Net lending and investment	1,532	541	1,283	1,004	804	5,164		3,356	6%	5%
Other spending (clearance of arrears)	119	184	364	341	600	1,608		667	1%	1%

(ii) Second, all the growth sectors that were projected to lead the growth of the economy received less than the projected budget allocation in NDP II. These include: a)Energy and Mineral Development, which was projected to be allocated 14.97% of the budget but received only 5.12% of the Government expenditure over the five years; b) Works and Transport was projected to receive 21.17% of the NDP budget but received only 14.38% of the actual expenditure; c) Education was projected to receive 12.53% of the budget but received 11.18% of the actual expenditure; d) Health was projected to receive 8.5% but received 6.21% of the actual expenditure, e) Agriculture which was projected to get 3.3% but received 3.05%.

(iii) Third, the NDP II target budget allocation towards interest payments was 8.23% of the budget resources, but it accounted for 26.19% of the actual government expenditure. Interest payments may therefore have crowded out other public expenditures(e.g. on economic infrastructure or social spending) to some extent. This is amidst continued borrowing against the backdrop of expected oil revenues in the medium term.

(iv) Fourth, the expected development outcomes associated with NDP II public expenditure were not realized on account of the less than targeted public expenditure, which was foreseen as the driver of growth under NDP II period. The NDP II development spending commitments, based on the implementation of major projects, were unrealistic and never likely to be met, especially given the lack of project preparation.

97. The effectiveness of public spending in boosting growth could be improved in various ways. First, the establishment of a the proposed project bank is essential. This would mean that projects are subject to sufficient preparatory work to (i) establish a reliable costing figure and (ii) undertake a pre-feasibility assessment including a cost-benefit appraisal. This would enable the implementation period to be shortened, due to the preparatory work undertaken, as well as ensure that projects are not constrained by inadequate funding due to poor initial costing. It would also enable the prioritisation of projects to have the greatest development impact.

Table 16: Government Actual Expenditure and NDP II Sector Allocation Alignment (Percentages)

Sector	2015/16	2016/17	2017/18	2018/19	2019/20	NDP II average	NDP II target	Remark
01 Agriculture	2.28	3.19	3.02	3.56	3.22	3.05	3.30	Below
02 Lands, Housing and Urban Development	0.42	0.32	0.28	0.81	0.69	0.50	0.67	Below
03 Energy and Mineral Development	2.16	2.5	2.02	9.72	9.19	5.12	14.97	Below
04 Works and Transport	11.31	10.9	10.86	19.08	19.75	14.38	21.17	Below
05 ICT	0.28	0.29	0.46	0.59	0.45	0.41	0.27	Above
06 Tourism, Trade and Industry	0.86	0.94	0.9	0.13	0.59	0.68	0.8	Below
07 Education	11.54	11.84	11.12	11.08	10.31	11.18	12.53	Below
08 Health	4.62	4.8	4.41	9.21	8.02	6.21	8.53	Below
09 Water and Environment	1.87	1.91	2.07	5.05	3.34	2.85	2.37	Above
10 Social Development	0.51	0.98	0.79	0.86	0.67	0.76	0.37	Above
11 Security	5.92	5.61	5.22	8.24	11.07	7.21	7.37	Below
12 Justice, Law and Order	5.97	5.85	5.64	5.16	5.30	5.58	4.93	Above
13 Public Sector Management	4.96	5.12	5.16	2.44	2.62	4.06	6.23	Below
14 Accountability	5.11	4.5	3.76	4.48	4.72	4.51	4.90	Below
15 Legislature	2.02	2.37	2.21	1.98	2.10	2.14		
16 Public Administration	4.16	2.73	2.61	2.49	2.99	3.00	3.30	Below
17 Interest Payments	36	36.15	39.14	10.02	9.62	26.19	8.23	Above
18 Science, Innovation and Technology			0.33	0.73	0.57	0.54	N/A	

Source: MFPED

98. The table 16 presents a summary of selected Economic and Financial Indicators over the period 2012/13 to 2017/18.

Table 17: Selected indicators of central Government Operations (FY2014/15-2019/20)

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	NDP II Average
Revenue & Grants / GDP	13.09%	12.11%	13.99%	13.75%	14.54%	14.15%	13.61%
Domestic Revenue incl Oil / GDP	11.59%	10.59%	12.54%	12.66%	13.18%	12.21%	12.13%
Oil Revenues / GDP	0.14%	0.12%	0.13%	0.00%	0.00%	0.00%	0.07%
Total Expenditure and Lending / GDP	17.05%	16.04%	17.55%	18.17%	19.79%	21.80%	18.40%
Current Expenditure on Wages and Salaries / GDP	3.27%	2.94%	3.40%	3.13%	3.44%	3.73%	3.32%

Current Expenditure on Interest Payments / GDP	1.44%	1.61%	2.38%	2.03%	2.06%	2.25%	1.96%
Domestic Balance / GDP	-2.60%	-2.54%	-1.62%	-0.68%	-1.32%	-4.62%	-2.23%
Primary Balance / GDP	-2.51%	-2.32%	-1.19%	-2.39%	-3.18%	-5.39%	-2.83%
Overall Fiscal Bal. (Excl. Grants) (UGX Billion)	-5.06%	-5.03%	-4.52%	-5.12%	-6.22%	-8.53%	-5.75%
Overall Fiscal Bal. (Incl. Grants) / GDP	-3.95%	-3.93%	-3.56%	-4.43%	-5.24%	-7.64%	-4.79%
Financing: Net / GDP	3.95%	3.93%	3.56%	4.43%	5.24%	7.64%	4.79%
External Financing (Net): Disbursements / GDP	1.40%	2.69%	3.00%	3.87%	3.98%	4.90%	3.31%
External Financing (Net): Disbursements for Budget Support Loans / GDP	0.00%	0.00%	0.58%	0.13%	0.15%	1.85%	0.45%
External Financing (Net): Disbursements for Project Loans / GDP	1.40%	2.69%	2.43%	3.75%	3.82%	3.04%	2.86%
Domestic Financing (Net) / GDP	2.94%	1.82%	0.61%	1.22%	2.01%	3.18%	1.96%
Bank Financing (Net) / GDP	1.53%	0.88%	-0.30%	0.23%	1.02%	1.76%	0.85%
Non-Bank Financing (Net) / GDP	1.42%	0.93%	0.91%	0.99%	0.99%	1.43%	1.11%

Source: MFPED

3.6 Financing of NDP3

99. Given the large financing requirements of projects that were carried over from NDP2 to NDP3 and the limitations of borrowing as the country hits the debt ceiling-- it is unlikely that Uganda will be able to raise these resources only from concessional borrowing and tax revenue efforts. It is imperative that Government also starts exploring other options especially to finance large infrastructure projects whose economic returns may not be viable in the short run but with enormous social benefits. Uganda is currently rated at B+ by Fitch and Standard and Poors rating agencies. The key driver for these ratings includes prudent macroeconomic policies combined with a renewed focus on infrastructure investment. The ETE recommends that the Government considers alternative financing models. These include:

(i) Issuance of Infrastructure Bonds: Bonds provide an alternative to traditional funding, making infrastructure debt more accessible to a wide array of institutions. At the backdrop of this development, Government should consider issuance of a Euro bond in international markets. The size of this bond will depend on the financing needs that are not fully covered under by concessional or semi-concessional borrowing. Also

considerations of the costs and risks associated with such financing instruments should be taken into account. This will also require careful planning and preparations on the part of Government to ensure that proceeds are used immediately after issuance of the bond. According to the World Bank , Uganda has a financing gap of about US$1.4 billion a year for infrastructure investment. Accordingly, preliminary estimates suggest that Uganda can initially issue a bond of US 7 billion dollars to be entirely used for infrastructure development over a five year NDP III period. Government can also initiate project specific infrastructure bonds to finance infrastructure projects and municipal infrastructure bonds to finance municipal and city infrastructure needs.

(ii) Uganda should also consider establishing a Fund of Funds. This proposal to establish a Uganda Fund of Funds borrows heavily from the Korea experience of establishing fund of funds. Unlike in Uganda where very few venture capital funds exist, in the case of Korea, several venture funds were existing by the time the fund of funds was established in 2005. However, the fund was established among other reasons to provide a stable and unified source of venture capital. It was fully government funded but allows a fund manager to evaluate, select, and distribute capital to a number of funds based on high standards and with a significant level of independence. It is proposed that Uganda considers establishing a fund of funds but adapt it to the local context with improved governance and management principles and practices. The Fund of Funds enables the government to have a stable and unified source of venture investment which can be targeted to priority sectors expected to grow at a high rate and generate employment. Over time the fund of funds can be gradually opened to the private sector, allowing for its efficiency and additional funding to be exploited.

100. **Use of Pension Funds.** Pension funds have not made progressive investments in infrastructure – especially in those sectors with the potential for high returns and stable and long-term cash flow and inflation-protection possibilities. While the government is expediting the development of the pension sector and implementing the Capital Markets Master Plan, it should also mobilize domestic currency financing by establishing syndicates of commercial banks and large surplus institutions to finance infrastructure projects, such as pension funds, particularly the National Social Security Fund (NSSF).

101. Sovereign Wealth Funds (SWFs) provide alternative financing role in developing much-needed infrastructure across the world, provided that their investment strategies and underlying mandates support countries' macroeconomic policies and development plans. Infrastructure projects provide long-term investment returns that are protected against inflation and bear little to no correlation with other financial assets, making them less vulnerable to economic shocks.

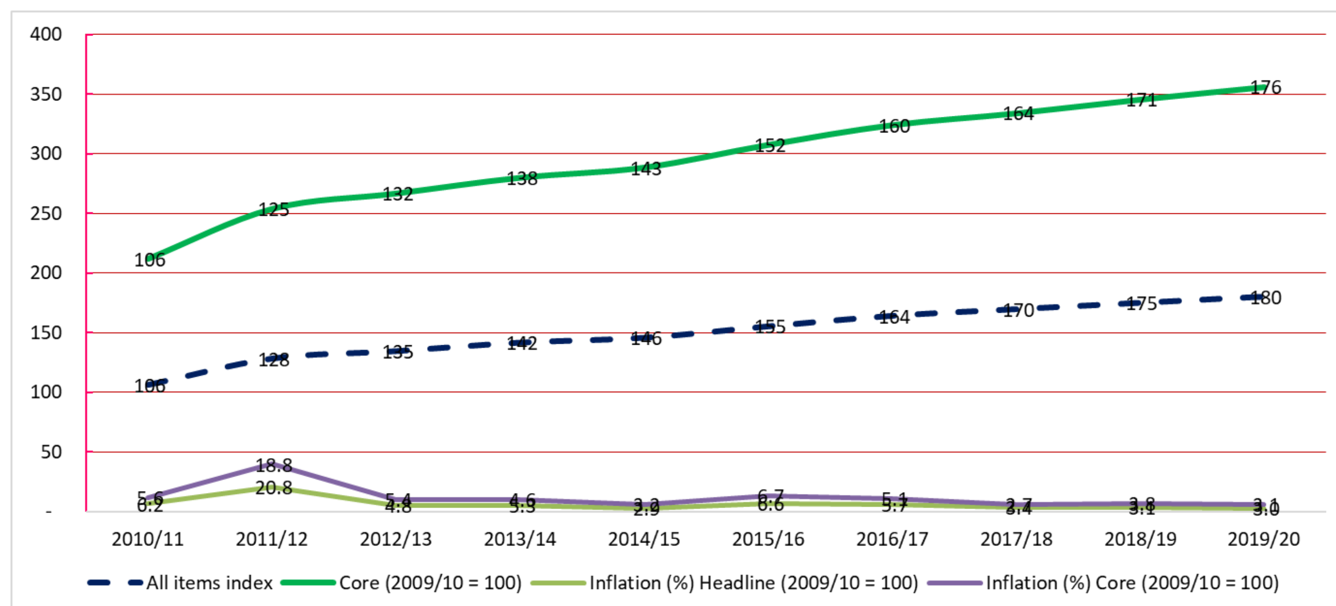
Chapter 4: Price and Monetary Developments

4.1 Monetary Policy Stance and Inflation

102. Monetary policy has been underpinned by the desire to maintain macroeconomic stability. The Bank of Uganda (BOU) has been implementing monetary policy under an Inflation Targeting Lite (ITL) monetary policy framework since July 2011. In this framework, the BOU uses the policy rate to influence the interbank money market rates so that they move in tandem with the movement in the central bank rate (CBR) which in turn should influence other retail interest rates (both short-term and long-term) in the economy.

103. The NDP II target is to maintain core inflation within a band centered on 5 percent. The band is currently +/- 2%, resulting in a target range of 3% - 7%. BOU monetary policy framework has ensured price stability, and in inflation has been contained as shown in figure 15.

Figure 14: Trends in Annual Inflation



Source: Bank of Uganda

104. Annual inflation peaked at 6.6% 2015/16 before reducing to 3.6% in 2019/20. Overall, inflation remained in target range throughout the NDP II period. The monetary policy stance

has been effective in containing inflation over the review period, despite some volatility in food and energy / fuel prices.

