



Mid-Term Review of the
Second National
Development Plan (NDPII)
2015/16-2019/20

January 2019



**Economic
Management Thematic
Report**

Prepared by



In Association with



For the National Planning Authority

Contents

CONTENTS	I
LIST OF TABLES	III
LIST OF FIGURES	IV
ACRONYMS	V
ACKNOWLEDGEMENT	VII
EXECUTIVE SUMMARY	VIII
1.0 INTRODUCTION	1
1.1 BACKGROUND.....	1
1.2 UGANDA’S MACROECONOMIC POLICY/VISION	1
1.3 PURPOSE AND SCOPE OF THE ECONOMIC MANAGEMENT THEMATIC AREA MTR.....	3
1.4 APPROACH TO THE ECONOMIC MANAGEMENT MTR	4
1.5 ORGANISATION OF THE REPORT	7
2.0 PERFORMANCE OF THE REAL ECONOMY	8
2.1 REAL GROSS DOMESTIC PRODUCT GROWTH	8
2.2 REAL GROSS DOMESTIC PRODUCT AND SECTOR CONTRIBUTION	9
2.3 SOURCES OF GROWTH.....	13
2.4 GDP PER CAPITA	17
2.5 IMPROVEMENT IN COMPETITIVENESS OF THE UGANDAN ECONOMY	18
2.6 COMPETITIVENESS RANKING OF UGANDA’S LOGISTICS SECTOR	23
2.7 GOVERNMENT EFFORTS TO LEVERAGE PRIVATE SECTOR INVESTMENT IN PRODUCTIVE SECTORS OF THE ECONOMY.....	25
2.8 CONCLUSIONS	31
3.0 FISCAL STRATEGY	32
3.1 FISCAL PERFORMANCE.....	32
3.2 PUBLIC DEBT	35
3.3 DOMESTIC REVENUE MOBILISATION	41
3.4 COMPOSITION OF EXPENDITURE	45
3.5 NDP II FUNDING.....	48
3.6 FINANCING OF NDP3	53

4.0	PRICE AND MONETARY DEVELOPMENTS.....	57
4.1	MONETARY POLICY STANCE AND INFLATION	57
4.2	THE FOREIGN EXCHANGE MARKET	58
4.3	CREDIT FINANCING TO THE PRIVATE SECTOR	59
4.4	LENDING INTEREST RATES.....	61
5.0	CHAPTER FIVE: EXTERNAL SECTOR PERFORMANCE.....	64
5.1	EXTERNAL TRADE GROWTH AND PERFORMANCE	64
5.2	BALANCE OF PAYMENTS	66
6.0	RECOMMENDATIONS.....	69
6.1	PERFORMANCE OF THE REAL ECONOMY	69
6.2	FISCAL PERFORMANCE.....	72
6.3	PRICE AND MONETARY DEVELOPMENTS	75
APPENDIX	76
	APPENDIX 1: SELECTED BoP MEMORANDUM INDICATORS	76
	APPENDIX 2: IMPLEMENTATION PROGRESS OF FLAGSHIP INFRASTRUCTURE PROJECTS	77
	APPENDIX 3: IMPLEMENTATION PROGRESS OF NATIONAL ROADS UNDER REHABILITATION/MEINTANENCE	84
	APPENDIX 4: IMPLEMENTATION STATUS OF WORKS ON BRIDGES, MARCH, 2018.....	87
	APPENDIX 5: IMPLEMENTATION STATUS OF EXPRESSWAYS	89
	APPENDIX 6: PLANNED AND ON-GOING ENERGY PROJECTS.....	90
	APPENDIX 7: ENERGY PROJECTS FOR INDUSTRIALIZATION AND COMMERCIAL CENTRES IN FY 2018/19.....	91

List of Tables

TABLE 1: OECD EVALUATION CRITERIA.....	6
TABLE 2: NDP II REAL GDP GROWTH PROJECTIONS	9
TABLE 3: NDP II SECTORAL SHARES AND IMPLIED GROWTH PROJECTIONS	11
TABLE 4: REAL GDP BY ECONOMIC ACTIVITY (% CONTRIBUTION TO GDP AT BASIC PRICES (= VALUE ADDED)) .	12
TABLE 5: REAL GDP GROWTH BY MAIN ECONOMIC ACTIVITY	13
TABLE 6: GDP PER CAPITA AT CONSTANT 2009/10 PRICES.....	17
TABLE 7: UGANDA’S DOING BUSINESS RANKING ACROSS THE TEN TOPICS.....	19
TABLE 8: UGANDA GLOBAL COMPETITIVENESS INDEX RANKING INDEX.....	21
TABLE 9: LPI RANKING OF UGANDA AND OTHER REGIONAL COUNTRIES.....	23
TABLE 10: MEDIUM-TERM FISCAL FRAMEWORK (SHSBN).....	34
TABLE 11: TRENDS IN URA TAX COLLECTIONS 2010/11 TO 2017/18.....	44
TABLE 12: TAX AND NON-TAX REVENUE COLLECTION AS A PERCENT OF GDP.....	45
TABLE 13: ALLOCATION OF SPENDING FOR THE FIRST THREE YEARS OF NDP II.....	49
TABLE 14: GOVERNMENT ACTUAL EXPENDITURE AND NDP IISector Allocation Alignment (Percentages)	51
TABLE 15: SELECTED INDICATORS OF CENTRAL GOVERNMENT OPERATIONS (FY2013/14-2017/18)	52
TABLE 16: SECTOR DISTRIBUTION OF OUTSTANDING CREDIT TO THE PRIVATE SECTOR (% OF GDP)	60
TABLE 17: PERCENTAGE ANNUAL GROWTH OF THE MAIN EXPORT COMMODITIES	65
TABLE 18: EXPORTS AS A PERCENTAGE OF GDP.....	66
TABLE 19: BALANCE OF PAYMENTS (USD MILLION).....	67
TABLE 20: CURRENT ACCOUNT – NDP II TARGETS AND OUTTURNS (PERCENT OF GDP).....	67
TABLE 21: GROSS INTERNATIONAL RESERVES – NDP II TARGETS AND OUTTURNS.....	67

List of Figures

FIGURE 1: REAL GDP GROWTH (Y-O-Y PERCENT CHANGE).....	9
FIGURE 2: SECTORAL SHARE OF GDP.....	10
FIGURE 3: ANNUAL GDP GROWTH RATES BY SECTOR 2010-2017/18	13
FIGURE 4: FISCAL DEFICIT (% OF GDP).....	32
FIGURE 5: EXPENDITURE(% GDP)	33
FIGURE 6: SOURCES OF FINANCING FOR DEFICIT	36
FIGURE 7: FINANCING INSTRUMENTS-NDP II (BILLION UGANDA SHILLINGS).....	36
FIGURE 8: PUBLIC DEBT (% OF GDP).....	37
FIGURE 9: TREND AND DISTRIBUTION OF INTEREST PAYMENTS	39
FIGURE 10: DOMESTIC DEBT DISTRIBUTION BY HOLDING	40
FIGURE 11: DISTRIBUTION OF DOMESTIC DEBT HOLDING BY CATEGORY	40
FIGURE 12: DEVELOPMENT AND RECURRENT SPENDING.....	46
FIGURE 13: BUDGET OUTTURN OVER THE REVIEW PERIOD	48
FIGURE 14: UGANDA FUND OF FUNDS	55
FIGURE 15: TRENDS IN ANNUAL INFLATION.....	57
FIGURE 16: AVERAGE EXCHANGE RATE (USHS PER 1 US\$)	58
FIGURE 17: OUTSTANDING CREDIT TO PRIVATE SECTOR (PERCENT OF GDP).....	59
FIGURE 18: SECTORAL SHARES OF CREDIT TO THE PRIVATE SECTORAS OF JUNE 2018.....	60
FIGURE 19: LENDING INTERESTS RATES AMONG EAC COUNTRIES	61
FIGURE 20: TRENDS IN CBR, CORE INFLATION AND LENDING INTEREST RATES.....	62
FIGURE 21: VALUE OF UGANDA’S EXTERNAL TRADE (\$ MILLION).....	64

Acronyms

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
MTR	Mid-Term Review
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

Acknowledgement

This Economic Management Thematic Report of NDP II Midterm Review was prepared by the Consortium of Research for Transformation and Development and REEV Consult International. Preparation of this report benefitted from consultation and validation meetings with Government Ministries, Departments and Agencies, and Local Governments. The Consortium extends 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.

Executive Summary

This report presents the findings of the midterm review (MTR) of the second National Development Plan (NDP II) 2015/16 to 2019/20, on the economic management thematic area. 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 has performed, the case for the current rate of performance, and if current rates of growth is 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 first three years of NDP II.

Over the first three years of NDP II, Uganda has registered average annual real GDP growth of 4.9%, 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, 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. From the base year (2014/15), the contribution of the Services sector to GDP increased by 2.0 percentage points, while the contribution of agriculture, forestry and fishing and industry declined by 1.7 and 0.3 percentage points respectively. The increase in services sector contribution has mainly been driven by increase in the contribution of information and communication services.

Over the first three years of NDP II, the Agriculture sector continued to register the lowest annual growth, averaging 2.7%, driven by a rebound in growth of cash crops output, sluggish but improving growth of food crops output but with a weak growth of livestock, forestry and fisheries output. The Industry sector growth averaged 4.7%, reflecting a decline compared to the average annual growth rate of 6.1% during NDP I, driven by High growth of mining and quarrying output, sluggish and disappointing growth of manufacturing output, and a moderate growth of electricity, water and construction sub-sector outputs. The service sector GDP growth averaged 6.4%, driven by strong growth of information and communications output. As a result, GDP per capita for 2017/18 was only \$799, which is significantly behind the NDP II target of \$ 1,033 by 2019/20. The first three years of NDP II have not delivered the rapid

growth in GDP per capita required to enable the country to achieve middle income status, and the likelihood of achieving the lower middle income status by 2020 is very low.

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 first three years of NDP II, Uganda has improved her ranking in the global doing business rankings by 8 positions but is nevertheless lagging behind the NDP II target rank of 120th out of 189 countries by 2017/18 by 7 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 110 out of 148 countries by 2017/18, but according to the 2018 GCI report, Uganda was ranked 117th of 140 countries, showing that the country is lagging behind target by 7 positions. Uganda's competitiveness ranking has deteriorated over the review period with four out of the 12 pillars registering a decline in the scores, indicating reduced competitiveness.

As projected under NDP II, Uganda has pursued an expansionary fiscal policy, characterized by a widening primary deficit. In fact, the actual deficits have been smaller than projected in NDP II. In 2017/18 financial year, the actual deficit (including grants) was 4.8% of GDP, lower than the projected deficit of about 7.5% in NDP II. This seems to be due to a slower than expected expansion of spending on frontloading of investment in prioritized infrastructure projects. However, 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. Equally, this fiscal expansion has seen aggregate spending increasing over the four years of NDP II, reaching 20.4% in 2017/18 and is projected to reach 21.7% in 2018/19. Nevertheless, this level of expenditure is lower than projected in NDP II, at 22.5% in 2017/18. Throughout NDP II to date, 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 fiscal deficit has been financed through a combination of domestic and external borrowing. Over the first three years of NDP II, Government has relied more on external funding sources than domestic financing of the deficit. External borrowing has been dominated by concessional

and non-concessional project loans. 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 has increased from 31.2% in 2014/15 to 40.2% in 2017/18. Domestic debt peaked at 13.1% of GDP in 2015/16 before falling to 12.9% of GDP in 2017/18. On the other hand, external debt has continued to increase over the review period from 18.9% in 2014/15 reaching 27.3% of GDP in 2017/18. Notwithstanding higher public debt, the increase is lower than projected in NDP II. In 2017/18 the actual level of public debt was 40.8% 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, interest payments have increased to 2.65% of GDP in 2017/18. In terms of Government expenditure, interest payments accounted for 12.9% in 2017/18. 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, over the period FY2015/16 to FY2018/19 (projected), domestic interest payments accounts for 81.7% of the total interest payments while external interest payments accounted for only 18.3%, 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. Within the first three years of NDP II implementation, the tax to GDP ratio increased from 12.7% in 2014/15 to 14.4% in 2017/18. This improvement in the tax to GDP ratio is in line with NDP II projections, which envisaged revenue to GDP ratio of 14.4% in 2017/18 (excluding grants). The increase was driven by a 15.8% increase in the domestic tax collection to GDP ratio and a 9% increase in the taxes on international trade to GDP ratio. 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.