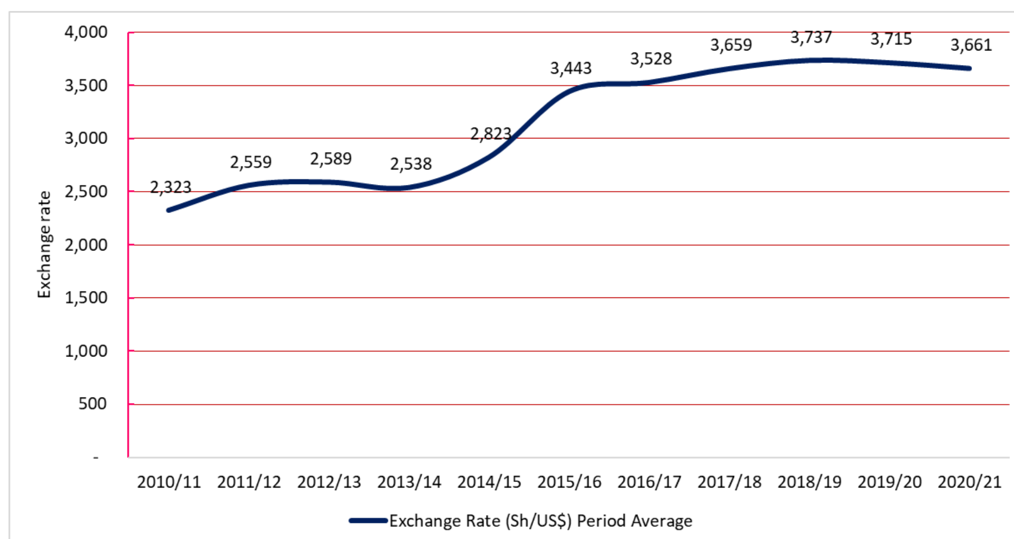
4.2 The Foreign Exchange Market

105. Within the monetary policy framework, the BoU has from time to time intervened in the foreign exchange market to sterilize net inflows of foreign exchange, and to ensure adequate reserve cover. However, this is not a primary monetary policy objective and is only done to the extent that it is consistent with interest rate policy and the inflation target.

106. With inflation the primary target of monetary policy, the exchange rate is flexible and responds to supply and demand for the shilling; there is no exchange rate target. However, the ITL framework does incorporate the exchange rate channel and its impact on prices, and the CBR influences the exchange rate as well as domestic interest rates.

107. Over the years the shilling has depreciated as shown in figure 16. The exchange rate was reasonably stable from 2010/11 to 2013/14, weakened dramatically through to 2015/16, and was more stable up to the end of the NDPII. Over the period as a whole, the UGX has depreciated on average by 8% a year against the USD. However, over the five years of NDP, the exchange rate depreciation was lower than the 17.7% depreciation experienced over the five years of NDP I. In recent years, therefore, the exchange rate has been more stable, and this may be in part due to the success of monetary policy in stabilising and reducing inflation, as well as the impact of interest rates.

Figure 15: Average exchange rate (UShs per 1 US$)

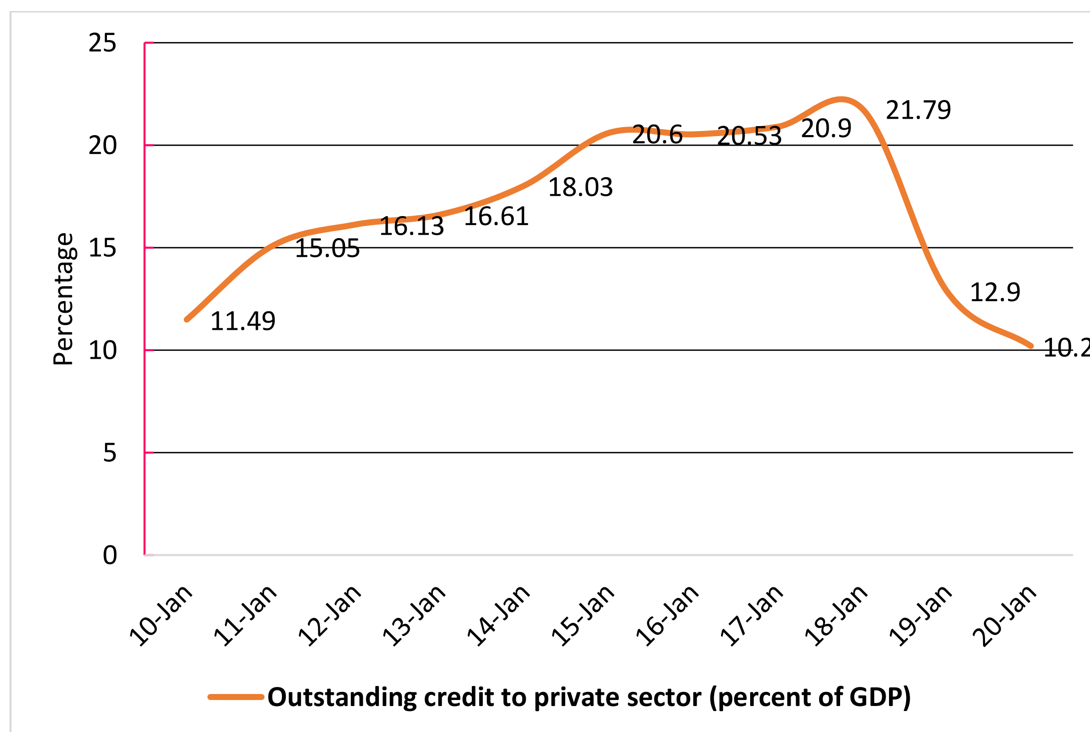


Source: Bank of Uganda

4.3 Credit Financing to the Private Sector

108. Credit to the private sector has increased, but at a slow rate compared to the growth over the NDP I period. At the end of Jan 2020, the total outstanding credit to the private sector was just 10.2% of GDP, having fallen sharply from 21.7% of GDP in Jan 2018 and compared to 20.6% of GDP as of June 2015. During NDP I, private sector credit increased from 11.5% of GDP as of June 2010 to 18.0% as of June 2014. Accordingly, the ratio of private sector credit to GDP decreased by 10.4 percentage points over the five years of NDP II compared to a 6.5 percentage points increase over the five years of NDP I. This is partly due to the deteriorating COVID-19 siaatuation in the 2019/2020 FY but also a decreasing credit situation occasioned by increased government domestic borrowing that is crowoding out the private sector. The trend in outstanding credit to the private sector is summarised

Figure 16: Outstanding credit to private sector (percent of GDP)



Source: Bank of Uganda

109. Growth in credit to the private sector was highest in the Building, Mortgage, Construction and Real Estate, Personal Loans and Household Loans, trade and agriculture (mainly to agriculture processing). Noteworthy is that credit to manufacturing sub-sector has registered a very modest increases in the five years of NDP II, which may partly account to the poor growth posted by the manufacturing sector over the review period. Equally, the Mining and Quarrying and the Electricity and Water subsectors also recorded modest increases as summarized in table 16.

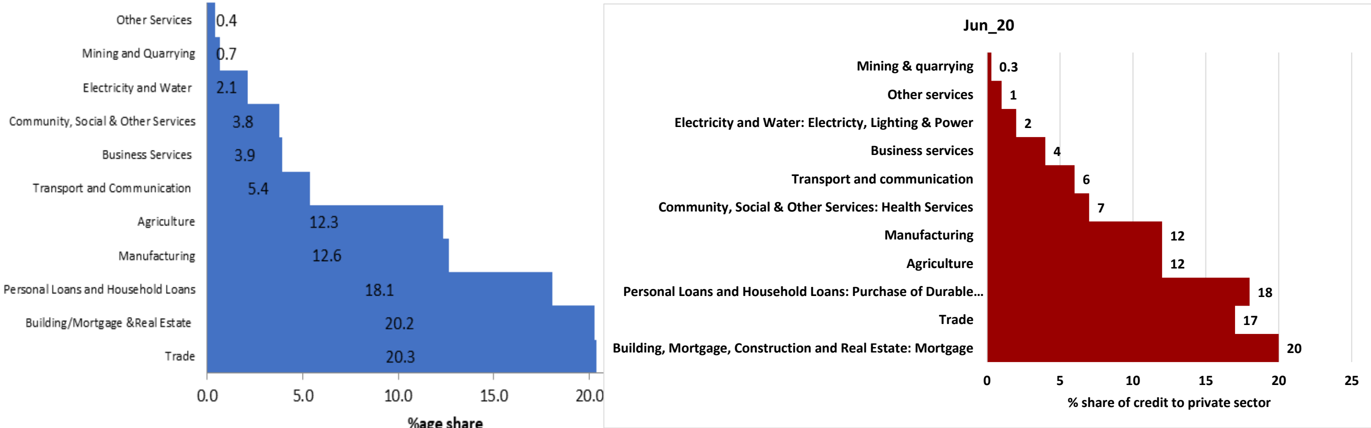
Table 18: Sector Distribution of Outstanding Credit to the Private Sector (% of GDP)

Sector	10-Jun	11-Jun	12-Jun	13-Jun	14-Jun	15-Jun	16-Jun	17-Jun	18-Jun	19-Jun	20-Jun	NDP 1	NDP II
												Average change	Average change
Agriculture	0.74	1	1.05	1.3	1.72	2.01	2.12	2.41	2.69	1.49	1.53	1.162	2.04
Mining and Quarrying	0.09	0.04	0.07	0.06	0.04	0.1	0.13	0.13	0.15	0.06	0.04	-52	0.10
Manufacturing	1.52	2.06	2.16	2.32	2.38	3.18	2.87	2.67	2.75	1.56	1.45	57	2.41
Trade	2.34	3.39	3.64	3.5	3.89	4.21	3.89	4.21	4.43	2.38	2.29	66	3.57
Transport and Communication	0.88	1.16	1.05	0.96	0.97	1.06	1.44	1.41	1.18	0.74	0.87	9	1.12
Electricity and Water	0.13	0.14	0.16	0.23	0.21	0.34	0.41	0.39	0.47	-	-	65	0.27
Building, Mortgage, Construction and Real Estate	2.09	3.02	3.67	3.75	4.08	4.65	4.68	4.3	4.41	2.30	2.48	95	3.80
Business Services	0.38	0.65	0.58	0.86	0.79	0.98	0.79	0.86	0.86	1.04	1.59	106	1.02
Community, Social & Other Services	0.33	0.5	0.57	0.52	0.59	0.68	0.69	0.68	0.83	-	-	80	0.48
Personal Loans and Household Loans	2.43	2.38	2.47	2.26	3.09	3.11	3.24	3.69	3.94	2.02	2.04	27	3.01
Other Services	0.56	0.71	0.7	0.84	0.25	0.29	0.28	0.15	0.09	-	-	-56	0.14
Total	**11.49**	**15.05**	**16.13**	**16.61**	**18.03**	**20.6**	**20.53**	**20.9**	**21.79**	**11.58**	**12.30**	**57**	**17.95**

Source: Bank of Uganda

110. In the course of NDPII, Building, Mortgage, Construction and Real Estate overtook trade sector as the sector receiving the most credit. These are closely followed by personal/household loans, agriculture and manufacturing as summarized in figure 18 below.

Figure 17: Sectoral shares of credit to the private sector as of June 2018 & June 2020

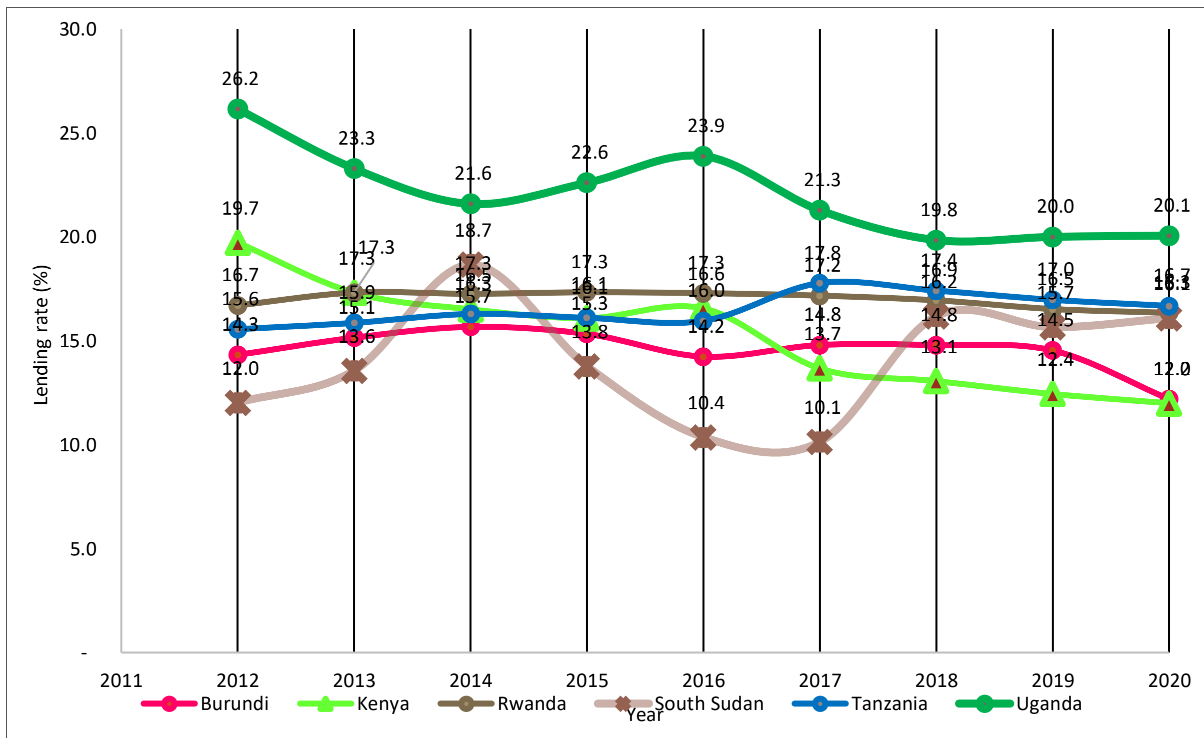


Source: Bank of Uganda

4.4 Lending Interest Rates

111. The average lending interest rate (%) in 2020 was 20.1%, a slight decline from 23.9% in 2016, 22.6% in 2015, 21.6% in 2014, 23.3% in 2013 and 26.2% in 2012. The average lending rate in Uganda in 2020 was the highest in the region compared to 16,7% in Tanzania, 16.3% in Rwanda, and 12.0% in Kenya. Lending interest rates in Uganda have consistently been higher compared to other competing regional markets over the last five years as summarized in the figure 19 below.

Figure 18: Lending Interests rates among EAC countries

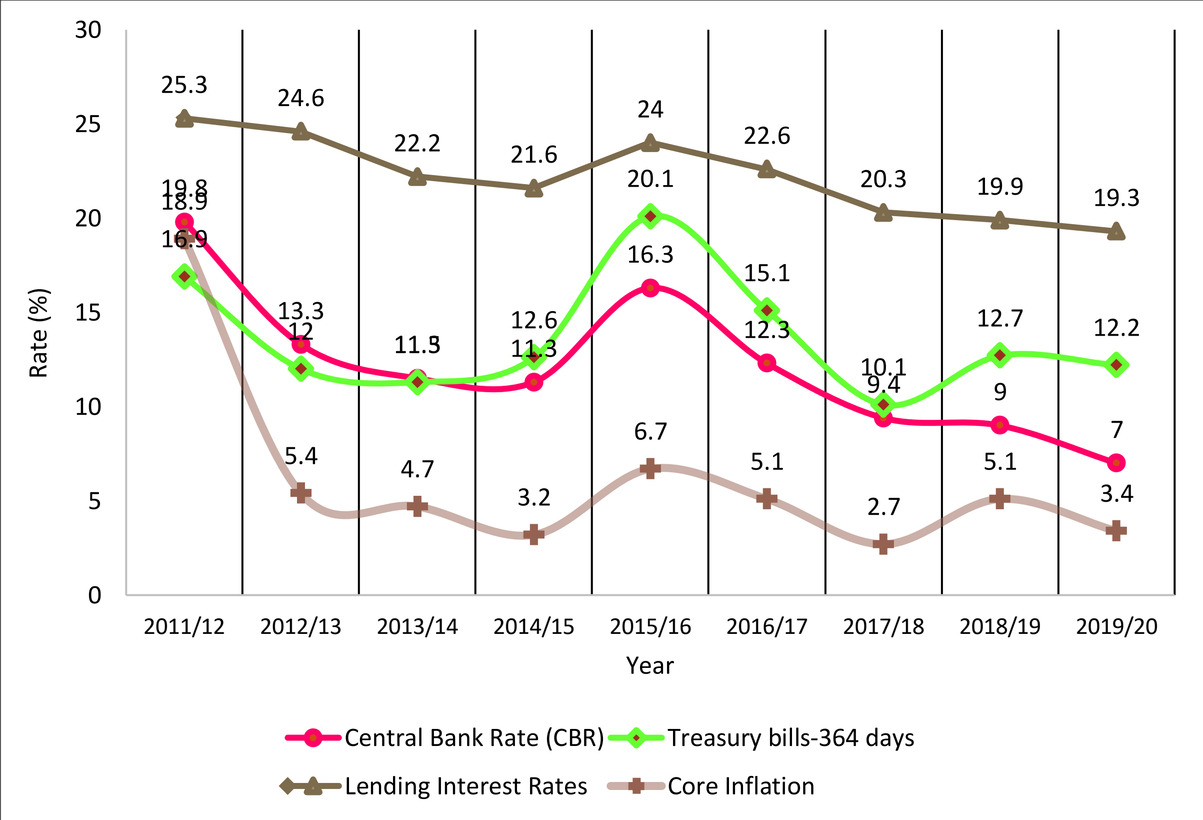


Source: World Development Indicators by WorldBank

112. Furthermore, Uganda has the highest interest rate spread (lending rate minus deposit rate) in the region. For the period 2013-2017,the average interest rate spread in Uganda was 10.6% compared to 6% in Tanzania, 9% in Rwanda and 7.6% in Kenya. The high interest rate spread in Uganda may be attributable to a variety of different factors: the SME nature of Ugandan companies that are associated with higher risks and higher loan losses; high overhead costs reflecting the large number of banks and duplication of infrastructure; and the high levels of capital held by Ugandan banks. In addition, the high interest rates on treasury bills and government bonds provide a lower bound for the risk-free lending rate and continue to crowd out lending to the private sector. Real GoU bond yields are exceptionally high, which has an impact on spreads and lending rates.The high interest rate increases the cost of financing by business community,making Ugandan products uncompetitive in the regional market. Accordingly, high levels of government spending and deficit financing have a wider, negative impact on the economy that may counteract the beneficial impact of government spending on infrastructure.

113. **Effectiveness of the CBR in Controlling Inflation:** From a CBR rate of 19.8% in 2011/12, the Bank of Uganda has relied on the CBR to control inflation. The CBR droped to an annual average of 11.3% in 2014/15 before decreasing further to annual average of 7% in 2019/20, during which period the core inflation increased to 3.4%.. Overall, core inflation and and the lending interest rates have tended to move together over the review period as summarised in the figure 20.

Figure 19: Trends in CBR, Core Inflation and lending interest rates



Source: Bank of Uganda

114. Further review of the interest rate structure revealed that the difference between the CBR is consistently higher than the core inflation by an average of 8 percentage points. Therefore, whereas the CBR has reduced over the period under review, the CBR appears to be high (in real terms), with the real rate of about 8%. On the other hand, interest rates have been consistent higher than the CBR by about 10 percentage points, which can be attributed to the high government bond/treasury bills rates.

Conclusion

115. The whole structure of interest rates in Uganda is high, in real terms, due to a combination of factors, including high policy rates (CBR), crowding out through higher government borrowing (bond rates), and structural factors in the banking system (high NPLs, over-capitalisation, and high operating costs).

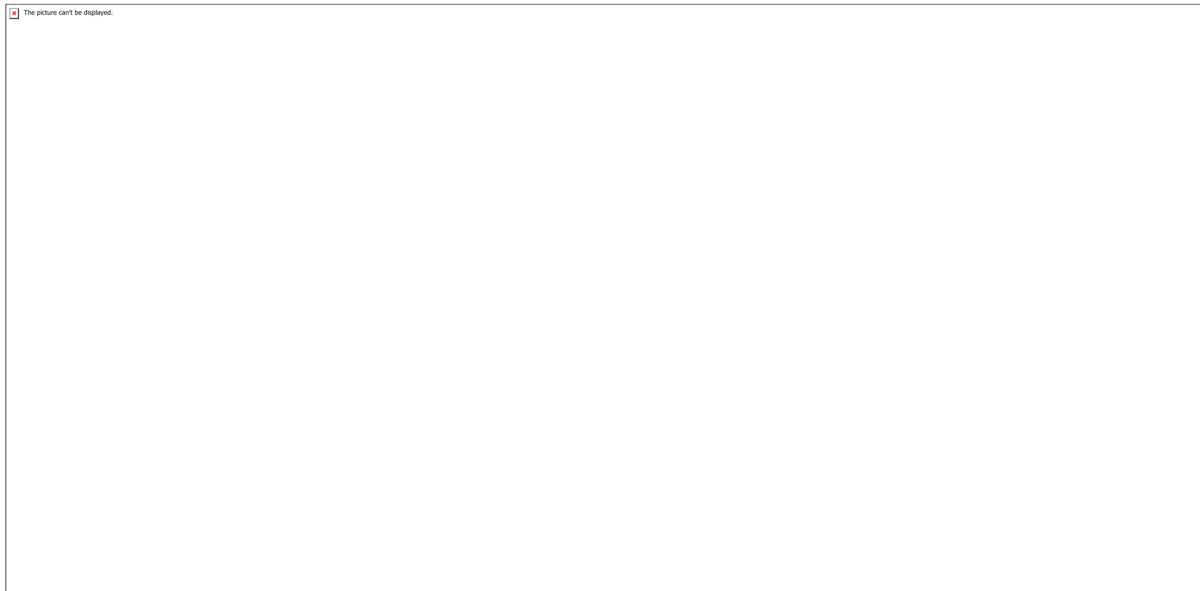
Chapter 5: External Sector Performance

5.1 External trade growth and Performance

5.1.1 Merchandise Trade

116. Uganda's external trade performance has improved over the last five years. According to Bank of Uganda external trade statistics, Uganda's exports have registered a 41% growth in normal value over the five years of NDP II compared to a 19.2% growth registered during the NDP I period. On the other hand, imports have growth by 8.1% compared to 6.3% registered during NDP I. Over the five years of NDP II, Uganda has continued to experience a negative trade balance, but which improved by 27.5% compared to an improvement of 2.2% registered during NDP I as summarised in the figure 21.

Figure 20: Value of Uganda's External Trade ($ Million)



Source: Bank of Uganda

5.1.2 Growth of Exports

117. ***Export Growth Picks-up:*** The growth of the economy under NDP II was projected to be partly driven by growth in exports. Available export data shows increase in average annual growth of exports. During the five years of NDP II, total exports registered an annual average

growth rate of 7.2% compared to the 3.71% recorded during NDP I. The growth of exports of the main export commodities is summarised in the table 17.

118. As shown in the table 17, the actual annual growth of export is higher than projected under NDPII for some items but there are many others that did not meet their projected growth rates including flowers, coffee and many others which registered negative gowth rates. Overall, most commodities have registered positive annual growth in exports over the five years of NDP II including electricity, cotton, maize and beans.

5.1.3 Exports as a Percentage of GDP

119. NDP II strategy aimed at increasing the ratio of exports to GDP to 9.95% by 2020. With the improved export performance, Uganda surpassed her target of attaining the export to GDP ratio of 9.95% by 2020 in 2015/16 as shown in table 18. There is some evidence, therefore, that the NDPII objective of export-led growth was achieved.

Table 19: Exports as a Percentage of GDP

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Exports as a % of GDP	11.34	11.49	11.81	9.75	9.93	10.90	12.28	12.72	15.1	17.1
Imports as a % of GDP	23.05	22.57	20.42	18.28	18.09	18.55	18.21	20.07	21.6	22.3
Exports as %age of GDP-NDP II target			16.1			9.49	9.91	9.88	9.82	9.95

Source: BoU and UBOS

5.2 Balance of Payments

120. The current account balance improved on account of improved performance of exports and decline in imports. The current account balance (excluding grants) has improved from a deficit of $1,356.81million in 2015/16, reaching $1028.57million in 2016/17 before deteriorating to $2,512.57 million in 2019/20. The capital account has registered positive and improving balances albeit from a low base as summarised in table 19.