Average spending over the first three years of NDP II has averaged 19.9% of GDP, which is lower than the 23.0% of GDP projected NDP II by 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 three years under NDP II revealed that the total approved budgets for the three years was 79.3 trillion, representing 69.8% of the total NDP II budget of 113.6 trillion. However, total expenditure over the three years was 54.6 trillion, equivalent to 48.1% of the NDP II budget. Therefore, for the first three years (60% of the NDP period), 48.1% of the NDP II budget has been spent. 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. Accordingly, the budget outturn over the review period is estimated at 68.8% of the total budget.

Of the 54.6 trillion spend over the first three years of NDP II, 30.4 trillion (55.6%) was recurrent expenditures. This is higher than the projected allocation of 47.5% of NDP II budget going to recurrent expenditures. On the other hand, 20.2 trillion (37%) of spending was towards development expenditure, which is lower than the NDP II target of 52.4% of the budget. 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.

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 5.7% in 2016/17. The monetary policy stance has been effective in containing inflation over the review period, despite some volatility in food and energy / fuel prices.

Over the first three years of NDP, the exchange rate depreciated by only 6.3%, compared to 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.

The average lending rate in Uganda in 2017 of 21.3% was the highest in the region compared to 16% in Tanzania, 17.2% in Rwanda, 13.7% in Kenya and 14.8% in Burundi. Lending interest rates in Uganda have consistently been higher compared to other competing regional markets over the last five years. 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.

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 31.6% growth in nominal value over the first three years of NDP II compared to a 19.2% growth registered during the NDP I period. On the other hand, imports have grown by 19.8% compared to 6.3% registered during NDP I. Over the first three years of NDP II, Uganda has continued to experience a negative trade balance, which deteriorated by 9.4% compared to an improvement of 2.2% registered during NDP I.

The growth of the economy under NDP II was projected to be partly driven by growth in exports. Available export data shows an increase in average annual growth of exports. During the first three years of NDP II, total exports registered an annual average growth rate of 9.33% compared to the 3.71% recorded 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. There is some evidence, therefore, that the objective of export-led growth is being achieved.

The current account balance has improved as a result of improved performance of exports and decline in imports. The current account balance (excluding grants) has improved from a deficit of \$2,052.5 million, reaching \$999.3 million in 2016/17 before deteriorating to \$1,725.8 million in 2017/18. 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 has 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.

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.

To improve performance of the Real Economy the MTR 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. 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 MTR recommends that the BoU/MoFPED investigate in more detail what the appropriate level of the CBR should be to achieve the desired inflation objective.

1.0 Introduction

1.1 Background

1. This report presents the findings of the midterm review (MTR) of Uganda's second National Development Plan (NDP II) on the economic management thematic area, which forms one part of the six parts of an independent mid-term review of NDP II, 2015/16 to 2019/20, commissioned by the National Planning Authority (NPA). The five other thematic areas of the MTR 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 mid-term review thematic reports.
2. The terms of reference for the review emphasised the importance of highlighting the challenges encountered during the three years of implementation of the plan and of making recommendations for the remaining period of the NDPII. The recommendations are also expected to inform the development of 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 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.
4. The Vision 2040 identifies nine specific opportunities: oil and gas, tourism, minerals, ICT business, abundant labour force, geographical location and trade, water resources,

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

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 base to a diversified, prosperous country within 30 years. At the moment Uganda has gone through NDP1 for the period 2010/11 to 2014/15, while NDP11 to be implemented over 2015/16 to 2019/20 has just entered its fourth year of implementation.
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 seeks to consolidate the achievements of NDPI and to secure Uganda's transition to a middle income economy by 2020. NDP II seeks to achieve the following objectives: 1) increase sustainable production, productivity and value addition in key growth

opportunities; 2) increase the 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 is 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 will go a long way in enhancing Uganda's competitiveness. With regard to development opportunities, NDP II will focus on agriculture, tourism and mining and oil and gas. It is expected that investment in infrastructure and development opportunities will 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 will be 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 MTR

9. The purpose of the NDP II MTR 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 II and for the design of NDP III. 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 MTR 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 MTR 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 MTR

12. The MTR 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). 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 last 3-5 years.
 - (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) 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 MTR assessment is to assess the extent to which the macro-economic co-ordination that was instituted between MoFPED, NPA and BoU is supporting the macro-economic objectives and targets of the NDP II. The theme also looks broadly at the extent to which the economy has performed, the case for the current rate of performance, and if current rates of growth are 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 first three years of NDP II.
14. The Consortium adopted the OECD evaluation criteria as espoused in the ToR in which we determined the extent to which the NDP I 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 extent to which this impact was sustained under NDP II. These criteria are summarised in the table 1 below.

Table 1: OECD evaluation criteria

OECD Criterion	Overall Evaluation Questions
Relevance	Is the NDP II design well-conceived given the social, economic and political situation? Is it relevant and appropriate in addressing the country's development challenges? To what extent is it contributing 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 have affected achievement of development results?
Efficiency	Is NDP II delivering development outcomes in a timely and cost effective manner? Do the results (quantitatively and qualitatively) justify the resources expended?
Impact	To what extent is NDP II contributing to the National Vision 2040 outcome targets and goals? Are there unanticipated positive and negative consequences?
Sustainability	Is 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	Are we on track to achieve the macro-economic objectives/targets articulated in NDPII?
EM2	<ul style="list-style-type: none"> The extent to which the NDPII macro-economic framework has strengthened the country's competitiveness for sustainable wealth creation, employment and inclusive growth How has the NDP influenced 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 have reforms in economic management been guided by NDPII
EM5	To what extent have NDPII priorities been effectively budgeted for and financed
EM6	To what extent has the NDPII focus areas been adopted as priorities for implementation
EM7	How well have macro policy instruments been used to achieve economic stability and growth?
EM8	To what extent have public expenditure and related accountability systems changed to ensure alignment of budgets, spending and financial reporting with the NDP objectives
EM9	What progress has there been on unlocking the key economic constraints to growth?
EM10	How has NDP implementation so far contributed to improvements in productivity, private sector development and competitiveness?
EM11	To what extent is deregulation taking place and how well is this facilitating private sector growth and competitiveness?
EM12	To what and how have additional private sector funds been harness 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

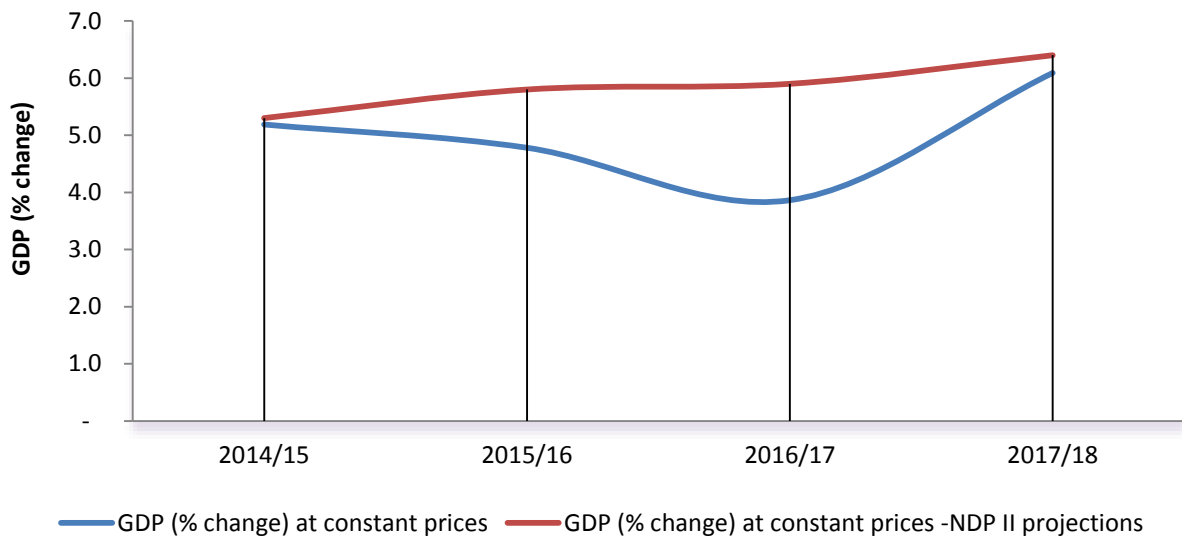
16. The report is organised in three parts. Part one presents preliminary information which includes the title page, table of contents, acknowledgment, list of abbreviations, an executive summary and indicators summary sheet.
17. Part two is the main body or report text. The main text is organised in five chapters which comprise:
 - (i) Chapter 1 that explains the context in which the economic management thematic area report for the mid-term review has been prepared including the background to the MTR 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 first three 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 progress of achieving 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.

2.0 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 has not been achieved so far. 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 before recovering strongly to 6.1% in 2017/18. 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.
20. Over the first three years of NDP II, Uganda has 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 first three 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 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 will need to register 8.4% annual GDP growth rates over the remaining two years, which is ambitious given that a number of prioritised infrastructure projects to drive growth - like the standard gauge railway project - have progressed at a very slow rate, while productivity of the agricultural sector and the manufacturing sector have not gained sufficient traction to deliver the anticipated growth.