Table 20: Percentage annual growth of the main export commodities

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	NDP I	NDP II Proj.	NDP II Actual
Total Exports	109.08	-7.07	1.18	-1.85	21.81	7.85	12.21	-3.92	3.71		7.2
Coffee	117.53	-4.42	-0.87	-12.1	39.34	0.4	-15.49	19.52	10.23	6.45	6.3
Electricity	83.18	74.63	-10.15	-30	163.98	-3.81	5.34	-46.31	15.09	9.08	17.8
Gold	-17.39	-94.94	-8	88,708.70	112.31	-20.83	211.41	4.61			17,803.2
Cotton	-46.49	-40.35	-16.41	33.61	98.89	-14.8	31.83	-23.17	54.15	2.17	25.3
Tea	160.34	-3.46	-11.84	1.54	-8.91	35	-3.14	-19.94	1.47	5.72	0.9
Tobacco	122.73	29.32	-32.77	15.83	-35.89	15.46	58.05	-29.19			4.9
Fish & its prod. (excl. regional)	55.8	1.45	24.18	-15.84	14.29	11.18	27.16	-21.2	2.07	0.92	3.1
Hides & Skins	106.4	58.92	-9.69	-17.11	-9.05	7.26	-41.56	-62.51			(24.6)
Simsim	152.3	93.54	11.39	-41.69	-45.39	38.74	25.07	21.61			(0.3)
Maize	83.58	-34.34	107.58	10.49	-4.25	59.01	-52.2	69.21	32.95	3.62	16.5
Beans	394.48	26.05	85.14	30.38	13.05	122.56	-67.72	-17.8	33.96	0.67	16.1
Flowers	80.24	11.44	-6.38	-11.18	9.12	15.45	-5.93	-12.48	2.77	3.01	(1.0)
Oil Re-Exports	122.02	3.42	0.91	-14.13	0.84	4.1	3.59	-17.39			(4.6)
Others	116.7	-11.88	-2.89	-9.14	9.43	6.2	-4.34	-6.89			(0.9)
Baker's Wares	100.8	-23.58	-4.57	-17.43	-18.82	8.43	-1.84	-7.48			(7.4)
Base Metals & Products	115.19	-1.2	-5.4	-22.22	6.56	4.7	9.61	-15.93			(3.5)
Beer	108.27	-23.44	-42.94	-16.74	26.49	-9.66	61.97	35.57	-13.49		19.5
Cellular phones	125.3	-84.41	17.82	-83.58	13.68	-4.4	-57.38	-3.41			(27.0)
Cement	111.21	-14.39	-0.07	-25.73	-26.75	-9.55	35.66	-2.63	4.38		(5.8)
Cocoa beans	137.15	23.65	-8.82	28.53	-16.56	-	24.87	22	10.23		14.7
Crude Oil (Excl Petroleum Products)	96.17	-21.39	-12.77	1.06	21.6	14.41	8	-1.37	29.02		8.7
Edible Fats and Oils	73.04	6.88	-3.18	-44.64	-28.5	-17.97	-24.77	-0.17	7.13	6.15	(23.2)
Fruits & Vegetables	157.05	5.49	56.09	54.34	-15.24	31.55	-21.32	12.14	24.55		12.3
Groundnuts	-100	#DIV/0!	252.7	129.5	-82.97	281.37	-31.11	-58.58	8,567.16		47.6

Other Pulses	425.13	51.65	42.41	13.64	21.8	6.99	-8.29	-50.89			(3.4)
Plastic Products	128.61	13.02	3.72	-23.16	-13.82	10.83	30.24	-18.28	27.91	21.64	(2.8)
Rice	132.74	-26.8	-4.25	-15.49	-4.63	27.04	-19.33	-6.78	19.61	3.21	(3.8)
Soap	72.55	2.66	-7.8	-18.33	-4.85	15.21	-13.57	-31.16			(10.5)
Sugar	48.92	-30.62	7.78	-18.94	106.12	-33.04	13.07	-3.5	9.8	20.49	12.7
Vanilla	-94.62	1,270.00	79.56	95.12	30.42	47.92	-7.24	-56.69			21.9
Water	146.2	-5.3	-25.42	-46.3	-12.42	37.9	54.02	-6.45			5.4
Other Exports	142.22	-0.73	-6.07	-1.82	13.11	13.8	-16.3	-5.55			0.6
Formal Exports	104.32	-5.44	-0.47	-0.07	21.42	5.63	17.49	-2.19			8.5
Total Informal Cross-Border Trade (ICBT) Exports	137.98	-15.55	10.84	-11.15	24.12	20.67	-14.45	-15.9			0.7

Source: Computed based on Export statistics by Bank of Uganda

Table 21: Balance of payments (USD million)

	Financial Year									
	2010/11	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
Current Account Balance	-1732.58	-2030.93	-1464.69	-1993.2	-1860.61	-1356.81	-1028.57	-1798.57	-2631.75	-2512.57
Capital Account Balance	0.00	17.6	32.74	91.05	99.08	119.81	150.53	105.38	99.73	70.21
Financial Account Balance	-801.04	-2098.36	-1440.3	-1679.21	-946.83	-1242.89	-1133.6	-1123.75	-2439.56	-1637.61
Net Errors and Omissions	325.58	661.52	329.7	601.43	465.08	95.56	165.69	408.77	161.2	981.27
Overall Balance	605.96	-746.55	-338.05	-378.49	349.63	-101.45	-421.25	160.68	-68.74	-176.52

Source: Bank of Uganda

121. The outturn for the current account balance was generally better (smaller) than the projected current account deficit in NDP II.

Table 22: Current account – NDP II targets and Outturns (percent of GDP)

	2015/16	2016/17	2017/18	2018/19	2019/20
NDP II target – including grants	-10.1	-10.5	-10.0	-10.3	-8.9
NDP II target – excluding grants	-10.4	-10.7	-10.3	-10.5	-9.1
Outturn	-4.8	-3.3	-5.9	-6.6	-9.3

Source: Bank of Uganda; NDP II; World Bank (2022)[13]

International Reserves

Table 23: Gross International Reserves – NDP II targets and Outturns

	2015/16	2016/17	2017/18	2018/19	2019/20
NDP II projections					
In billions of USD	3.5	4.0	4.1	4.2	4.6
Import cover (in months of next year's imports)	3.9	3.8	4.0	3.8	4.0
Outturn					
In billions of USD	3.0	3.4	3.2	3.4	3.9
Import cover (in months of next year's imports)	5.4	5.6	4.4	4.5	5.2

Source: Bank of Uganda; NDP II

122. The level of gross international reserves turned out to be lower in absolute terms than projected in NDP II, but higher in terms of import cover. This may reflect that the actual level of imports is lower than projected in NDP II, which is most likely related to the slower than anticipated progress in implementing major infrastructure projects[14].

[13] https://data.worldbank.org/indicator/BN.CAB.XOKA.GD.ZS?locations=UG

[14] NDP II does not provide any numerical values for the projected level of imports so it is not possible to do a direct comparison between the outturn for imports and NDP II projections.

Conclusion

123. External sector performance has been generally positive during the five years of NDP II. There have been growing exports, stable imports (volatile but with no upward trend), and a declining trade deficit except for a sharp deteterioration in the 2019/20 occasioned by the COVID-19 disruptions. This suggests that the external account has responded positively to the depreciation of the UGX in the latter years of NDP I. However, assessment of the success of the export-driven growth strategy is made difficult by inconsistencies in NDP II, which does not provide a clear set of export targets. The positive assessment of external sector performance is supported by the smaller than projected current account deficit, and higher than anticipated international reserves (measured in terms of import cover). Nevertheless there are some future external account risks, given that imports are expected to rise sharply as major infrastructure projects are implemented, and this could lead to larger current account deficits, hence greater reliance on capital inflows, and potential pressure on the exchange rate and international reserves.

Chapter 6: OECD evaluation criteria Analysis

124. This section looks at the OECD evaluation criteria to determine the extent to which the NDP II was relevant to the development context of the time; the efficiency of utilization of resources at hand; the effectiveness in delivery of its intended purpose and results; the impact felt after its implementation and the impact of the reforms.

6.1 Relevance

125. The evaluation sought to answer the following questions:

- Was the NDP II design well-conceived given the social, economic and political situation?
- Was it relevant and appropriate in addressing the country's development challenges?
- To what extent did it contribute to directing the strategic direction of the Government and its partners?

126. To answer these questions, the analysis used the following illustrative questions and indicators to test the relevance of the NDPII:

- To what extent were NDPII priorities effectively budgeted for and financed?
    - NDPII Priorities funded

127. The percent of budget outturn on NDPII priorities-the target for the NDP II were 17 priority sectors funded as budgeted but only four NDP II priorities funded as budgeted while the others lagged or remained unimplemented. This shows that NDPII prioritization might have been relevant but the lack of financing of these priorities reduced this relevance.

- Percent of budget outturn on NDPII priorities

128. Of the NDPII budget of UGX 152 trillion for the five years, only 112 trillion was spent, about 73% of the budget. The 73% outturn in the NDPII is relatively good and indicates that NDPII was relevant to the development and fiscal priorities of the country.

- To what extent were reforms in economic management guided by NDPII?
    - Reforms proposed in NDPII adoption rate

129. The target was for the reforms to be adopted in the five years were to be guided by the NDPII. However, desk review and discussions with stakeholders shows that there was only moderate adoption of reforms proposed in the NDPII. Most other reforms were not informed by the NDPII and resources allocation and was therefore a great deal of misalignment between intent and practice and budget and outturn. Therefore, this reduced the relevance of the NDPII to the national priorities as anticipated in the design of the plan.

130. However, on the whole, the analysis shows that the plan as designed was relevant but the implementation reduced this relevance to the attainment of the national priorities. This means that even with meticulous planning, without effective implementation of the priorities in the plan, this limits the relevance of the plan.

6.2 Effectiveness

131. The evaluation sought to answer the following questions:

- What is the level of achievement of planned NDP II development outcomes?
- What are the reasons for the state of achievement?
- What support and barriers affected achievement of development results?

132. To answer these questions, the analysis used the following illustrative questions and indicators to test the effectiveness of the NDPII:

- Were the macro-economic objectives/targets articulated in NDPII achieved?
    - GDP growth rate

133. The target growth rate at the end of the NDPII was 6.3% but the rate was 3.1% which was lower than anticipated. The NDPII was supposed to be effective in increasing growth but the less than expected rates showed that the plan was not as effective as expected.

- GDP Per capita(US $)

134. The target GDP Per capita (US $) at the end of the NDPII was 1,039 but it came to 905 which was lower than anticipated. Again, growth rates being lower than expected meant that per capita growth was also not as expected and therefore an indication of a less than effectiveness of the plan.

- The extent to which the NDPII macro-economic framework strengthened the country's competitiveness for sustainable wealth creation, employment and inclusive growth
  - Global Competitiveness Index (GCI)

135. The target Global Competitiveness Index (GCI) rank at the end of the NDPII was 90/148 but the rate was 104/140 which was worse than anticipated. Partly due to the less than expected infrastructure projects delivery, the NDPII was not able to create the level of anticipated competitiveness. This means that the plan was ineffective in this respect.

- Doing Business Rank

136. The target Doing Business rank at the end of the NDPII was 111/189 but the rate was 116/190 which was worse than anticipated. This indicator similarly shows even if the plan created some positive change, it was not effective in making the country more competitive.

- Extent of pursuance of macro-economic stability with fiscal expansion for frontloading infrastructure investments and industrialization
  - Expenditure (% GDP)

137. The target expenditure (% GDP) at the end of the NDPII was 20.8% but the rate was 27.2% which was lower than anticipated. This might show that the plan was effective in

engendering more expenditure, although this was hampered by the quality of expenditure as explained below.

- Development Budget share

138. The target Development Budget share at the end of the NDPII was 52% but the rate was 48% which was lower than anticipated. The ability of the plan to cause growth is a function of the level of productivity spending on its priorities. The lower-than-expected share on expenditure on development shows lower effectiveness in causing development or productivity.

- The NDP2 National Road development plans requirement

139. The target NDP2 National Road development plans requirement at the end of the NDPII was UGX 34.6 trillion but the allocation was only UGX 11 trillion, which was lower than anticipated. Expenditure on road development is one of the most effective productivity spending and therefore, the lower than planned allocation of resources to roads reduced the effectiveness of the plan to increase productivity and development.

- To what extent were the NDPII focus areas adopted as priorities for implementation?
    - Growth Sectors funded as prioritized in NDPII

140. For most of the NDP11 priorities especially those that are growth promoting were not well funded. The share of the budget going to these sectors were less than anticipated including Energy 14.9% target compared to 5.12% provided, Works 21.2% compared to 14.4%, Education 12.5% compared to 11.2%, Health 8.5% compared 6.2%, and Agriculture 3.3% compared to 3.0%. Again, this shows that the plan execution was not effective in causing development and improving productivity in the economy.

141. On the whole, therefore, the analysis shows that the plan was not effective in growth and productivity promotion especially due to the misalignment in expenditure away from productive sectors of the economy. This means that the quality of expenditure is as important

as the increase in dispensed resources especially in promoting growth, productivity and competitiveness in the economy.

6.3 Efficiency

142. The evaluation sought to answer the following questions:

- Did NDP II deliver development outcomes in a timely and cost effective manner?
- Do the results (quantitatively and qualitatively) justify the resources expended?

143. To answer these questions, the analysis used the following illustrative questions and indicators to test the efficiency of the NDPII:

- How well were macro policy instruments used to achieve economic stability and growth?
    - Inflation rate

144. The target inflation rate at the end of the NDPII was 5% but it came to 3-7% which was within the anticipated range. This shows that BOU was effective in using instruments to keep the economy in balance, a sign of an efficient operations.

- To what extent was public expenditure and related accountability systems changed to ensure alignment of budgets, spending and financial reporting with the NDP objectives?
    - Programme Budgeting adopted

145. The target for the NDPII was that the programs that were planned in the NDPII would be adopted and funded. However, documents review and discussions with stakeholders showed that most of these programs were only moderately adopted and funded. Aligning budgets to priorities leads to efficiency in plan implementation and this lower than anticipated alignment meant that there was inefficiency.

146. The analysis, therefore shows that the plan execution was not efficient in using resources to target the most impactful priorities outlined in the plan. Therefore, the per-dollar outcome could have been better is the resources were more efficiently deployed.

6.4 Impact

147. The evaluation sought to answer the following questions:

- To what extent did NDP II contribute to the National Vision 2040 outcome targets and goals?
- Were there unanticipated positive and negative consequences?

148. To answer these questions, the analysis used the following illustrative questions and indicators to test the impact of the NDPII:

- What progress was made on unlocking the key economic constraints to growth?
  - Total national paved road network (KMS)

149. The target Total national paved road network (KMS) to have been reached by the end of NDPII was 5000KMs but the achievement turned out to be 5,111KMs which was higher than planned. This shows that the attainment rate was good albeit from a low rate which might diminish the impact of the increase in the KMs of paved roads.

- Access to grid electricity
  - The target Access to grid electricity to have been reached by the end of NDPII was 30% but the achievement turned out to be 28% which was lower than planned. This shows a lower than anticipated impact of expenditure on electricity generation and distribution.
- How did NDP implementation contribute to improvements in productivity, private sector development and livelihoods?
  - Percentage of national labour force employed

150. The target Percentage of national labour force employed to have been reached by the end of NDPII was 79% but the achievement turned out to be 78.8% which was close to what was planned. The measure seems to indicate that the plan had the expected impact of employment. However, the quality of employment still remains the main issue.

- Life expectancy

151. The target Life expectancy was supposed to reach 60% by the end of NDPII but the achievement turned out to be 63.3% which was higher than what was planned. This is a positive impact on especially expenditure on health.

- Infant mortality (per 1000 live births)

152. The target Infant mortality (per 1000 live births) was supposed to reach 44% by the end of NDPII but the achievement turned out to be 43% which was lower than what was planned. Again, this shows a positive impact on especially expenditure on health.

- Poverty rates

153. The target poverty rate was supposed to reach 14% by the end of NDPII but the achievement turned out to be 21.4% which was higher than what was planned. Poverty reduction is one of the most important expected impacts of national development plans and the failure to meet the planned rate reduction shows a less than expected positive impact of the plan.

154. The analysis, therefore shows that the plan generally had a positive impact on the livelihoods of the population. The outcomes shows impactful spending and some positive budgeting and execution in spite of the shortcomings indicated above.

6.5 Sustainability

155. The evaluation sought to answer the following questions:

- Was there an enabling environment that support on-going positive impacts?
- Can the positive outcomes and impacts be sustained for achievement of middle-income status and Vision 2040?

156. To answer these questions, the analysis used the following illustrative questions and indicators to test the impact of the NDPII:

- To what and how did additional private sector funds harnessed to finance NDP priorities?
    - Outstanding credit to private sector (percent of GDP)

157. The target outstanding credit to private sector (percent of GDP) was supposed to reach 13.9% by the end of NDPII but the achievement turned out to be 10.2% which was lower than what was planned. Public spending is sustainable if it can stimulate private sector development that would inturn lead to future growth. Therefore, a less than expected access to credit showed that the plan did not create enough sustainability through the private sector channel.

- How sustainable is the fiscal policy for the NDPII and later?
    - Fiscal deficit (% of GDP) excluding grants

158. The target Fiscal deficit (% of GDP) excluding grants was supposed to reach 4.8% by the end of NDPII but the achievement turned out to be 10.2% which was higher than what was planned. High fiscal deficits can derail the plan's outcomes as it might lead to unstainable debt.

- How sustainable is the debt policy for the NDPII and later?
    - Total Public Debt % of GDP

159. The target Total Public Debt % of GDP was supposed to reach 44% by the end of NDPII but the achievement turned out to be 41% which was lower than what was planned. The lower than expected debt levels was positive and a sign of good sustainability of the plan.

- How environmentally sustainable has been Uganda's economic growth?
    - Climate Change Severity

160. In the five years of the NDPII measures were meant to be taken to manage to control erratic temperature and reduce drought episodes but anecdote evidence and discussions with stakeholders showed that there have been temperature increases and many cases of erratic rainfall during the period. Uncontrolled climate change can be a danger to economic development in the present and the future. Therefore, the increase in temperature and drought episodes showed lower ability of the plan to ensure economic sustainability.

161. On the whole therefore, there was a mixed bag in the ability of the plan to ensure sustainability with some positive outcomes on debt but poor ones on climate change and credit to the private sector.

Table 24: OECD Evaluation Criteria Analysis

Category	Evaluation Question	Indicators	Targets	Outcomes
Relevance	To what extent were NDPII priorities effectively budgeted for and financed	NDPII Priorities funded Percent of budget outturn on NDPII priorities	17 NDP II priority sectors funded as budgeted UGX 152 trillion	Only four NDP II priorities funded as budgeted 112 trillion (73% of the budget).
Relevance	To what extent were reforms in economic management guided by NDPII	Reforms proposed in NDPII adoption rate	High adoption	Moderate adoption
Effectiveness	Were the macro-economic objectives/targets articulated in NDPII achieved?	GDP growth rate GDP Per capita(US $)	6.3 1,039	3.1 905
Effectiveness	• The extent to which the NDPII macro-economic framework strengthened the country's competitiveness for sustainable wealth creation, employment and inclusive growth	Global Competitiveness Index (GCI) Doing Business Rank	90/148 111/189	104/140 116/190
Effectiveness	Extent of pursuance of macro-economic stability with fiscal expansion for frontloading infrastructure investments and industrialization	Expenditure(% GDP) Fiscal Deficit (excluding grants) of GDP Development Budget share	20.8% 4.8% 52%	27.2% 10.2% 48%

		The NDP2 National Road development plans requirement	UGX 34.6 trillion	UGX 11 trillion
Effectiveness	To what extent were the NDPII focus areas adopted as priorities for implementation?	Growth Sectors funded as prioritized in NDPII	Energy (14.9%) Works (21.2%) Education (12.5%) Health (8.5%) Agriculture (3.3%)	5.12% 14.4% 11.2% 6.2% 3.0%
Efficiency	How well were macro policy instruments used to achieve economic stability and growth?	Annual inflation	5%	3-7%
Efficiency	To what extent was public expenditure and related accountability systems changed to ensure alignment of budgets, spending and financial reporting with the NDP objectives	Programme Budgeting adopted	High adoption	Low adoption
Impact	What progress was made on unlocking the key economic constraints to growth?	Total national paved road network (KMS) Access to grid electricity (percent population)	5000KMS 30	5,111KMS 28
Impact	How did NDP implementation contribute to improvements in productivity, private sector development and livelihoods?	Percentage of national labour force employed Life expectancy Infant mortality (per 1000 live births) Poverty rates	79 60 44 14%	78.8 63.3 43 21.4%
Sustainability	To what and how did additional private sector funds harnessed to finance NDP priorities? How sustainable is the fiscal policy for the NDPII and later? How sustainable is the debt policy for the NDPII and later?	Outstanding credit to private sector (percent of GDP) Fiscal deficit (% of GDP) excluding grants Total Public Debt % of GDP	13.9 % of GDP 4.8% of GDP 44% of GDP	10,2% of GDP 10.2% of GDP 41% of GDP

Sustainability	How environmentally sustainable has been Uganda's economic growth?	Climate Change Severity	Control in erratic temperature and drought	Temperature increased and cases of erratic rainfall increased

Chapter 7: Recommendations

7.1 Performance of the Real Economy

162. Over the five years of NDP II, Uganda has registered annual real GDP growth rates of 5.9%, which is lower than the NDP II targeted average annual growth of real GDP of 6.3%. To ensure that the NDPIII doesnot fail to achieve its target, Uganda will need to ensure that the prioritised infrastructure projects to drive growth are implimneted more quickly and efficiently to increase productivity of the agricultural sector and the industrial sector. The following proposes are recommended to revitalise economic growth of the economy.

i) ***Strengthen delivery of Infrastructure projects:*** the NDP II growth strategy relies heavily on frontloading public investment in infrastructure projects. However, there has been slow implementation of a number of infrastructure projects including the oil refinery, oil pipeline, standard gauge railway and key roads identified under NDPII, which has constrained growth due to reduced public investment. Most of the projects were included in NDP II before completing the preparatory phases of project appraisal to confirm the socio-economic or commercial viability of the projects. Slow project implementation is attributed to: 1) slow procurement processes; 2) Inability to plan for government counterpart funding; and 3) weak institutional capacity to manage and supervise the projects. To improve project implementation, the ETE recommends that:

   a. NDP adopts a streamlined project implementation framework with three gates; 1) Project concept and profile, 2) Pre-feasibility, including preliminary costing, cost-benefit analysis, and determination of socio-economic rate of return, and 3) Full feasibility study (including sufficiently detailed design). In the NDPIII implimntation, there is need to improve investment planning and links between critical NDP projects, sector investment plans (SIPs) and the Public Investment plan projects (PIP). This could draw on other countries experiences in driving forward flagship projects as part of their national planning process. One possible model would be to split projects into three categories:

- **Tier 1: On-going priority projects** (projects where implementation has started, brought across from earlier NDPs).

- **Tier 2: Investment ready** projects that have been fully appraised and have met the necessary cost-benefit analysis criteria, and will start up during the early years of the NDP. This would imply that no project would get into the NDP without an evaluation of its viability technically, financially, socially and economically.

- **Tier 3: Priority pipeline projects**. These would have gone through the pre-feasibility assessment stage, but only have conditional approval for inclusion in the NDP. They would have been assessed as high impact and high priority, andwould have a preliminary costing. In the course of the NDP these projects would be fully appraised and, depending on the results of the appraisal, then allocated funding as appropriate through the PIP process.

b. **Criteria for funding priority projects** would need to be agreed during the design of the NDP and should be updated periodically. These criteria should also be mainstreamed into PIP and sector planning processes. Economic rate of return is clearly important for all projects but the expected returns may vary according to whether projects are focused on economic or social transformation. For example roads projects would be scored highly if they enhance connectivity to new regional markets or link lagging and leading regions. Social sector projects might be scored more highly where they enhance access to education in lagging regions (e.g. Northern Uganda). It is especially important that projects be selected based on their impact on demand creation which would increase urban bias for infrastrture(roads) projects.

c. **To qualify for Tier 1 or Tier 2 status projects would require sequenced time bound implementation plans that are fully costed and include annual milestones**. Tier 3 projects would require costed plans and milestones for appraisal. These would need to be finalised and scrutinised as part of the PIP process before

they can be incorporated into the new NDP, and moved to Tier 2. The NPA would need to be closely involved in this process.

d. **All projects falling in Tier 1 and 2 [15]would be accorded the highest priority in SIPs and the annual PIP**. These would be regarded as Uganda's flagship projects. They would be rigorously tracked at the highest level. Sector MDAs would be held fully to account for ensuring they are accorded priority for implementation. The MOFPED would be held to account for ensuring funding is available to support design and implementation of these projects.

e. **The investment planning horizon for projects may need to be extended** so a pipeline of projects is always being worked on in readiness for the next NDP. This requires a good understanding of the required sequencing of investments which should be informed by Vision 2040 and a clear theory of change to achieve socio-economic transformation in Uganda.

f. Build capacity of sector agencies to manage and supervise large Government projects. Alternatively, the Government should consider establishing a major projects authority to handle the largest projecs regardless of the sector.

ii) ***Strengthen Alignment of NDP II, MTEF and the National Budget***. Whereas NPA was mandated to issue certificate of compliance of the national budget to NDP II, the implementation of NPA recommendations have not been effective because the annual budget and MTEF are flexible instruments and have to respond to changes in the political and economic environment, while the NDP is rigid. For example, whereas the budget can respond to the CCTV camera project, the same would not have been foreseen in the NDP. Futhermore, including additional projects necessarily means that some projets that have been included in the NDP have to be dropped. To strengthen alignment:

a. The certificate of compliance issuance framework should be reviewed to set minimum deviations (flexibility) that can be allowed on both recurrent and development budgets and releases for the different sectors. Accordingly, the

[15] A Tier 3 project would only get priority once it has been fully appraised in moved to Tier 2

responsibility for "alignment" should be placed on the MTEF and the implementing MDAs.

b. NDP ETE should be adopted as a tool to revise the NDP, including its projected outcomes and costs, as well as adding/dropping/rescheduling projects, although this would require lengthening of the NDP period for it to be meaningful.

c. NDP II implementation framework should include penalties for sector agencies who significant deviate from planned and approved development priorities under the NDP.

d. The NDP can propose policy reforms that should be undertaken to achieve the NDP development objectives by the respective sectors/agencies of Government.

e. The PFM Act specifies the budget calendar, the main contents of budget documents, and the roles of the legislature and the executive in the budget process. The calendar is followed and adhered to. However, it would benefit to specify project prioritization and appraisal processes, as well as any key processes of NDP. Stronger linkages and specification of key NDP processes in the Budget Calendar is recommended.

7.2 Fiscal Performance

163. The low tax to GDP ratio is attributed to a number of challenges in the tax administration process especially the concertration of tax efforts on a small section of the economy and leaving the others untaxed. A number of reforms have been initiated that continue to improve tax administration but more effort is still needed. The ETE proposes a number of recommendations and these include:

(i) Extend the tax bracket to sectors or areas that have largely remained untaxed including commercial agriculture and provincial wholesale and retail trade.