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



Source: UBOS

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 5.3, as follows:

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

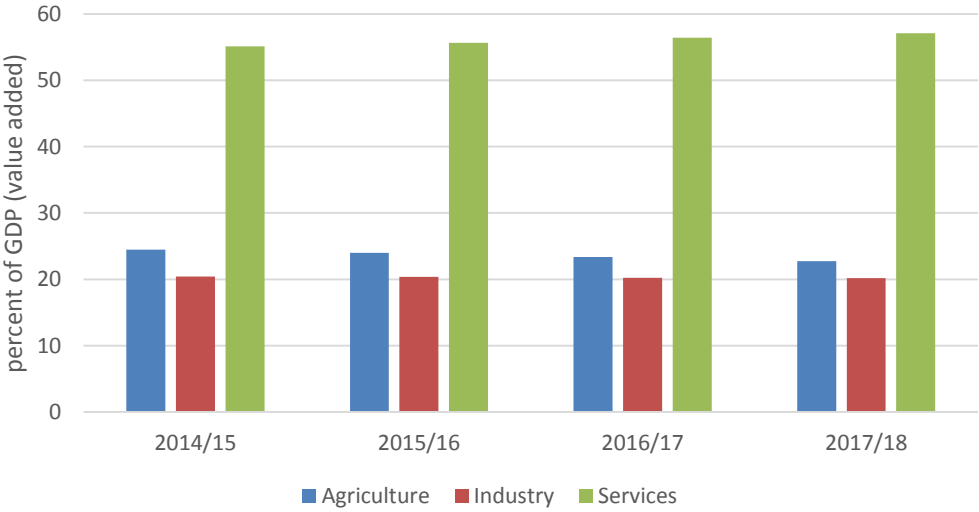
2.2 Real Gross Domestic Product and Sector Contribution

23. NDP II envisages 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 2017/18, the Services accounted for 57.1% of GDP, while agriculture, forestry and

fishing and Industry were 22.8% and 20.2% respectively. From the base year (2014/15), the contribution of the Services sector to GDP increased by 2.0 percentage points, while the contribution of agriculture, forestry and fishing and Industry declined by 1.7 and 0.3 percentage points respectively. The increase in services sector contribution has mainly been driven by increase in 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 33 shows, the projected change in sectoral shares of GDP over the three years from 2012/13 to 2015/16 imply average annual real growth rates for agriculture, industry and services of 2.6%, 15.7% and 2.3% 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
Agriculture	23.6	21.7	2.6%
Industry	20.7	27.3	15.7%
Services	55.7	50.8	2.3%
Total	100	100	5.5%

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. 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, which registered a 0.1 percentage point increase. 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.
- (ii) **Industry:** Manufacturing remains the dominant contributor to output in the industry sector followed by construction. The contribution of Industry declined by 0.3 percentage point as a result of a decline in the contribution of the manufacturing sub-sector by 0.8 percentage points from 8.7% in the base year (2014/15) to 7.9% in 2017/18. NDP II, however, projected an increase in the share of manufacturing in GDP from 9.0% in 2015/16 to 14.0% in 2019/20. Not only is this not being achieved, but is in any case inconsistent with the largely unchanged share of Industry in GDP over the same period.
- (iii) **Services:** The services sector contribution increased by 2.0 percentage points on account of a 2.5 percentage point increase in the contribution of information and communication technology (ICT). The ICT services have overtaken trade and repairs as the leading contributor to services GDP. Trade and repairs registered a 1.0 percentage point decline in contribution to GDP. The recent tax legislation on

mobile money and social media could dampen the growth opportunities of information and communication services in the short-run.

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

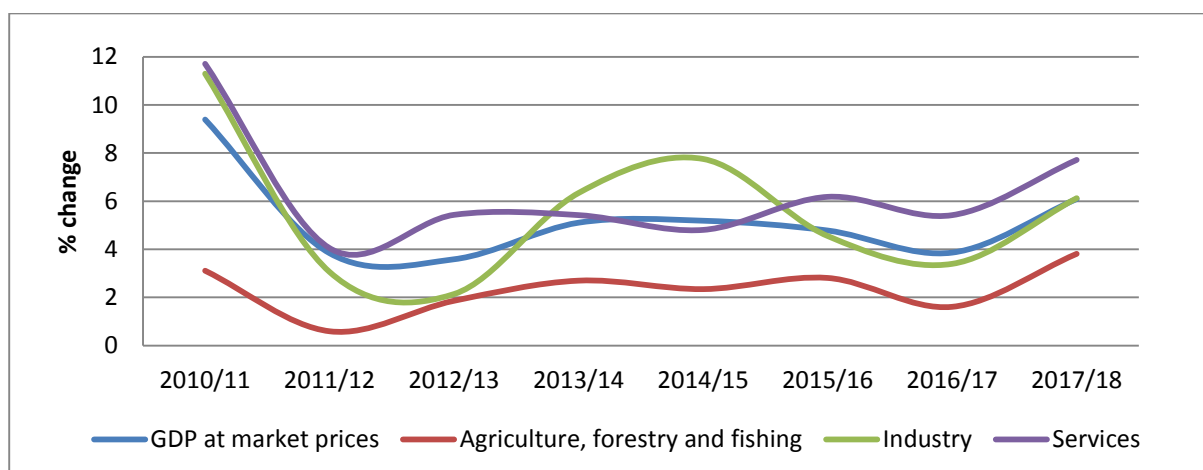
	2014/15	2015/16	2016/17	2017/18	change
<u>Agriculture, forestry and fishing</u>	24.5%	24.0%	23.4%	22.8%	-1.7%
Cash crops	1.9%	1.9%	2.0%	2.0%	0.1%
Food crops	12.8%	12.3%	12.1%	12.0%	-0.7%
Livestock	4.4%	4.2%	4.1%	3.9%	-0.5%
Agriculture Support Services	0.0%	0.0%	0.0%	0.0%	0.0%
Forestry	4.3%	4.2%	3.9%	3.8%	-0.5%
Fishing	1.2%	1.2%	1.2%	1.1%	-0.1%
<u>Industry</u>	20.4%	20.4%	20.2%	20.2%	-0.3%
Mining & quarrying	1.6%	1.7%	1.5%	1.8%	0.2%
Manufacturing	8.7%	8.4%	8.3%	7.9%	-0.8%
Electricity	1.0%	1.0%	1.0%	1.0%	0.0%
Water	2.1%	2.2%	2.2%	2.2%	0.1%
Construction	6.9%	7.1%	7.2%	7.2%	0.3%
<u>Services</u>	55.1%	55.7%	56.4%	57.1%	2.0%
Trade and Repairs	12.4%	12.3%	12.0%	11.5%	-1.0%
Transportation and Storage	3.1%	3.2%	3.2%	3.1%	0.1%
Accommodation and Food Service Activities	2.5%	2.5%	2.6%	2.5%	0.0%
Information and Communication	8.8%	9.6%	10.5%	11.4%	2.5%
Financial and Insurance Activities	3.1%	3.3%	3.2%	3.3%	0.2%
Real Estate Activities	5.8%	5.8%	5.9%	5.9%	0.1%
Professional, Scientific and Technical Activities	2.8%	2.7%	2.5%	2.5%	-0.3%
Administrative and Support Service Activities	2.0%	1.6%	1.5%	1.5%	-0.4%
Public Administration	3.5%	3.6%	3.5%	3.7%	0.2%
Education	5.9%	6.0%	6.3%	6.4%	0.5%
Human Health and Social Work Activities	3.2%	3.2%	3.2%	3.1%	0.0%
Arts, Entertainment and Recreation	0.3%	0.3%	0.2%	0.3%	0.0%
Other Service Activities	1.1%	1.2%	1.3%	1.4%	0.3%
Activities of Households as Employers	0.5%	0.5%	0.5%	0.5%	0.0%

Source: UBOS

2.3 Sources of Growth

28. All sub-sectors registered positive annual GDP growth rates over the review period, 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 2010-2017/18



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	NDP II Average	NDP I Average
GDP at market prices	5.2	4.8	3.9	6.1	4.9	5.4
<i>Agriculture, forestry and fishing</i>	<u>2.3</u>	<u>2.8</u>	<u>1.6</u>	<u>3.8</u>	<u>2.7</u>	<u>2.1</u>
Cash crops	4.0	7.9	7.7	4.6	6.7	2.6
Food crops	2.2	1.3	2.0	5.3	2.9	1.1
Livestock	2.9	2.8	1.6	2.0	2.1	2.6
Agriculture Support Services	17.6	-4.6	2.6	6.1	1.4	3.2
Forestry	1.7	4.7	-2.3	2.5	1.7	5.7
Fishing	1.5	4.8	1.7	-2.1	1.5	0.1
<i>Industry</i>	<u>7.8</u>	<u>4.6</u>	<u>3.4</u>	<u>6.1</u>	<u>4.7</u>	<u>6.1</u>
Mining & quarrying	18.1	12.4	-5.7	26.1	10.9	11.8
Manufacturing	11.6	0.6	2.2	1.7	1.5	4.4
Electricity	5.7	4.0	8.3	6.3	6.2	6.9
Water	6.1	6.3	6.8	6.0	6.4	6.2
Construction	1.9	7.3	5.3	6.9	6.5	7.5
<i>Services</i>	<u>4.8</u>	<u>6.2</u>	<u>5.4</u>	<u>7.7</u>	<u>6.4</u>	<u>6.3</u>
Trade and Repairs	3.2	3.5	1.6	2.2	2.4	2.9

Economic Activity	2014/15	2015/16	2016/17	2017/18	NDP II Average	NDP I Average
Transportation and Storage	6.6	8.2	3.5	5.6	5.8	7.0
Accommodation and Food Service Activities	-0.5	5.7	7.5	1.2	4.8	5.9
Information and Communication	-1.8	14.1	13.9	15.2	14.4	14.1
Financial and Insurance Activities	10.9	9.6	2.3	8.3	6.7	10.3
Real Estate Activities	6.5	6.1	5.6	6.5	6.1	5.0
Professional, Scientific and Technical Activities	-5.6	-0.3	-3.0	5.3	0.7	1.6
Administrative and Support Service Activities	25.5	-13.9	-4.8	11.9	-2.3	10.1
Public Administration	24.2	8.4	2.1	10.6	7.0	7.6
Education	5.2	7.8	9.3	6.7	8.0	7.2
Human Health and Social Work Activities	5.4	3.4	4.4	6.2	4.7	4.8
Arts, Entertainment and Recreation	5.3	-5.0	-2.4	18.9	3.8	4.5
Other Service Activities	7.9	9.2	13.3	19.2	13.9	6.9
Activities of Households as Employers	2.8	3.4	4.1	4.9	4.1	2.3

Source: UBOS

30. **Agricultural sector GDP growth:** For the first three years of NDP II, the Agriculture sector continued to register the lowest annual growth, averaging 2.7%. 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 dropped to 1.6% in 2016/17 before rebounding to 3.8% in 2017/18. Growth in the agricultural sector GDP has been driven by:

- (i) ***Rebound in growth of cash crops output:*** The GDP from cash crops averages 6.7% over the first three 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 has 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 varieties 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 2.9% for the first three 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 5.3% in 2017/18. The improved growth in the food crop sub-sector is attributed to the good weather experience in 2017 that led 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 livestock, Forestry and Fisheries output:*** The livestock sub-sector has experienced moderate growth averaging 2.1% over the first three years of NDP II compared to the average annual growth rate of 2.6 registered during NDP I. Equally, the annual growth rates for forestry and fisheries outputs were 1.7% and 1.5% over the first three years of NDP II compared to the average of 5.7% and 0.1% during NDP I. The gain in fisheries output is partly attributed to the strengthened regulation and enforcement of sustainable fishing practices especially on lake Victoria, while the declining growth rate of the forestry output is attributed to the increased destruction of the forestry cover.

31. **Industry sector GDP growth:** For the first three years of NDP II, Industry sector growth averaged 4.7%, 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 6.1% in 2017/18. 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 10.9% over the first three 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) ***Sluggish and disappointing growth of manufacturing output:*** The manufacturing output growth annual average was 1.5% for the first three 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 and reducing to 1.7% in 2017/18. 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.

(iii) ***Moderate growth of Electricity, Water and Construction sub-Sector outputs:*** The Electricity, Water and Construction sub-sector outputs have experienced moderate growth averaging 6.2%, 6.4% and 6.5% over the first three 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. Construction of Karuma and Isimba hydro-electric dams are on course, which should further improve the performance of the electricity sub-sector.

32. **Service sector GDP growth:** For the first three years of NDP II, the service sector GDP growth averaged 6.4%, which does not significantly differ from 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. Growth in the service sector GDP has been driven by:

(i) ***Strong growth of Information and Communications output:*** The annual GDP growth from Information and Communication activities averages 14.4% over the first three years of NDP II compared to the average of 14.1% over the five year NDP I period. This is attributed to Government efforts to increase access to telephone, internet and development of ICT tools for delivery of goods and services across a wide range of sectors. 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.

(ii) ***Sluggish and disappointing growth of trade and repair output:*** The *trade and repair* output growth annual average was 2.4% for the first three 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 a targeted 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 \$931 by 2017/18. However, available data from UBOS revealed that GDP per capita for 2017/18 was only \$799, as shown in table 6 below.