(ii) Remove the zero VAT rate for firms involved oil related investments, which is undermining tax collection. This has resulted in government paying high refunds

(negative VAT receipts from these firms), because their outputs are VAT zero rated and yet they can claim refunds on inputs.

(iii) Strengthen the tax administration to achieve higher efficiency in tax collection. The tax administration is considered inefficient as it has persistently failed to tax the informal sector and professional service providers effectively, due to weak enforcement and penalties. This partly explains why, while the registration rate is high, the filing rate is low. Furthermore, compliance to custom duties is high compared to domestic taxes yet the Asycudasystem allows for following a firm from importation to domestic business activities.

(iv) Inadequate analysis of policy proposals leading to inherent incompleteness in development of tax regimes. Stakeholders indicated the absence of clear guidelines on policy processes to understand tax implementation implications and impact of new tax proposals on business growth, economic growth, employment and income before new tax measures are implemented. The ad hoc processes perhaps explains the increasing uncertainty characterising today's tax regime, for instance with the introduction of the mobile money tax, which will increase the tax base but at the same time undermine financial inclusion and encourage reliance on cash rather than digital transactions. This is partly because tax proposals that originate from different parts of government are not always submitted to the Tax Policy Department at the Ministry of Finance for analysis of their implications prior to consideration by Parliament.

(v) Tax policy needs to be better matched with sectoral development with the most profitable sectors attracting the highest taxes as determined by research and analysis.

(vi) Improving tax morale, to increase tax compliance and the social cost of tax evasion or avoidance. This has several elements. On tax administration side, the quest for revenues should ensure that at all times the tax payer is comforted by the fact that their tax obligation is fairly determined. On the expenditure side, tax payers ought to see that their contribution to the national resource envelope results in improved

quality and stock of public services and infrastructure. This would result in an increase in the social cost of evading tax payment. Examples of corruption or the wastage of public funds undermines the social commitment to contribute tax revenues.

(vii) Government should, in particular, reduce its borrowing from domestic markets. The high interest rates on Treasury Bonds and Bills have contributed to high bank lending rates, due to the high interest rates that banks can obtain from risk-free holdings of government paper. This has in turn crowded out credit to the private sector and had a negative impact on investment and growth. Government should manage its domestic borrowing requirements better, and avoid going to the capital market with large funding requirements towards the end of each fiscal year, when it is easy for the banks and institutions to demand high rates. To achieve this, government needs to avoid adding unfunded spending commitments to the budget.

164. Given the large financing requirements of projects that were carried over from NDP2 to NDP3 and the limitations of borrowing as the country hits the debt ceiling-- it is unlikely that Uganda will be able to raise these resources only from concessional borrowing and tax revenue efforts. It is imperative that Government also starts exploring other options especially to finance large infrastructure projects whose economic returns may not be viable in the short run but with enormous social benefits. The ETE recommends that the Government considers alternative financing models, including:

(i) **Issuance of Infrastructure Bonds:** Bonds provide an alternative to traditional funding, making infrastructure debt more accessible to a wide array of institutions. Government should consider issuance of a Euro bond in international markets. The size of this bond will depend on the financing needs that are not fully covered under by concessional or semi-concessional borrowing, the costs and risks associated with such financing instruments. With an estimated financing gap of about US$1.4 billion a year for infrastructure investment, the Government can initially issue a bond of US 7 billion dollars for infrastructure development over a five year NDP III period. Government can also initiate project specific infrastructure bonds to

finance infrastructure projects and municipal infrastructure bonds to finance municipal and city infrastructure needs.

(ii) **Uganda should also consider establishing a Fund of Funds**. The Fund of Funds enables the government to have a stable and unified source of venture investment which can be targeted to priority sectors expected to grow at a high rate and generate employment. Over time the fund of funds can be gradually opened to the private sector, allowing for its efficiency and additional funding to be exploited. To improve governance and management of fund of funds, it is proposed that, although the Fund of Funds would be financed partly by government, management of this fund would require being autonomous in its decision making and not influenced by government. This would enable the managers to make decisions based on the viability of the **projects** in question. Notwithstanding the above proposal, the Fund would also have to be regulated by the Capital Markets Authority to ensure that it meets the generally acceptable standards and practices of capital markets and does not out-compete private venture capital initiatives.

(iii) **Use of Pension Funds**. Pension funds have not made progressive investments in infrastructure – especially in those sectors with the potential for high returns and stable and long-term cash flow and inflation-protection possibilities. While the government is expediting the development of the pension sector and implementing the Capital Markets Master Plan, it should also mobilize domestic currency financing by establishing syndicates of commercial banks and large surplus institutions to finance infrastructure projects, such as pension funds, particularly the National Social Security Fund (NSSF).

(iv) **Sovereign Wealth Funds (SWFs)** provide alternative financing role in developing much-needed infrastructure across the world, provided that their investment strategies and underlying mandates support countries' macroeconomic policies and development plans. Infrastructure projects provide long-term investment returns that are protected against inflation and bear little to no correlation with other financial assets, making them less vulnerable to economic shocks.

7.3 Price and Monetary Developments

165. The monetary policy has largely been effective in controlling inflation and maintaining stability of the economy as envidenced by low and stable inflation and the relatively stable exchange rate. The whole structure of interest rates in Uganda is high, in real terms, due to a combination of factors, including high policy rates (CBR), crowding out through higher government borrowing (bond rates), and structural factors in the banking system (high NPLs, over-capitalisation, and high operating costs). The ETE proposes that the BoU/MoFPED investigate in more detail what the appropriate level of the CBR should be to achieve the desired inflation objective.

166. The government needs to improve the approval of concessional loans to make it easier for loans closure to ensure quicker implementation of projects funded by these types of loans and to reduce the reliance on non-concessional loans.

Appendices

Appendix 1: Selected BoP memorandum indicators

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Nominal GDP at Market prices (Ug. Shs billion)	47,078.0	59,420.0	63,905.0	70,457.7	77,845.2	84,907.0	91,351.4	100,091.9	126,479.7	134,990.3
GDP at Market prices (US$ million)	20,262.3	23,218.9	24,663.1	27,757.4	27,573.2	24,661.1	25,891.1	27,357.1	34,041.2	36,375.9
Exports as a % of GDP	11.34	11.49	11.81	9.75	9.93	10.90	12.28	12.72	15.1	17.1
Imports as a % of GDP	23.05	22.57	20.42	18.28	18.09	18.55	18.21	20.07	21.6	22.3
Current Account Balance (Excluding Grants)	-2,117.9	-2,431.6	-1,846.2	-2,237.4	-2,052.5	-1,359.2	-999.27	-1,725.78	-2,767.3	-2,646.0
Current Account Balance as a percentage of GDP	-8.55	-8.75	-6.12	-7.35	-6.76	-4.72	-3.33	-5.91	-7.7	-6.9
Current Account Balance (Excl. Grants) as a %age of GDP	-10.45	-10.47	-7.49	-8.06	-7.44	-5.51	-3.86	-6.31	-8.1	-7.3
BOP overall balance as a percentage of GDP	2.99	-3.22	-1.37	-1.36	1.27	-0.41	-1.69	0.77	-0.2	-0.5
Total external Debt Stock (end of period) , (US$ million)	2,904.92	3,254.08	3,825.16	4,300.70	4,380.10	5,309.20	6,213.79	7,261.93	13,970	17,210
o/w External arrears	82.68	80.89	81.62	75.95	0.00	0.00	76.47	77.49	92.84	100.12
Total Debt Stock (end of period) as a %age of GDP	19.50	16.69	15.51	15.49	0.00	0.00	0.00	0.00	0.91	0.85
Debt Service (maturities excl. IMF) as a %age of exports	18.09	16.49	15.75	20.99	23.26	21.24	22.63	36.69	37.07	32.7
Debt Service (maturities excl. IMF) as a %age of export of Goods and Services.	10.94	9.32	9.23	11.53	12.85	12.21	14.63	23.64	23.3	23.67
Debt Service (maturities excl. IMF) as a percentage of GDP	0.00	0.00	0.00	0.00	0.57	0.58	0.68	1.20	6.8	4.82
Debt Service (maturities incl. IMF) as a %age of exports	18.13	16.78	16	21.25	23.52	21.37	22.63	36.69	37.07	32.7
Debt Service (maturities incl. IMF) as a %age of export of Goods and Services.	10.95	9.49	9.37	11.68	12.99	12.28	14.63	23.64	23.3	23.67
Debt Service (maturities incl. IMF) as a percentage of GDP	0.00	0.00	0.61	0.61	0.58	0.58	0.68	1.20	0.11	0.09
Debt Stock to Exports ratio (%)	1,921.11	1,845.10	1,994.56	2,446.53	2,488.20	2,977.59	2,819.64	3,204.96	3,232.84	3,864.72
Total Aid to GDP (%)	3.95	3.29	2.30	1.94	2.01	2.29	2.78	2.21	4.81	4.79
Total external reserves (end of period) in future months of imports of goods & services	3.21	4.26	4.66	5.33	5.05	5.49	5.71	4.47	4.5	4.7
Total external reserves (end of period) in future months of imports of goods	4.66	6.22	6.93	8.16	7.07	7.96	7.88	6.39	4.5	5.2

Appendix 2: Progress of Key Development Indicators as of end of NDPII

Development outcome	NDP II Target (2020)	Baseline Status (FY 2014/15)	Status (FY 2019/20)
GDP growth rate	6.3	4.7	3.1
GDP Per capita(US $)	1,039	743	905
Poverty*	14.2	19.7	21.4
Percentage of national labour force employed*	79	75.4	78.8
Total national paved road network (kms)	5000	3,795	5,111
Life expectancy**	60	53	63.3
Infant mortality (per 1000 live births)**	44	54	43
Under five mortality (per 1000 live births)**	55	90	64
Maternal mortality (per 100,000 births)**	320	438	336
Fertility rate	4.5	6.2	5.4
Share of births delivered in a health facility**	60	58	73
Access to grid electricity (percent population)	30	14	28
Access to clean water (percent population)	100	68	78
Average years of schooling	11.5	5.7	6.1
Literacy rate	80	70	74

Source: MOFPED

* Figures used for the status in FY 2019/20 are from UNHS 2016/17 ** Figures used for the status in FY 2019/20 are from UDHS 2016

Appendix 3: Implementation progress of Flagship Infrastructure Projects

Core Project	Objective	Implementation status
Karuma Hydro Power Plant (600MW)	To increase energy capacity by 600MW through construction of a 20 m-high, 311.53 m-large RCC concrete gravity dam, coffer dams, power intake works and a surface power house (6x 100 MW)	The project is 98 percent complete. The prior date of commissioning was extended from December 2019 to December 2020 in order to complete the interconnection infrastructure.
Isimba Hydro Power Plant (188MW)	To increase energy capacity by 188MW through construction of a concrete gravity dam, a clay- core rock fill dam, a spillway, a powerhouse, switching stations and auxiliary power transmission works.	The project was completed and commissioned on 21st March, 2019.
Ayago hydro power plant (600MW)	To increase energy capacity by 600 MW through construction of a 24m high concrete gravity dam, 6 Nos. of intake on the left bank of the Nile river feeding 6 Nos. of 6.6m circular shaped pressure shaft, underground power house housing 6 units of 113.33 MW and a 7.2 km Long Tail Race Tunnel.	Feasibility completed.
Grid Extension in North-East, Central and Lira as well as those for regional power pool.	Construction of 2,002 km of transmission lines across the country.	Feasibility finalized, RAP ongoing for 50 percent of area, under tendering
Masaka-Mbarara Transmission Line	To improve reliability and security of supply to the Western Region of Uganda and provide transmission capacity to cater for grid interconnection between Uganda and Rwanda through construction of approximately 135km, 220kV, Double Circuit Transmission Line, and the associated connection to Mbarara and Masaka 220kV Substations.	Procurement of EPC contractors was on-going.
Kabale-Mirama Transmission Line	To extend national grid capacity through construction of approximately 85km of 132kV transmission line backbone from the Mirama 132/33kV Hills to Kabale and Kabale 132/33kV substation to the proposed new 132/33Kv-2 x40 MVA substation in Kabale town; 904km of 33Kv lines and 131km of low voltage network in 121 villages.	Procurement of EPC contractors was on-going.