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

	2015/16	2016/17	2017/18	2018/19	2019/20
GDP per capita (US \$)- actual	767	774	799		
GDP per capita (US \$)- NDP II targets	833	888	931	982	1,033

Source: UBOS and NDP II

34. The first three 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 2017/18 (three years of NDP II implementation) is still lower than the GDP per capita of \$833 that was targeted for attainment in the first year of NDP II. Between 2015/16 and 2017/18, GDP per capita increased by \$32 in absolute terms, while in the last ten years (2008/9 to 2017/18), GDP per capita increased by \$149 in absolute terms. To attain the GDP per capita of \$1,033 by 2019/20, from the current \$799, it requires increasing the GDP per capita by \$234 in absolute terms within the remaining two years of NDP II, which is ambitious and therefore unlikely. 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 likelihood of achieving the lower middle income status by 2020 is very low.
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 6.3%, 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 Rankings²

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 120th out of 189 countries by 2017/18, but according to the 2019 Doing business report, Uganda was ranked 127th of 190 countries. Therefore, over the first three years of NDP II, Uganda has improved her ranking by 8 positions but is nevertheless lagging behind the target by 7 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 first three years of NDP II are summarized in the table 7 below.

²World Bank: Doing Business Reports, 2019 and 2018

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

Topics	DB 2015 Rank ³ (end of NDP I)	DB 2019 Rank	Change in Rank
Doing Business Rank	135	127	8 ↑
Starting a Business	168	164	4 ↑
Dealing with Construction Permits	166	145	21 ↑
Getting Electricity	172	175	-3 ↓
Registering Property	118	126	-8 ↓
Getting Credit	128	73	55 ↑
Protecting Minority Investors	98	110	-12 ↓
Paying Taxes	101	87	14 ↑
Trading Across Borders	126	119	7 ↑
Enforcing Contracts	78	71	7 ↑
Resolving Insolvency	106	112	-6 ↓

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

³Ranking at end of NDP I













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 Index⁴

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 110 out of 148 countries by 2017/18, but according to the 2018 GCI report, Uganda was ranked 117th of 140 countries, showing that the country is lagging behind target by 7 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. Four out of the 12 pillars registered a decline in the scores, indicating reduced competitiveness, as summarized in table 8.

Table 8: Uganda Global Competitiveness Index Ranking Index

Pillar	2018 GCI Ranking for Uganda		
	Rank/140	Score out of 100	Direction of change in score from previous score
Enabling Environment			
1st pillar: Institutions	104	47.9	
2nd pillar: Infrastructure	121	43.2	
3rd pillar: ICT adoption	126	24.5	
4th pillar: Macroeconomic stability	93	71.6	
Human Capital			
5th pillar: Health	124	44.8	
6th pillar: Skills	122	40.9	
Markets			
7th pillar: Product market	118	48.7	
8th pillar: Labour market	63	59.8	
9th pillar: Financial system	119	48.5	
10th pillar: Market size	85	46.4	
Innovation Ecosystem			
11th pillar: Business dynamism	82	55.5	
12th pillar: Innovation Capability	107	29.8	
Overall rank	117	47	

Source: Global Competitiveness Index report (2018) by the World Economic Forum

⁴ World Economic Forum: The Global Competitiveness Report several years

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 competitiveness 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 competitiveness 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 competitiveness was low subscriptions to mobile-cellular telephone and internet services.
- (iv) **Under Pillar 6:** Skills, the leading challenging factors to competitiveness 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 competitiveness 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.

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 63rd, Rwanda at 65th and Tanzania at 67th, but better than DRC ranked at 143rd and Burundi at 154th out of the 167 countries as summarised in the table 9 below.

Table 9: LPI ranking of Uganda and other regional countries

Country	Rank	Customs	Infrastru cture	International shipments	Logistics competence	Tracking & tracing	Timeli ness
Kenya	63	67	67	70	60	53	61
Uganda	72	53	96	74	78	86	68
Tanzania	67	69	63	66	65	69	62
Rwanda	65	64	76	47	69	73	64
Burundi	154	163	157	147	127	147	154
DRC	143	135	152	149	126	127	141

Source: LPI Report 2018, World Bank

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 53rd 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's customs and border management clearance processes are by far the best 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

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. ***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:** this started in FY2009/10 with the expected completion date of FY2017/18, however, due to intermittent financing, the project experienced implementation delays. The factory will produce 6 MT and 2 MT per hour of Orange and Mango juice respectively. The project is joint venture between the government of Uganda (80%) and government of South Korea (20%). The project is expected to be commissioned in 2019.
- (ii) **Luwero Fruit Factory.** This project was conceived in FY2010/11 with expected commissioning in FY2018/19. However, because of intermittent financing, it is expected to be completed in FY2021/22. The project seeks to produce 12 MT per hour of pineapple and mango juice. The project is at the engineering design stage and GoU owns the factory 100 percent.
- (iii) **Tea Factories.** UDC in 2018 extended financial support to tea factories in Western Uganda through a 10 year equipment lease financing for Kigezi Highland Tea Co. Limited, Kayonza Growers 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.** Government through UDC in June 2017 took up a 32 percent stake in Atiak Sugar Factory. This was partly aimed at enabling the Atiak Sugar Factory takeoff after proprietors had become financially constrained. The factory is expected to be commissioned in May 2019. The factory has a nucleus farm and an outgrower scheme.

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.

- (ii) **Glass:** this project started in FY2017/18 and 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. The project is expected to produce 200 MT of glass per day. At the moment both exploration license and feasibility study have been undertaken. Exploration and geo-technical studies are on-going.
- (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.
48. ***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.

49. Since starting operations in 2014/15, 14 export processing freezones have been licensed, of which 13 are operational. Key among these are: China-Africa Industrial Cooperation Company, which commissioned a fertilizer processing plant in FY2017/18, with a steel plant to be commissioned next year; Nilus Group Limited set up the Tobacco processing plant in Jinja district; and Simba Gold a gold processing Free Zone in Bubolobi, Kampala District. The aforementioned Free Zones together contributed 90 percent of the US\$ 61 million investments that the Free Zones have attracted.
50. 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 domestic 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.

51. ***Uganda Development Bank (UDB) re-orient 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.

52. **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.

53. 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.

54. ***Oil and Gas development continues but a slower rate than estimated under NDP II. Production now estimated to start in 2021:*** 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 commercialisation 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 MTR, 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 2021.

(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 MTR, 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 ongoing. 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-Nkongge-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

- 55. 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).

3.0 Fiscal Strategy

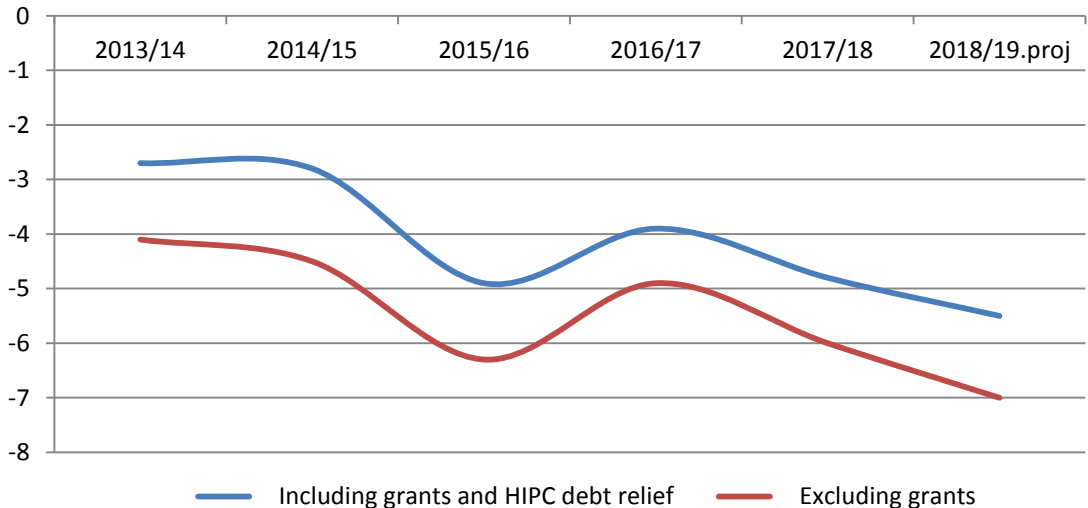
3.1 Fiscal Performance

56. 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

57. 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.

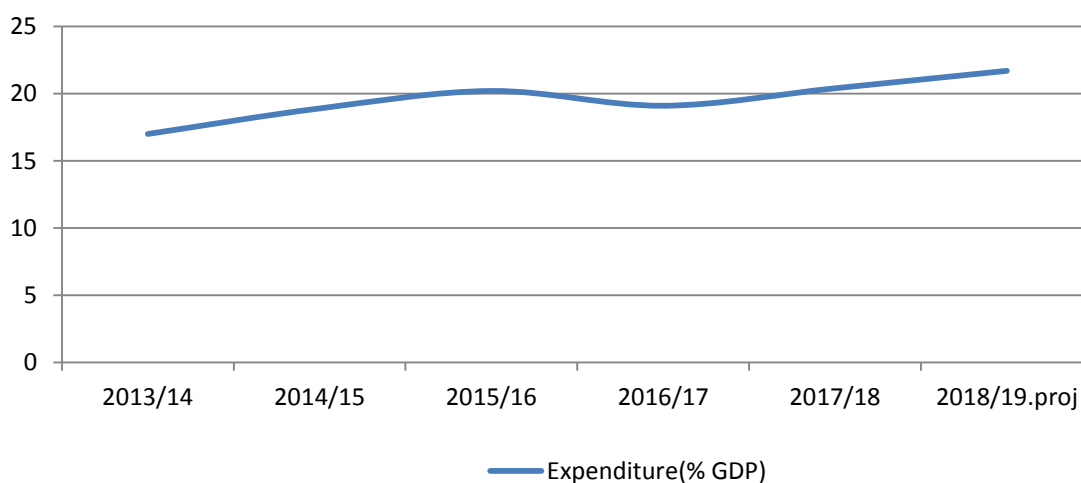
Figure 4: Fiscal deficit (% of GDP)



Source: MFPED

58. The fiscal deficit including grants increased from 2.8% of GDP in 2014/15 to 4.8% in 2017/18, and is projected to reach 5.5% in 2018/19. The fiscal deficit excluding grants has increased from 4.5% in 2014/15 to 6% in 2017/18 and is projected to reach 7% in 2018/19.
59. 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 2017/18 the actual deficit (including grants) was 4.8% of GDP, whereas the projected deficit was around 7.5%. This seems to be due to a slower than expected expansion of spending.
60. 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: Expenditure(% GDP)



Source: MFPED

61. This fiscal expansion has seen aggregate spending increasing over the four 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 20.4% in 2017/18 and is projected to reach 21.7% in 2018/19. Nevertheless, this level of expenditure is lower than projected in NDP II, at 22.5% in 2017/18. Throughout NDP II to date, 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.

62. 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.
63. Selected indicators underpinning the medium term fiscal framework are presented in table 10 below.