Core Project	Objective	Implementation status
Standard Gauge Railway	To develop and operate a modern, fast, reliable, efficient and high capacity railway transport system as a seamless single railway operation.	Feasibility study, RAP and negotiation of financing ongoing. Preconstruction activities such as securing Right of Way are ongoing. Out of 2994.5 acres of land required for the project, 1089.6 acres have been acquired.
Entebbe Airport Rehabilitation	To expand, modernize and reconstruct Entebbe International Airport.	Project implementation was on schedule, 67.5 percent of works complete.
Kampala-Jinja Expressway	Construction of a 77km expressway road of 4-8 lanes of mainline expressway with a design speed of up to 120kph between Kampala and Jinja.	Draft Bidding Documents were still being finalized for approval by PPP Committee
Kampala Southern by-pass	Construction of an 18km- road stretch from Butabika, on the eastern outskirts of Kampala and connect the new Kampala-Jinja Expressway and Munyonyo at the new Kampala- Entebbe Expressway. It will have a design speed of up to 100 kph with 2by2 lanes for the entire 18km.	Feasibility finalized (procurement of contractor ongoing)
Kampala-Bombo Express Highway	Construction of a four-lane, dual carriage highway in the central region of Uganda connecting Kampala and Bombo in Luweero district.	Detailed designs completed and was under review.
Kampala-Mpigi Express Highway	Construction of a four- lane, dual carriage highway connecting, Kampala, and Mpigi districts.	Construction had commenced and expected to take 30 months.
Upgrading of Kapchorwa-Suam Road	To support regional integration and cross border trade between Uganda and Kenya through upgrade of the current road from gravel to a tarmac class 1b bitumen standard paved road.	Cumulative physical progress was at 9.93 percent
Kibuye-Busega-Nabingo	Construction of a four- lane, dual carriage highway connecting, Kampala, and Mpigi districts.	Sections 1 and 2 are under procurement.
Rwekunye - Apac - Lira - Kitgum - Musingo Road;	To upgrade 191 km of existing Gravel road between Rwenkunye, Apac, Lira and Puranga towns to Asphaltic Paved road Standard.	a. Final valuation report for 30km submitted to CGV for approval. b. Civil works are ongoing and the SPN was re- advertised in February, 2018
ICT National Backbone Project	To connect all major towns within the country onto an Optical Fibre Cable based Network and to connect Ministries and Government Departments onto the e-Government Network.	Phase 4 of the NBI is nearing completion. 4,000 km of fibre optic cable have been laid, linking 60 towns and offering free MYUG WiFi to 284 locations (hotspots) within Kampala and Entebbe. Government also extended the NBI to West Nile, totaling 842km across 124

Core Project	Objective	Implementation status
		offices. A total of 437 Government entities are digitally connected. The project will also support the implementation of the e-procurement and the Human Capital Management System. Similarly, the e-payment Gateway that aims to facilitate electronic payments across Government services has been implemented progressively.
Hoima Oil Refinery	To construct a green field refinery with a capacity of 60,000 barrels of crude oil per day.	Front End Engineering Designs (FEED) stands at 60 percent. Finalisation of the FEED will inform the Final Investment Decision (FID).
East African Crude Oil Project (EACOP)	To enable oil production by 2020.	• Land acquisition and surveys for the pipeline and access roads in 10 districts of Gomba, Hoima, Kakumiro, Kikuube, Kyankwanzi, Kyotera, Lwengo, Mubende, Rakai and Sembabule were completed and 4,600 PAPs compensated. • RAP studies on the Tanzania side are ongoing, while, the final RAP Report on the Uganda side is being finalised. • The Front End Engineering Design (FEED) awaits approval by Government of Uganda and the project sponsors. • Negotiations between the Host Governments (Uganda and Tanzania) and the Joint Venture partners continue.
Albertine Region Airport	To improve regional and local access to infrastructure, markets and skills development in the Albertine region	Overall progress is about 36 percent. The runway is expected to be ready for testing on 20th June 2022, and other works completed in 2023.
Albertine region roads	To improve regional and local access to infrastructure, markets and skills development in the Albertine region	Kyenjojo to Kabwoya - The cumulative progress as of March 2019 was 59.64 percent of works Kigumba – Bulima - 15.5 percent of the physical works had been completed Bulima - Kabwoya - The cumulative progress as of end of March 2019 is 78.75 percent of works
Phosphate and steel Industry in Tororo	Construction of a mine and a beneficiation plant with annual capacity of two million tonnes,a phosphate fertilizer plant of annual production of 300,000 tonnes, a sulfuric acid plant of of annual productionof 400,000, a 12MWwaste heat-based power generation plant and a steel mill of annual production of 300,000 tonnes	Phase I of the project was completed and launched which accounts for 50 percent implementation.

Core Project	Objective	Implementation status
Agriculture Cluster Development Project (ACDP)	To raise productivity, production, and commercialization of selected agricultural commodities in specified clusters of districts across the country.	Project on schedule. 12,950 farmers have been enrolled onto the Electronic Voucher Management System. Matching Grant guidelines have been developed, and up to 95 farm road chokes along 254 km of road prioritized for rehabilitation in the five pilot districts.
Markets & Agriculture Trade Improvement Project (MATIP II)	To provide a link between the rural and urban markets in the country in order to expand the commodity value chain.	On schedule with a progress averaging at 40 percent. Procurement for construction of 7 markets completed in February 2018, implementation at 25 percent average. Procurement for construction of other 3 markets completed in May 2018, implementation at 15 percent average. Procurement of the 11th market is in the final stages.
Farm Income Enhancement and Forest Conservation II	To improve household incomes, food security and climate resilience through development of agricultural infrastructure.	On schedule. 35 percent of the project has been delivered.
Uganda Women Entrepreneurship Project (UWEP)	To improve women's access to financial services and equip them with skills for enterprise growth, value addition and marketing of their products and services.	On schedule (66.1 percent disbursement)
Youth livelihood Project (YLP)	To empower the youth to harness their socio-economic potential and increase self-employment opportunities and income levels.	On schedule (61 percent disbursement)
Comprehensive Skills Development Project	To improve the regionally located technical colleges into centres of excellence.	Implementation for the project is behind schedule.
Renovation of 25 Selected General Hospitals	To improve access to healthcare by rehabilitating 25 general hospitals across the country.	Renovation of 25 Selected General Hospitals is on schedule and due for completion by end of June 2020.
Mass treatment of malaria for prevention	To provide quality assured services for Malaria prevention and treatment to all people in Uganda.	Yet to commence

Core Project	Objective	Implementation status
Revitalization of UDC		Legal framework and governance structures established Shs. 55bn provided out of required Shs. 500bn).
Recapitalization of UDB		Implementation on schedule (USHS375bn disbursed)

Source: Draft NDPIII and sector reports

Appendix 3: Implementation status of National roads NDP11 as of June 2020

Appendix 3-1: Completed Projects

No.	Project Name	Description	Status
1	Kampala – Entebbe Express way with spur to Munyonyo (51km)	NDP1 Retained Project	Completed
2	Mbarara By Pass (40 Km)	NDP1 Retained Project	Completed
3	New Nile Bridge Construction at Jinja	NDP2 Pipeline Projects	Completed
4	Birara Bridge (Kanungu)	NDP2 Pipeline Projects	Completed
5	Mitano bridge -Rukunguri - Kanungu road	NDP2 Pipeline Projects	Completed
6	Apak bridge on Lira-Moroto Road	NDP2 Pipeline Projects	Completed
7	Enyau-3 and Alla (Arua) Bridges	NDP2 Pipeline Projects	Completed
8	Kyanzuki-Kasese-Kilembe road	NDP2 Pipeline Projects	Completed
9	Cido Bridge (Nebbi-Goli)	NDP2 Pipeline Projects	Completed
10	Kabaale Bridge (Kyankwanzi-Ngoma)	NDP2 Pipeline Projects	Completed
11	Leresi Bridge (Butaleja)-Butaleja-Leresi-Budaka	NDP2 Pipeline Projects	Completed
12	Nyaliti Bridge (Kapchorwa-Suam)	NDP2 Pipeline Projects	Completed
13	Seretiyo Bridge on Kapchorwa – Suam road	NDP2 Pipeline Projects	Completed
14	Nalakasi Bridge (Ariamoi-Kotido-Kabong-Kapedo road)	NDP2 Pipeline Projects	Completed
15	Nyamugasani Bridge (Kasese)-Kinyamaseke-Kisinga-Kibirizi road	NDP2 Pipeline Projects	Completed
16	Rehabilitate Kafu-Kiryandongo-Kamdini	NDP2 Pipeline Projects	Completed
17	Upgrade Gulu-Atiak-Nimule (104 km)	NDP1 Retained Project	Completed
18	Construction of Mukono- Kyetume - Katosi-Nyenga (74km)	NDP1 Retained Project	Completed
19	Upgrade Mpigi-Kabulasoke-Maddu (135km)	NDP1 Retained Project	Completed
20	Construction Ntungamo-Mirama hills (37km)	NDP1 Retained Project	Completed
21	Upgrade Nyakahita-Ibanda-Fort Portal (208km)	NDP1 Retained Project	Completed
18	Upgrade Ishaka-Kagamba (35km)	NDP1 Retained Project	Completed
19	Moroto-Nakapiripirit (93 Km)	NDP1 Retained Project	Completed
20	Mpigi-Kanoni (65 Km)	NDP1 Retained Project	Completed
21	Kanoni – Sembabule-Villa Maria (114 km)	NDP1 Retained Project	Completed
22	Olwiyo-Gulu-Acholibur-Kitgum-Musingo (223 Km)	NDP1 Retained Project	Completed
23	Forportal-Kamwenge Road	NDP1 Retained Project	Completed
34	Ruboni-Only access to Mt Mageritta tourist site, Kasese	NDP2 Pipeline Projects	Completed
53	Mbale - Nkokonjeru Rehabilitation (20km)	NDP2 Pipeline Projects	Completed
54	Nansana - Busunju Rehabilitation (47km)	NDP2 Pipeline Projects	Completed
55	Namunsi - Sironko - Muyembe Rehabilitation (32km	NDP2 Pipeline Projects	Completed
56	Mukono – Kayunga – Njeru Rehabilitation (94km)	NDP2 Pipeline Projects	Completed
61	Iganga - Kaliro (32 km)	NDP2 Pipeline Projects	Completed

Appendix 3-2: Ongoing Projects

No.	PROJECT NAME	DESCRIPTION	STATUS
1	Kampala Northern Bypass Phase2	NDP1 Retained Project	Ongoing
2	Ora Bridge on Okokko-Anyiribu road	NDP2 Pipeline Projects	Ongoing
3	Aji Bridge on UllepiOffaka – Nyiribu road in Arua	NDP2 Pipeline Projects	Ongoing
4	Kangole Bridge on Katakwi – Moroto road	NDP2 Pipeline Projects	Ongoing
5	Kampala Flyover project	NDP2 Pipeline Projects	Ongoing
6	Rehabilitation of Lira-Kamdin-Gulu Road	NDP1 Retained Project	Ongoing
7	Construction of Masaka-Bukakata road	NDP1 Retained Project	Ongoing
8	Construction Kapchorwa-Suam road (77km)	NDP1 Retained Project	Ongoing
9	Upgrade Kyenjojo-Hoima-Masindi-Kigumba (238km)	NDP1 Retained Project	Ongoing
10	Upgrade Nyendo-Sembabule (38km)	NDP1 Retained Project	Ongoing
11	Hoima-Butiaba-Wanseko road (111 Km)	NDP1 Retained Project	Ongoing
12	Musita-Lumino-Busia/Majanji road	NDP1 Retained Project	Ongoing
13	Mubende-Kakumiro- Kibale-Kagadi road (104 Km)	NDP1 Retained Project	Ongoing
14	Establishment of ferry services on Lake Kyoga, Bukungu,Kagwala and Okile	NDP2 Pipeline Projects	Ongoing
15	Tirinyi-Pallisa-Kumi/Kamonkoli Road (111 km)	NDP1 Retained Project	Ongoing
16	Upgrading Rukungiri-Kihihi-Ishasha/Kanungu road (74km)	NDP1 Retained Project	Ongoing
17	Kanoni – Sembabule-Villa Maria (114 km)	NDP1 Retained Project	Ongoing
18	Kitala-Gerenge (10Km)	NDP1 Retained Project	Ongoing
19	Namalu-Nailatuk-Lokapel	NDP2 Pipeline Projects	Ongoing
20	Upgrading of Soroti-Katakwi-Moroto-Lokitanyala road to paved standard (208 km)	NDP2 Pipeline Projects	Ongoing
21	Upgrading of Muyembe-Nakapiripirit (92Km)	NDP2 Pipeline Projects	Ongoing
22	Mbale – Bubulo – Lwakhakha (41km)	NDP2 Pipeline Projects	Ongoing
23	Kibuye – Busega – Mpigi Express way (35km)	NDP2 Pipeline Projects	Ongoing
24	Rehabilitation of Tororo – Mbale – Soroti – Lira – Kamdini (345km)	NDP2 Pipeline Projects	Ongoing
25	Kyenjojo - Fort Portal Rehabilitation (50km)	NDP2 Pipeline Projects	Ongoing
26	Soroti - Arapai (10 km), Soroti State Lodge (2km) & Ngora township (2km)	NDP2 Pipeline Projects	Ongoing
27	Fort Portal - Hima (55km)	NDP2 Pipeline Projects	Ongoing
28	Hima - Katunguru (58 km)	NDP2 Pipeline Projects	Ongoing

Appendix 3-3: Projects Under Procurement for Civil Works

No.	Project Name	Description	Status
1	Kampala-Jinja Expressway (80 Km)	NDP1 Retained Project	Under procurement
2	Kasozi (Lugogo) Bridge (linking Ngoma-Buruli)	NDP2 Pipeline Projects	Under procurement
3	Rehabilitation of Pakwach-Nebbi (54 Km)	NDP1 Retained Project	Under procurement
4	Rehabilitation of Mityana - Mubende (89 km)	NDP2 Pipeline Projects	Under procurement
5	Seeta-Kyaliwajjala-Matugga-Wakiso-Buloba-Nsangi	NDP1 Retained Project	Under procurement
6	Najjanankumbi-Busabala Road and Nambole-Namilyango-Seeta	NDP1 Retained Project	Under procurement
7	Upgrade Atiak- Adjumani -Moyo-Afoji (104km)	NDP1 Retained Project	Under procurement
8	Kabwoya-Buhuka road (43km)	NDP2 Pipeline Projects	Under procurement
9	Luwero - Butalangu -Ngoma (83km)	NDP2 Pipeline Projects	Under procurement
10	Masaka - Nyendo 5km (Town through road)	NDP2 Pipeline Projects	Under procurement
11	Rwenkunye - Apac - Lira – Acholibur (263km)	NDP2 Pipeline Projects	Under procurement
12	Lusalira - Kasambya - Nkonge - Sembabule (97km)	NDP2 Pipeline Projects	Under procurement

Appendix 3-4: Projects with Completed Feasibility Studies and Detailed Engineering Designs

No	Project Name	Description	Status
1	Nakasero-Northern Bypass Express Route 5km (VVIP)	NDP1 Retained Project	Detailed Design Complete
2	Kampala Southern Bypass (18Km)	NDP2 Pipeline Projects	Detailed Design Complete
3	Luuku – Kalangala (66Km)	NDP1 Retained Project	Detailed Design Complete
4	Kashwa-Kashongi-Ruhumba (33Km)	NDP1 Retained Project	Detailed Design Complete
5	Nakawuka-Mawungulu-Nazinga-Maya (15Km)	NDP1 Retained Project	Detailed Design Complete
6	Bubulo-Bududa Circular Road (28km)	NDP1 Retained Project	Detailed Design Complete
7	Magale – Bumbo-Lwakhakha Road (14Km)	NDP1 Retained Project	Detailed Design Complete
8	Corner Ayer – Corner Aboke Bobi (55 Km)	NDP2 Pipeline Projects	Detailed Design Complete
9	Luwero – Zirobwe-Wobulenzi	NDP2 Pipeline Projects	Detailed Design Complete
10	Kayunga- Bbaale - Galiraya (88.5km)	NDP2 Pipeline Projects	Detailed Design Complete
11	Katine- Kalaki-Lwala- Kaberamaido- Ocwero (71km)	NDP2 Pipeline Projects	Detailed Design Complete
12	Kampala – Bombo Express way (40km)	NDP2 Pipeline Projects	Detailed Design Complete

No	Project Name	Description	Status
13	Kibuye - Entebbe Airport (37 km)	NDP2 Pipeline Projects	Detailed Design Complete
14	Pajule – Pader (18Km)	NDP2 Pipeline Projects	Detailed Design Complete
15	Kamuli – Bukungu (64km)	NDP2 Pipeline Projects	Detailed Design Complete
16	Moroto – Kotido (102km)	NDP2 Pipeline Projects	Detailed Design Complete
17	Namagumba- Budadiri- Nalugugu (30km)	NDP2 Pipeline Projects	Detailed Design Complete
18	Atiak-Kitgum (108Km)	NDP2 Pipeline Projects	Detailed Design Complete
19	Jinja - Buwenda –Mbulamuti – Kamuli (80km) with spurs to Izanhiro landing site and Isimba Bridge	NDP2 Pipeline Projects	Detailed Design Complete
20	Buwaya - Kasanje – Mpigi- Kibibi – Mityana (90km)	NDP2 Pipeline Projects	Detailed Design Complete
21	Angatun-Lokapel (45 Km)	NDP2 Pipeline Projects	Detailed Design Complete
22	Dokolo-Namasale- Zengebe - Nakasongala – Road Upgrade	NDP2 Pipeline Projects	Detailed Design Complete
23	Kabwohe - Bwizibwera/ Nsika - Ibanda-Kabujogera-Masyoro-Rwenjaza/Kyambura (85km)	NDP2 Pipeline Projects	Detailed Design Complete
24	Kashozi-Buremba-Kariro (53km)	NDP2 Pipeline Projects	Detailed Design Complete
25	Kisubi-Nakawuka-Natete(27km)	NDP2 Pipeline Projects	Detailed Design Complete
26	Nakawuka-Kasanje-Mpigi (20km)	NDP2 Pipeline Projects	Detailed Design Complete
27	Rwamwanja - Kiruhura (34km)	NDP2 Pipeline Projects	Detailed Design Complete

Appendix 3-5: Projects Under Procurement for Design Consultants

No.	Project Name	Description	Status
1	Kyegwegwa-Kazo	NDP2 Pipeline Projects	Procurement of Consultant Ongoing
2	Muhanga - Kisiizi -Rwashamaire (50km)	NDP2 Pipeline Projects	Design Ongoing
3	Kumi - Ngora - Serere - Kagwara/ Soroti (75km)	NDP2 Pipeline Projects	Design Ongoing
4	Mayuge-Mbaale- Nakivumbi-Bugiri-Namayingo-Lugala (90km)	NDP2 Pipeline Projects	Design ongoing
5	Kyenjojo (Kahunge) - Nyarukoma- Kigarale - Rwamwanja (34km)	NDP2 Pipeline Projects	Design Ongoing
6	Kitgum – Kapedo road	NDP2 Pipeline Projects	Procurement of Consultant Ongoing

Appendix 3-6: Outstanding Projects

No.	Project Name	Description	Status
1	Maliba-Nkenda – Bugoye – Nyakalingijo road, Kasese	NDP2 Pipeline Projects	Outstanding
2	Kayunga-Busana-Lugobero	NDP2 Pipeline Projects	Outstanding
3	Ocok-Inde	NDP2 Pipeline Projects	Outstanding
4	Muhoro - Ndaiga road (31km)	NDP2 Pipeline Projects	Design completed
5	Busia - Tororo (24km)	NDP2 Pipeline Projects	Design ongoing
6	Lira - Akia & Lira Railway & Army Barracks Accesses (12 km)	NDP2 Pipeline Projects	Outstanding
7	Kalilo-Nawaikoke road	NDP2 Pipeline Projects	Outstanding
8	Irundu-Kagulu road	NDP2 Pipeline Projects	Outstanding
9	Kamuli-Namwendwa-Kaliro	NDP2 Pipeline Projects	Procurement of consultant ongoing
10	Nalugugu-Mututu-Budadiri-Buwalasi – Road Upgrade	NDP2 Pipeline Projects	Design completed

Appendix 4: Implementation status of Works on Bridges, June 2020

S/N	Bridge Name	Implementation Progress
1	2nd Nile bridge at Jinja Span 525m cable stayed bridge	Physical progress is estimated at 62.9 percent versus 92.84 percent planned.
2	Aswa Bridge 55.2m (18.4+18.4+18.4)	Physical progress is 99 percent. Time progress is 100% incl. time extension. The bridge structure is complete and open to traffic. Joint inspection of works to be carried out before issuance of a substantial completion certificate
3	Goli (20m) and Nyagak (3 lines of 4.5m dia turbo sider culverts) Bridges in Nebbi	Substantially completed and in use by the public. Bridges under DLP.
4	Nyalit (15m) and Seretiyo Bridges on Kapchorwa – Suam	Overall physical progress is 90 percent. Time progress is at 118 percent. **Nyalit bridge** – The Bridge structure is complete. Work on approach roads has delayed because the contractor has not yet submitted gravel test results despite numerous reminders. **Seretiyo Bridge** – progress at 90 percent Construction of approach roads on Muyembe side is on-going. Con- struction of approach road on Namalu side has been delayed by claims of graves in the area.
5	Kabaale Bridge (linking Kyankwanzi to Ngoma in Nakaseke)	Substantially completed and bridge is being used by public. Current physical progress is at 98 percent. Project started its 12-month DLP (ending 15 May 2018)
6	Design & Build of Nalakasi Bridge on Nalakasi-Arimoi-Kaabong Road in Kar-amojaSub-region	The final detailed design report was accepted and physical works are now on progress. Currently physical progress is 52 percent.
7	Design & Build of Kaabong Bridge on Kaabong-Kotido Road in Karamoja Sub-region	The final detailed design report was accepted and physical works are now on progress. Currently physical progress is 55.77 percent
8	Design & Build of Lopei Bridge on Kaabong-Kotido Road in Karamoja Sub-region	The draft design report was accepted and currently, the final design re- port is under preparation. Mobilization on site is on progress and Road diversion works are on progress. Physical progress is at 25.33 percent
9	Apak bridge in Lira	Substantially completed and is operational and under DLP
10	Design and build Manafa bridge on Tororo- Mbale Rd	Completed and is operational and under DLP
11	Aswa bridge 55.2m	Completed and is operational and under DLP
12	Goli 20m and Nyagak3 line bridge in Nebbi	Substantially completed and is operational and under DLP
13	Cido bridge 15m on Nebbi – Goli road	Substantially completed
14	Nyalit 15m and seretiyo bridges on Kap-chorwa –Suam	Under liquidated damage, progress is 80 percent
15	Leresi Bridge in Butalejaleresi- Budaka road	Substantially completed and is operational and under DLP

S/N	Bridge Name	Implementation Progress
16	Ndaiga bridge on Bugiri –Malaba road	Substantially completed and is operational since march 2016 and DLP expired
17	Kabaale bridge – on Kyankwanzi Ngo- ma link in Nakaseke 100m	Substantially completed and is operational and under DLP ending May, 2018
18	Ruboni access bridge on Mt Magaritta in Kasese	Completed and is operational and DLP expired
19	Namugasane bridge in Kasese	Completed and is operational and DLP expired
20	Design build of Nalakasi bridge on Ari- mo-kaboong road in Karamoja	Progress by December at 15 percent commenced January, 2017 and due completion July, 2018
21	Design build of kaboong bridge on ka-boong –Kotido road in Karamoja	Progress by December at 28 percent commenced January, 2017 and due completion July, 2018

Source: UNRA Q3 performance report

Appendix 5: Implementation Status of Expressways

S/N	Expressway	Length, km	Status
1	Kampala-Entebbe	51	Cumulative progress by end of March, 2018 was 92 percent against the programmed 97.45 percent. Time elapsed was 93.43 percent. Land compensation remains the major issue affecting project progress
2	Kampala – Mpigi, Queesnsway – Busega&Busega – Mpigi	32	Civil works and supervision contracts for Busega - Mpigi Expressway (23.7Km) are currently under procurement and Financing was secured through AfDB. The Technical Evaluation report and Due diligence report were submitted for CC approval on 9th March 2018.
3	Kampala-Jinja Expressway	77	Revised Feasibility study report, prequalification documents and Request for proposal were submitted to PPP. Committee and approved. Preparations are ongoing for launching the project RFQ documents by Mid May 2018. Invitation for the pre-qualifications exercise was initiated for the design, build, finance, operate maintain and transfer of the project. IFC in this regard is the Lead Transaction Advisor to UNRA
	Kampala Outer Beltway		Inception Report submitted by the consultant. Route Alignment Options report was submitted and consultant presented report to UNRA DNPE. Materials Investigation for Prelim. Design completed in Sept 2017 Draft Feasibility study submitted and presented to UNRA in October 2017. Draft Preliminary design report submitted on 8th December 2017. Draft Feasibility Study Report and Preliminary Design were reviewed and comments sent to the consultant. The preferred alignment was approved and the consultant has commenced phase 2 activities.

4	Kampala-Busunju Expressway	55	Under procurement, Technical evaluation of proposal is completed in January 2018.
5	Nakasero-Northern Bypass Express Route (VVIP)	5	Design commenced in December 2016; Inception and Design Base Statement submitted; Draft Feasibility Study and Preliminary report expected by April 2018
6	Kampala-Bombo	50	Geotechnical investigations for alignment materials, borrow areas and quarries is ongoing Draft Feasibility study and preliminary design has been submitted by and final Feasibility study is expected by April 2018.
Source: UNRA Projects Status Report for March 2018			

Appendix 6: Progress on Implementation of Works in the Water Sector

S/N	Project	Status
1	Sugulu Ferry	Cumulative physical progress is 98 percent
2	Buyende–Kasilo–Kaberamaido Ferry	Bid evaluation is ongoing. The draft detailed Engineering Designs were submitted for approval by UNRA
3	Kiyindi–Buvuma Ferry and Landing Site	Physical progress is 10 percent
4	Design of Wanseko Landing Site	Physical progress is 45 percent
5	Rehabilitation of Bukakata Ferry	Physical progress is 95 percent

Appendix 7: Implementation Progress of Selected Power Transmission Lines in FY 2019/20

Transmission Lines	Capacity	Length (KM)	Implimentation Progress (percent)
Tororo–Opuyo–Lira	132kv	26	91
Bujagali–Tororo–Lessos	220kv	127	9
Karuma–Olwiyo	132kv	54.25	86
Karuma–Kawanda	400kv	248.2	90
Karuma–Lira	132kv	75.5	66
Bujagalai Bays	220kv	-	42
Opuyo–Moroto	132kV	160	70

Source: UETCL website (https://www.uetcl.com/index.php/site-administrator/2014-01-29-09-43-25)