Table 10: Medium-Term Fiscal Framework (Shsbn)

	Outturn 2015/16	Outturn 2016/17	Proj. outturn 2017/18	Projection 2018/19	Projection 2019/20
Total revenue and grants	12,647	13,896	15,654	17,807	19,911
Revenue	11,500	12,947	14,403	16,211	18,565
Tax revenue	11,059	12,463	14,023	15,791	18,098
Non-tax revenue	319	354	380	420	467
Oil revenues	121	130	0	0	0
Grants	1,147	950	1,251	1,595	1,346
Budget support	340	259	172	102	102
Project grants	808	690	1,079	1,494	1,244
Expenditures and net lending	16,727	17,437	20,450	23,858	26,859
Recurrent expenditures	9,169	9,994	11,213	11,495	12,974
Wages and salaries	2,966	3,382	3,576	3,725	4,329
o/w statutory	145	146	188	172	180
Non Wage	4,520	4,252	4,989	5,136	6,073
o/w statutory	1,236	1,237	546	898	991
Interest payments	1,682	2,360	2,648	2,634	2,572
o/w: domestic	1,470	1,954	1,985	2,212	2,147
o/w: foreign	212	406	663	422	425
Development expenditures	5,907	6,718	7,590	11,051	12,607
External	2,384	2,477	3,413	6,381	7,308
Domestic	3,523	4,241	4,177	4,670	5,299
Net lending and investment	1,532	541	1,283	577	432
Other spending (clearance of arrears, etc.)	119	184	364	735	846

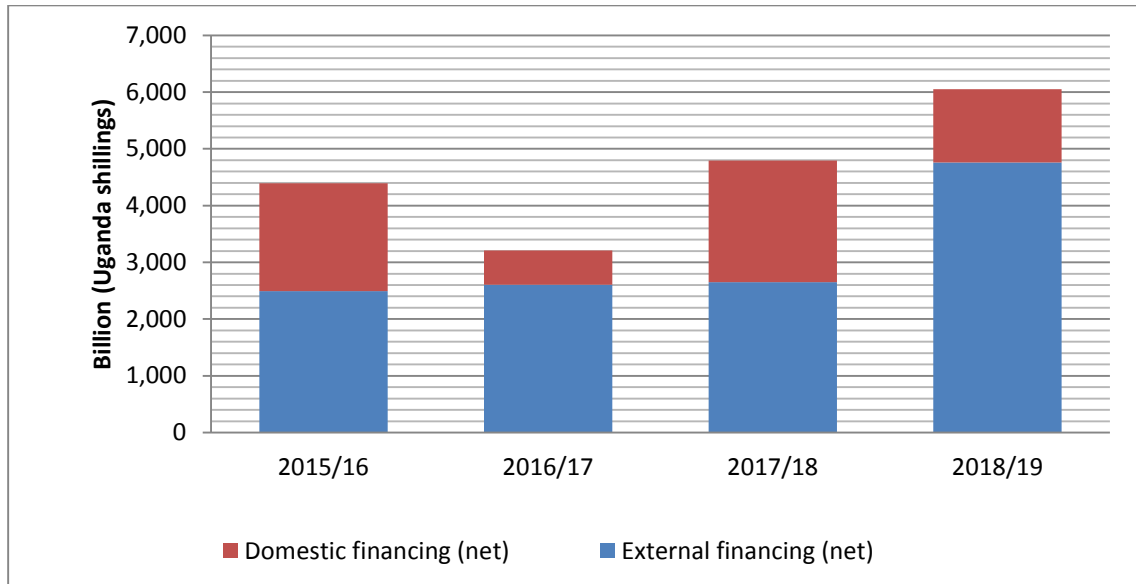
	Outturn 2015/16	Outturn 2016/17	Proj. outturn 2017/18	Projection 2018/19	Projection 2019/20
Overall balance	-4,080	-3,541	-4,796	-6,051	-6,948
Excluding grants	-5,227	-4,491	-6,047	-7,646	-8,294
Financing	4,080	3,541	4,796	6,051	6,948
External financing (net)	2,494	2,609	2,649	4,758	6,177
Disbursement	2,814	2,983	3,717	5,652	6,688
Budget support	0	573	0	187	192
Concessional project loans	1,739	1,675	1,421	3,289	2,846
Non-concessional borrowing	1,074	736	2,149	2,175	3,650
Revolving credit	0	573	147	0	0
Amortisation (-)	-313	-371	-1,071	-894	-511
Domestic financing (net)	1,899	603	2,147	1,293	772
Bank financing	923	-297	1,300	746	385
Bank of Uganda	309	-5,383	-4,744	-5,072	-5,270
Commercial banks	614	5,085	6,044	5,817	5,655
o/w: securities for fiscal purposes	375	-289	843	546	385
Non-Bank financing	976	901	847	548	387
Errors and omissions/gap	-313	329	0	0	0
Fiscal deficit (% of GDP)					
Including grants and HIPC debt relief	-4.9%	-3.9%	-4.8%	-5.5%	-5.7%
Excluding grants	-6.3%	-4.9%	-6.0%	-7.0%	-6.8%
Expenditure(% GDP) – actual	20.2%	19.1%	20.4%	21.7%	22.0%
Expenditure (% GDP) – NDP II projection	21.9%	23.0%	22.5%	21.8%	20.8%

Source: MFPED

3.2 Public Debt

64. The fiscal deficit was financed through a combination of domestic and external borrowing. Over the first three years of NDP II, Government has relied more on external funding sources than domestic financing of the deficit, as shown in the figure 6 below.

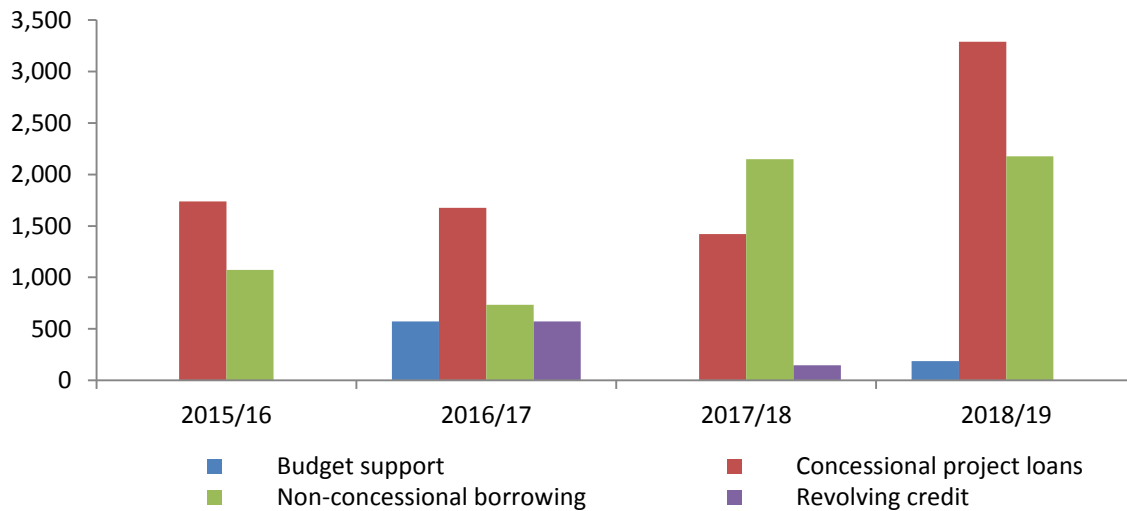
Figure 6: Sources of financing for Deficit



Source: MFPED

65. External borrowing has been dominated by concessional and non-concessional project loans. Over the first four years of NDP II (including projections for 2018/19), concessional project loans accounted for 52% 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 7: Financing instruments-NDP II (Billion Uganda shillings)

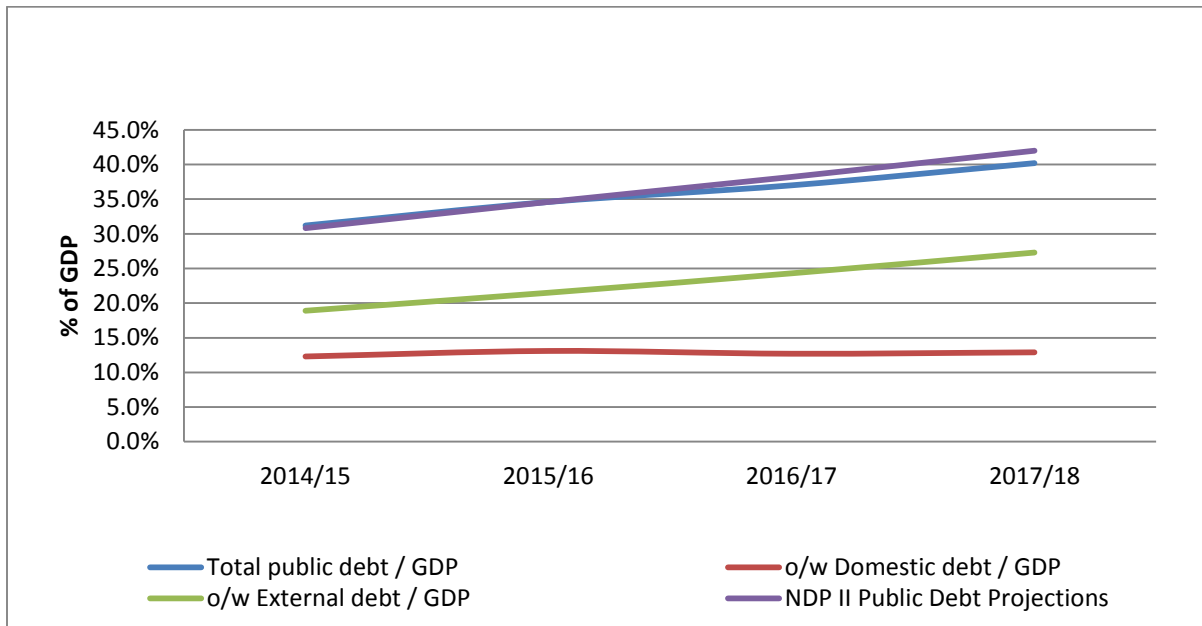


Source: MFPED

Public debt increasing, but less than projected in NDP II

66. 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 has increased from 31.2% in 2014/15 to 40.2% in 2017/18. Domestic debt peaked at 13.1% of GDP in 2015/16 before falling to 12.9% of GDP in 2017/18. On the other hand, external debt has continued to increase over the review period from 18.9% in 2014/15 reaching 27.3% of GDP in 2017/18 shown in the figure 8.

Figure 8: Public Debt (% of GDP)



Source: MFPED

67. The buildup 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 percent⁵ associated with heightened public debt vulnerabilities for medium performers and

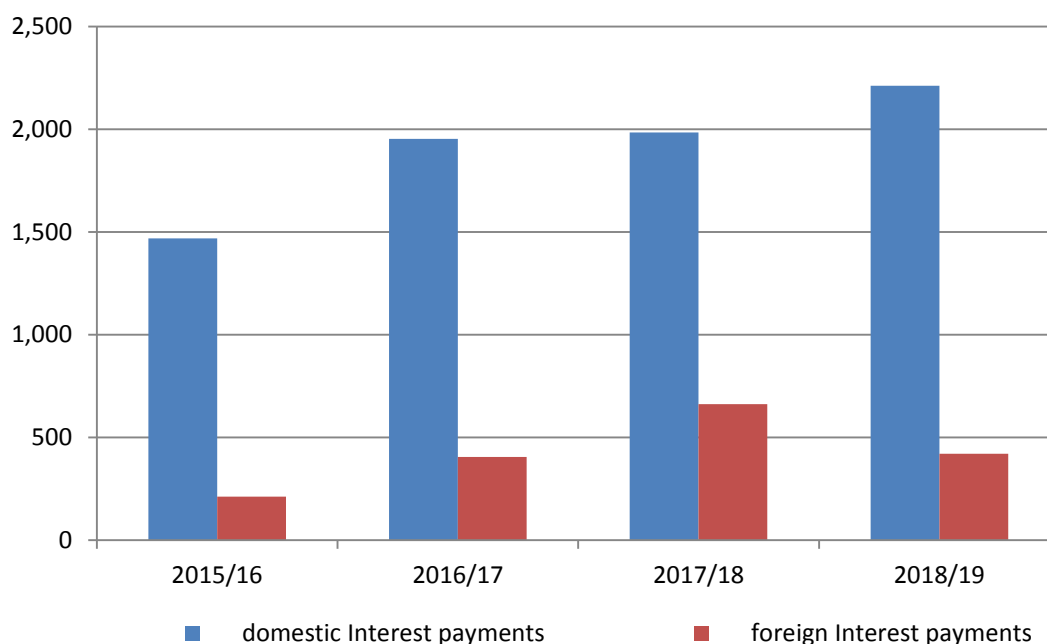
5MFPED (2018): Report on Public Debt, Guarantees and other Financial Liabilities and Grants for FY 2017/18.

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.

68. Notwithstanding higher public debt, the increase is lower than projected in NDP II. In 2017/18 the actual level of public debt was 40.8% of GDP, compared to the NDP II projection of 42.0%. This reflects lower than projected expenditure and deficits.
69. 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.
70. **Government interest payments are on the steady rise.** This is in line with Government's increasing deficit financing. In 2015/16, government interest payments accounted for 1.98% of GDP, increasing to 2.58% of GDP in 2016/17 and 2.65% of GDP in 2017/18. In terms of Government expenditure, interest payments accounted for 10.05% of Government expenditure in 2015/16, increasing to 13.5% in 2016/17 and 12.9% in 2017/18. 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, over the period FY2015/16 to FY2018/19 (projected), domestic interest payments accounts for 81.7% of the total interest payments while external interest payments accounted for only 18.3%, 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.

Figure 9: Trend and distribution of interest payments

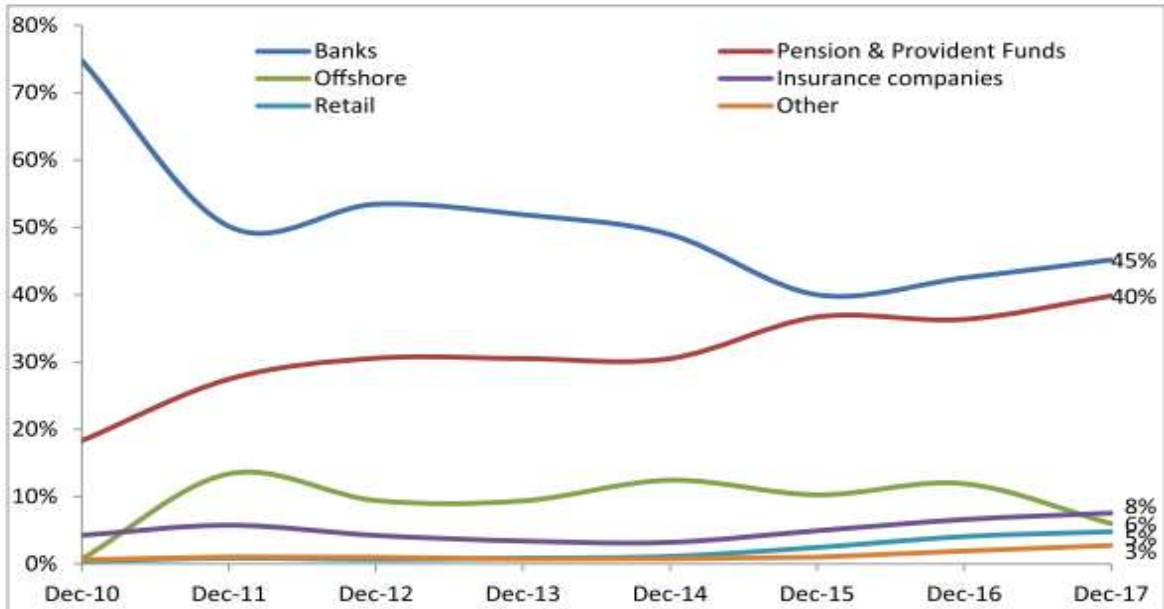


Source: Bank of Uganda

Domestic Debt Holders

71. Commercial banks remain the biggest holder of domestic debt. As of December 2017, commercial banks were holding 45% of domestic debt, closely followed by pension and provident funds with 40% of the total. 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.

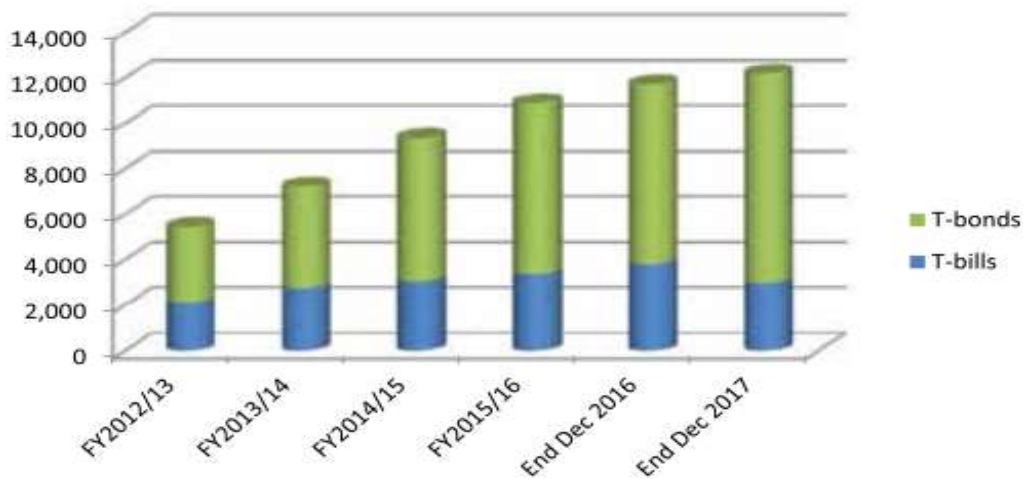
Figure 10: Domestic Debt Distribution by holding



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

72. 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 2017, Treasury bonds accounted for 75.9% of the domestic debt stock, while treasury bills accounted for 24.1% 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)

3.3 Domestic Revenue Mobilisation

73. 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 2019/206. 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.
74. 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.

⁶ Excluding grants

- (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”⁷
- (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

⁷https://opendocs.ids.ac.uk/opendocs/bitstream/handle/123456789/13543/ICTD_14_Summary_%20Brief_HNWI.pdf

is also aimed at 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)⁸ 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.

75. Through implementation of the above measures, the URA collections in nominal values have increased by an annual average of 14.7% over the first three years of NDP II. Presumptive tax targeting informal sector operators has increased from the base of nil tax in 2014/15 to 5.32 billion in 2017/18. Equally, rental tax collections have increased from a base of 27.65 billion in 2014/14 to 88.75 billion in 2017/18. The trends in the value of URA tax collections is summarised in table 11.

⁸<https://www.ura.go.ug/Resources/webuploads/INLB/Authorised%20Economic%20Operator.compressed.pdf>

Table 11: Trends in URA tax collections 2010/11 to 2017/18

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	%age change NDP II	%age change NDP I
Overall Net Revenue	5,114.2	6,208.3	7,149.5	8,031.0	9,715.6	11,230.9	12,719.6	14,456.1	48.8	90.0
Gross Revenues (Includes all NTR)	5,461.2	6,550.8	7,489.4	8,377.8	10,116.3	11,496.8	12,895.0	14,659.8	44.9	85.2
Domestic Taxes	2,816.2	3,472.0	4,274.7	4,671.2	5,554.0	6,594.9	7,480.4	8,448.9	52.1	97.2
Taxes on International Trade	2,534.0	2,937.2	3,070.5	3,548.0	4,338.2	4,838.9	5,414.6	6,210.8	43.2	71.2
Non Tax Revenue (NTR)	55.7	65.5	89.5	110.5	224.1	444.7	256.2	380.0	69.6	302.4
Direct Domestic Taxes	1,665.1	1,991.9	2,433.5	2,624.5	3,249.0	3,707.0	4,180.1	4,670.7	43.8	95.1
PAYE	825.6	996.9	1,196.5	1,397.6	1,613.2	1,803.5	2,115.0	2,396.1	48.5	95.4
Corporate Tax	419.6	553.9	597.6	486.6	714.8	732.2	764.3	884.8	23.8	70.4
Presumptive Tax	-	-	-	53.6	-	1.4	4.5	5.3	N/A	N/A
Withholding Tax	274.7	328.9	389.4	11.0	546.9	699.3	677.9	754.3	37.9	99.0
Rental Income Tax	-	-	-	268.9	27.6	55.0	71.7	88.7	221.0	N/A
Tax on Bank Interest	73.6	102.3	222.6	-	290.4	355.2	473.8	457.0	57.4	294.7
Casino Tax	4.8	5.4	7.4	-	13.9	17.4	26.6	29.2	110.8	189.0
Other	8.0	1.7	17.9	406.7	42.2	42.9	46.3	55.2	30.8	426.4
Indirect Domestic Taxes	1,039.8	1,296.1	1,731.0	1,900.2	2,148.6	2,443.3	2,842.2	3,188.7	48.4	106.6
Excise duty	315.6	372.8	451.8	546.3	638.5	671.1	819.8	953.9	49.4	102.3
Value Added Tax	724.2	923.2	1,279.2	1,353.9	1,510.2	1,772.1	2,022.4	2,234.8	48.0	108.5

Source: MFPED

76. **Tax to GDP ratio Increases but slightly behind target:** Within the first three years of NDP II implementation, the tax to GDP ratio increased by 13.3 percent, from 12.7% in 2014/15 to 14.4% in 2017/18. This improvement in the tax to GDP ratio is in line with NDP II projections, which envisaged a revenue to GDP ratio of 14.4% in 2017/18 (excluding grants). The increase was driven by a 15.8% increase in the domestic tax collection to GDP ratio and a 9% increase in the taxes on international trade to GDP ratio. The Tax and Non-Tax Revenue collection as a Percent of GDP performance is summarised in the table 12.
77. 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 12: Tax and Non-Tax Revenue collection as a Percent of GDP

	2014/15	2015/16	2016/17	2017/18	Increase	%age Change
Net URA Collection	12.7	13.5	13.9	14.4	1.7	13.3
Gross Revenues (Includes NTR)	13.2	13.8	14.1	14.6	1.4	10.3
Domestic Taxes	7.3	7.9	8.2	8.4	1.1	15.8
O/w						
<i>Direct Domestic Taxes</i>	4.2	4.5	4.6	4.6	0.4	9.4
PAYE	2.1	2.2	2.3	2.4	0.3	13.0
Corporate Tax	0.9	0.9	0.8	0.9	(0.1)	(5.8)
Presumptive Tax	-	0.0	0.0	0.0	0.0	
Withholding Tax	0.7	0.8	0.7	0.8	0.0	5.0
Rental Income Tax	0.0	0.1	0.1	0.1	0.1	144.3
Tax on Bank Interest	0.4	0.4	0.5	0.5	0.1	19.8
<i>Indirect Domestic Taxes</i>	2.8	2.9	3.1	3.2	0.4	13.0
Excise duty:	0.8	0.8	0.9	0.9	0.1	13.7
Value Added Tax:	2.0	2.1	2.2	2.2	0.2	12.6
Taxes on International Trade	5.7	5.8	5.9	6.2	0.5	9.0
Non Tax Revenue (NTR)	0.3	0.5	0.3	0.4	0.1	29.1
NDP II projection	13.0	13.5	14.0	14.4	1.4	10.8

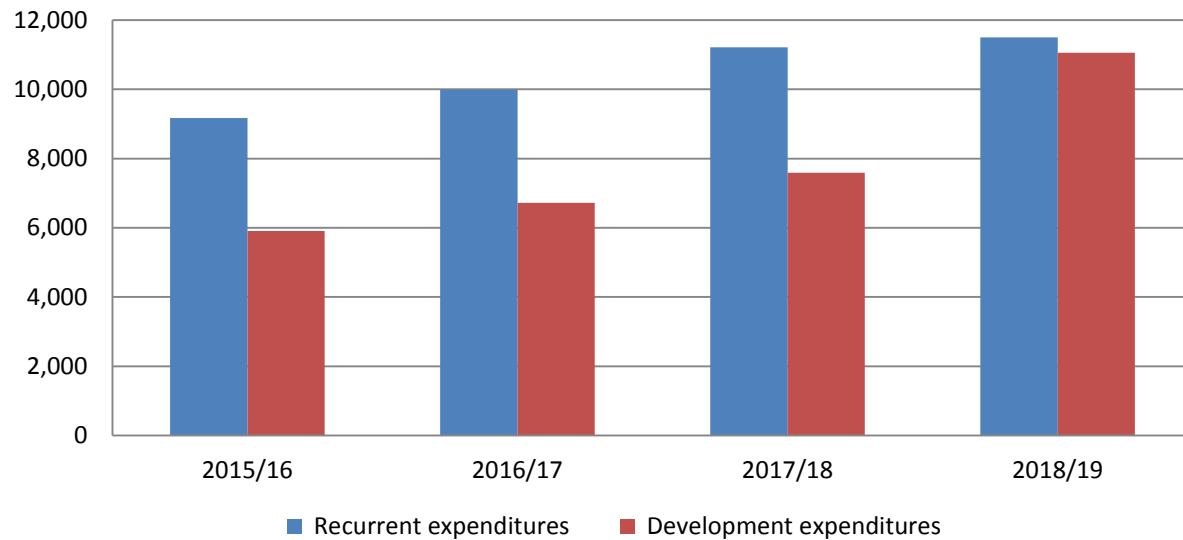
Source: MFPED

3.4 Composition of expenditure

78. **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). Recurrent expenditure increased from 10.8% of GDP in 2015/16 to 11.2% in 2017/18, while over the same period, development expenditure increased from 7.0% of GDP to 7.6%. However, development expenditure is projected to move closer to recurrent expenditure in the 2018/19 financial year. 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

79. **Expenditure to Finance NDP II:** As shown in the figure 12, whereas average spending is projected to reach 22% of GDP in 2019/20, average spending over the first three years of NDP II has averaged 19.9% 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.
80. **Infrastructure projects implementation:** Government commitment to accelerate spending on infrastructure projects has been realised to some extent, and most of the prioritised projects under NDP II are in the process of being implemented, although are at different levels of completion and many are behind schedule. 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). 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.

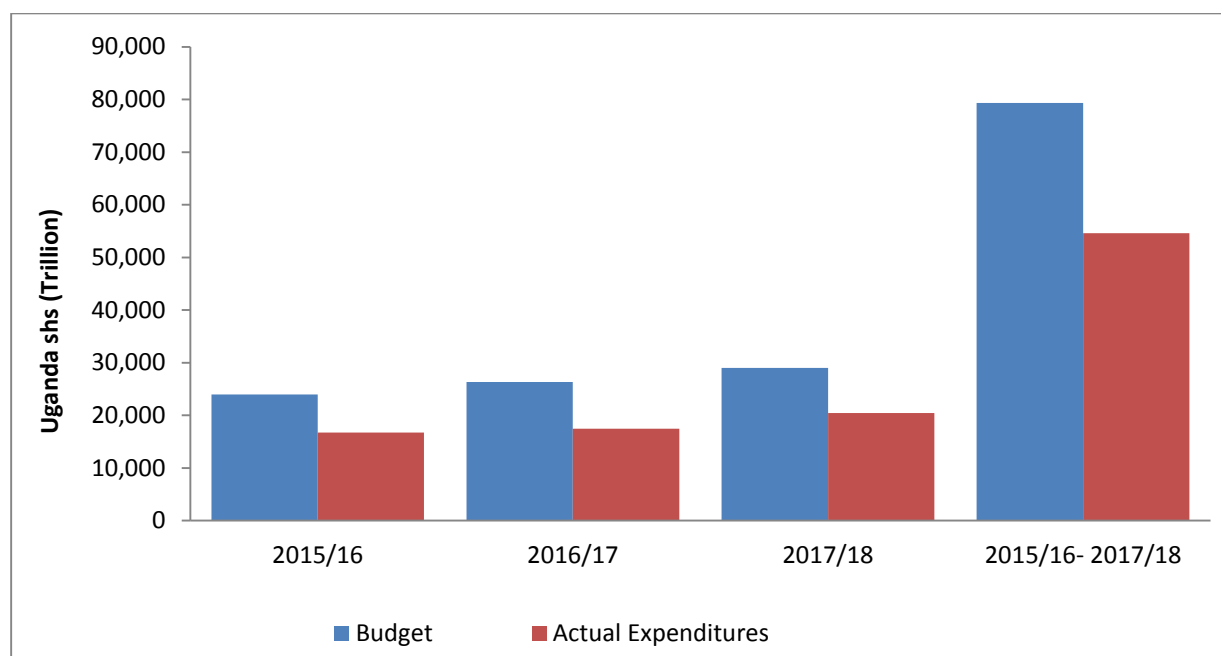
81. Slow project implementation was carried forward from NDP I, leading to slower economic growth. This also attributed to:
- (i) Lengthy procurement processes that undermine project implementation. For example, the procurement process for a road construction project can take upto 2 years;
 - (ii) Inability 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-feasibility). 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 implementation (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

82. Government funding for NDP II over the five years was projected at a total of UGX 113.7 trillion. Of this, 59.6 trillion (52.4%) was allocated towards development expenditures while 54.1 trillion (47.5%) was allocated towards financing recurrent expenditures. Of the current expenditures, 22.1 trillion (19.4% of total budget) was towards wages and salaries, while 32.0 (28.2% of total budget) was towards non-wage recurrent expenditures.
83. ***Budget out-turn at 69.8%:*** A review of the annual budgets for the three years under NDP II revealed that the total approved budgets for the three years was 79.3 trillion, representing 69.8% of the total NDP II budget of 113.6 trillion. However, total expenditure over the three years was 54.6 trillion, equivalent to 48.1% of the NDP II budget. Therefore, for the first three years (60% of the NDP period), 48.1% of the NDP II budget has been spent. 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. Accordingly, the budget outturn over the review period is estimated at 68.8% of the total budget as reflected in figure 13.
84. ***Development Budget most affected by spending short-falls:*** Of the 54.6 trillion spend over the first three years of NDP II, 30.4 trillion (55.6%) was recurrent expenditures. This is higher than the projected allocation of 47.5% of NDP II budget going to recurrent expenditures. On the other hand, 20.2 trillion (37%) of spending was towards development expenditure, which is lower than the NDP II target of 52.4% of the budget. The allocation of spending for the first three years of NDP II is summarized in table 13.

Figure 13: Budget outturn over the review period



Source: MFPED

Table 13: Allocation of spending for the first three years of NDP II

	2015/16	2016/17	2017/18	2015/16-2017/18	%age share	%age share NDP II
Expenditures and net lending	16,727	17,437	20,450	54,615		
Recurrent expenditures	9,169	9,994	11,213	30,376	55.6	47.5
o/w Wages and salaries	2,966	3,382	3,576	9,924	18.2	19.4
o/w Non Wage	4,520	4,252	4,989	13,761	25.2	28.2
o/w Interest payments	1,682	2,360	2,648	6,690	12.2	
Development expenditures	5,907	6,718	7,590	20,215	37.0	52.4
Net lending and investment	1,532	541	1,283	3,356	6.1	
Other spending (clearance of arrears)	119	184	364	667	1.2	

Source: MFPED

85. 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 mainly 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

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

- (i) First, out of the 17 sectors in NDP II, only five sectors received funding above allocations in NDP II targets. These were: 1) Social Development, 2) Public Administration, 3) Interest Payments, 4) Justice, Law and Order, and 5) Legislature and Accountability.
- (ii) Second, all the growth sectors that were projected to lead the growth of the economy have 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 2.27% of the Government expenditure over the three years; b) Works and Transport was projected to receive 21.17% of the NDP budget but received only 10.8% of the actual expenditure; c) Education was projected to receive 12.53% of the budget but received 10.87% of the actual expenditure; and d) Health was projected to receive 8.5% but received 4.57% of the actual expenditure.
- (iii) Third, the NDP II target budget allocation towards interest payments was 8.23% of the budget resources, but it has accounted for 12.2% 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 are unlikely to be realized on account of the less than targeted public expenditure, which was foreseen as the driver of growth under NDP II period. It is

likely that 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.

87. 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 14: Government Actual Expenditure and NDP II Sector Allocation Alignment (Percentages)

Sector	2015/16		2016/17		2017/18		Comparisons		
	Budget	Exp	Budget	Exp	Budget	Exp	Actual Average Exp	NDP II target	Remark
01 Agriculture	2.28	2.17	3.19	3.01	3.02	2.83	2.67	3.30	Below
02 Lands, Housing and Urban Development	0.42	0.35	0.32	0.37	0.28	0.46	0.39	0.67	Below
03 Energy and Mineral Development	2.16	2.45	2.50	2.17	2.02	2.19	2.27	14.97	Below
04 Works and Transport	11.31	10.14	10.90	10.90	10.86	11.37	10.80	21.17	Below
05 ICT	0.28	0.17	0.29	0.23	0.46	0.30	0.23	0.27	Below
06 Tourism, Trade and Industry	0.86	0.78	0.94	0.82	0.90	0.54	0.71	0.80	Below
07 Education	11.54	11.42	11.84	11.11	11.12	10.09	10.87	12.53	Below
08 Health	4.62	4.62	4.80	4.52	4.41	4.58	4.57	8.53	Below
09 Water and Environment	1.87	1.74	1.91	1.57	2.07	2.01	1.77	2.37	Below
10 Social Development	0.51	0.42	0.98	0.61	0.79	0.77	0.60	0.37	Above
11 Security	5.92	7.45	5.61	5.79	5.22	7.17	6.80	7.37	Below
12 Justice, Law and Order	5.97	6.47	5.85	5.48	5.64	6.07	6.01	4.93	Above
13 Public Sector Management	4.96	4.99	5.12	5.63	5.16	4.87	5.16	6.23	Below
14 Accountability	5.11	4.76	4.50	4.80	3.76	4.31	4.62	4.90	Below
15 Legislature	2.02	2.28	2.37	2.48	2.21	2.63	2.47		Above
16 Public Administration	4.16	4.94	2.73	2.85	2.61	3.27	3.69	3.30	Above
17 Interest Payments	36.00	34.86	36.15	37.65	39.14	36.22	36.24	8.23	Above

18 Science, Innovation and Technology					0.33	0.34	0.11	N/A	
Grand Total	100	100	100	100	100	100	100		

Source: MFPED

88. The table 15 below presents a summary of selected Economic and Financial Indicators over the period 2012/13 to 2017/18.

Table 15: Selected indicators of central Government Operations (FY2013/14-2017/18)

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Revenue & Grants / GDP	13.0%	12.8%	14.4%	15.2%	15.2%	15.4%
Domestic Revenue incl Oil / GDP	11.5%	11.8%	13.1%	13.8%	14.1%	14.2%
Domestic Revenue / GDP	11.5%	11.8%	13.0%	13.7%	14.0%	14.2%
Tax revenue incl Oil / GDP	11.2%	11.6%	12.7%	13.3%	13.6%	13.8%
Tax revenue / GDP	11.2%	11.6%	12.5%	13.2%	13.4%	13.8%
Total Expenditure (excl domestic arrears repayments) / GDP	16.4%	16.8%	18.5%	20.0%	18.8%	19.8%
Total Expenditure (incl domestic arrears repayments) / GDP	16.5%	16.9%	18.8%	20.2%	19.0%	20.1%
Gross Operating Balance / GDP	1.3%	0.4%	1.9%	1.4%	0.0%	0.0%
Domestic Balance / GDP	-1.4%	-2.2%	-2.9%	-3.2%	-1.8%	-1.9%
Primary Balance / GDP	-2.1%	-2.7%	-2.8%	-2.9%	-1.3%	-2.1%
Budget Deficit (excl Grants) / GDP	-5.0%	-5.1%	-5.6%	-6.3%	-4.9%	-5.9%
Budget Deficit (incl Grants) / GDP	-3.5%	-4.1%	-4.4%	-4.9%	-3.9%	-4.7%
Domestic Financing (net) / GDP (-borrowing/+ saving)	-1.1%	-2.4%	-3.2%	-2.3%	-0.7%	-2.1%
o/w Bank Financing (-borrowing/+ saving)	-0.8%	-0.9%	-1.7%	-1.1%	0.3%	-1.7%
o/w Non-Bank Financing (-borrowing/+ saving)	-0.3%	-1.5%	-1.6%	-1.2%	-1.0%	-0.4%
Foreign Disbursements (grants and loans) / Total Budget (incl domest	24.4%	15.7%	14.7%	23.6%	22.6%	24.2%
Foreign Disbursements (grants and loans) / GDP	4.0%	2.6%	2.8%	4.8%	4.3%	4.9%
External Borrowing (net) (disbursements less amortization) / GDP	-2.2%	-1.3%	-1.2%	-3.0%	-2.8%	-2.6%
External Borrowing Disbursements / GDP	-2.6%	-1.6%	-1.5%	-3.4%	-3.3%	-3.7%
Ratio of external borrowing disbursements to budget deficit (incl grant	72.5%	40.1%	34.7%	68.6%	84.3%	77.7%
Ratio of external borrowing disbursements to budget deficit (excl gran	51.2%	32.1%	27.2%	53.6%	66.4%	61.7%

Source: MFPED

3.6 Financing of NDP3

89. Given the large financing requirements of projects that are being 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 MTR recommends that the Government considers alternative financing models. These include:

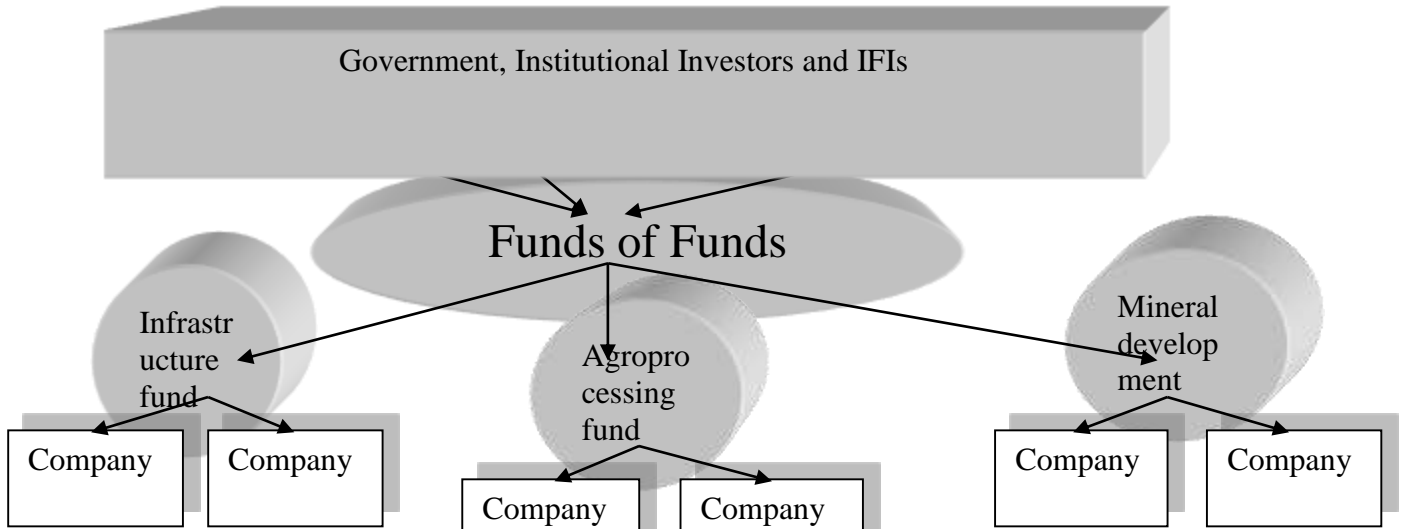
- (i) **Issuance of Infrastructure Bonds:** Bonds provide an alternative to traditional funding, making infrastructure debt more accessible to a wide array of institutions. At the backdrop of this development, Government should consider issuance of a Euro bond in international markets. The size of this 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 Bank⁹, 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.

⁹ <https://www.worldbank.org/en/country/uganda/publication/leveraging-public-private-partnerships-to-plug-ugandas-deficit-in-infrastructure-finance>

- (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.
- (iii) 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. The venture capital invested in the individual enterprises would also follow the management practices that are used in the private venture capital market as in the case of Venture Capital Trust Fund of Ghana. In particular, the venture capital companies would take positions in individual enterprises and this would only be for a given period of time
- (iv) The structure of the funds of funds would appear as shown in

- (v) Figure 144. It should be noted from the figure below that the source of financing should not only be restricted to government, especially overtime.

Figure 14: Uganda Fund of funds



(vi) Once the Uganda fund is initiated through providing the necessary initial resources, including financial and human resources, it should market it to other potential investors including pension funds and other institutions including international organizations. The government in collaboration with the Capital Markets Authority would make a decision on the initial amount of financing required based a well structured study. Once this is determined, the government in collaboration with its co-investors would have to decide on how much to allocate to the various sub-funds. The overall manager of the fund of funds would be given performance targets on the performance of the managed portfolio. This is critical so that the fund is not viewed as another form of subsidy passed on to enterprises. These performance targets in form of dividends earned from the various enterprises would be passed on to the various sub-managers.

(vii) Once this is set up, it would become a revolving and self-financing fund in the same way the Government of Ghana envisioned the establishment and operations of the Venture Capital Trust Fund in Ghana. The dividends earned from the various enterprises would be ploughed back into the fund for Investment in other SME companies.

(viii) The challenge of establishing the UFF is to identify the right fund managers with the requisite skills to identify prospective **enterprises**. As a benchmark, the UFF could borrow some of the experiences from the Yozma fund of funds, Korean fund of funds and Ghana Venture Capital Trust Fund.

90. **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).

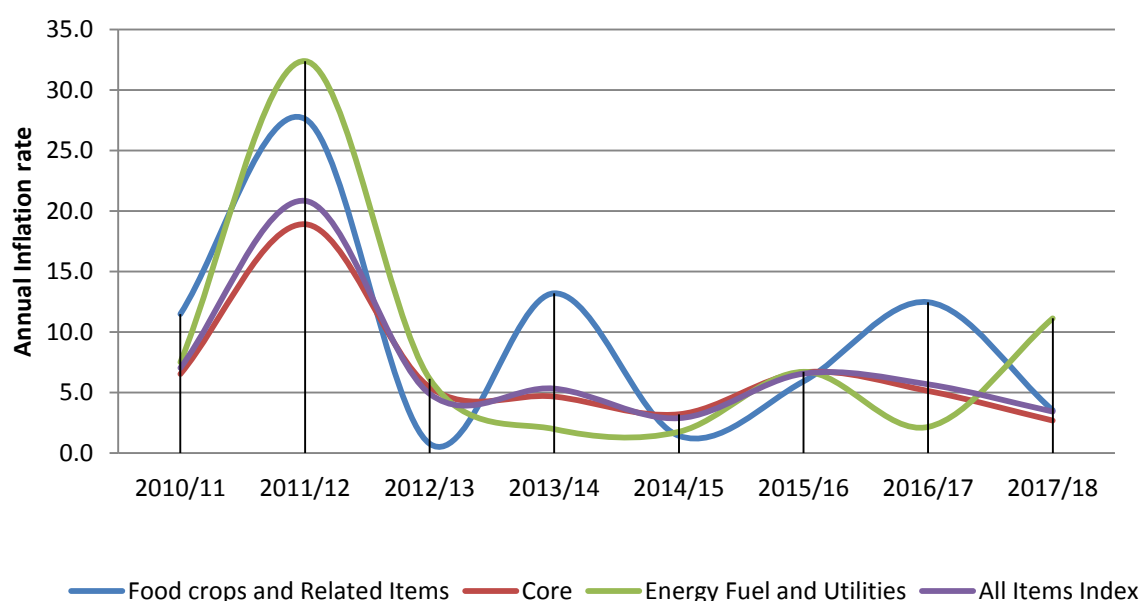
91. **Sovereign Wealth Funds (SWFs)** provide alternative financing role in developing much-needed infrastructure across the world, provided that their investment strategies and underlying mandates support countries' macroeconomic policies and development plans. Infrastructure projects provide long-term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

4.0 Price and Monetary Developments

4.1 Monetary Policy Stance and Inflation

92. 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.
93. 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 inflation has been contained as shown in figure 15.

Figure 15: Trends in Annual Inflation



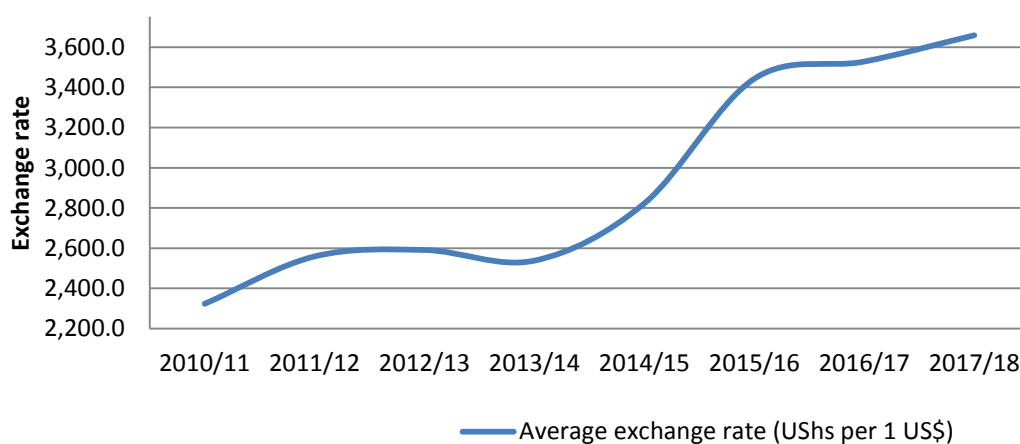
Source: Bank of Uganda

94. Annual inflation peaked at 6.6% 2015/16 before reducing to 5.7% in 2016/17. Overall, inflation has 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

95. 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.
96. 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.
97. 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 has since then been more stable. Over the period as a whole, the UGX has depreciated on average by 7% a year against the USD. However, over the first three years of NDP, the exchange rate depreciated by only 6.3%, compared to 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 16: Average exchange rate (UShs per 1 US\$)

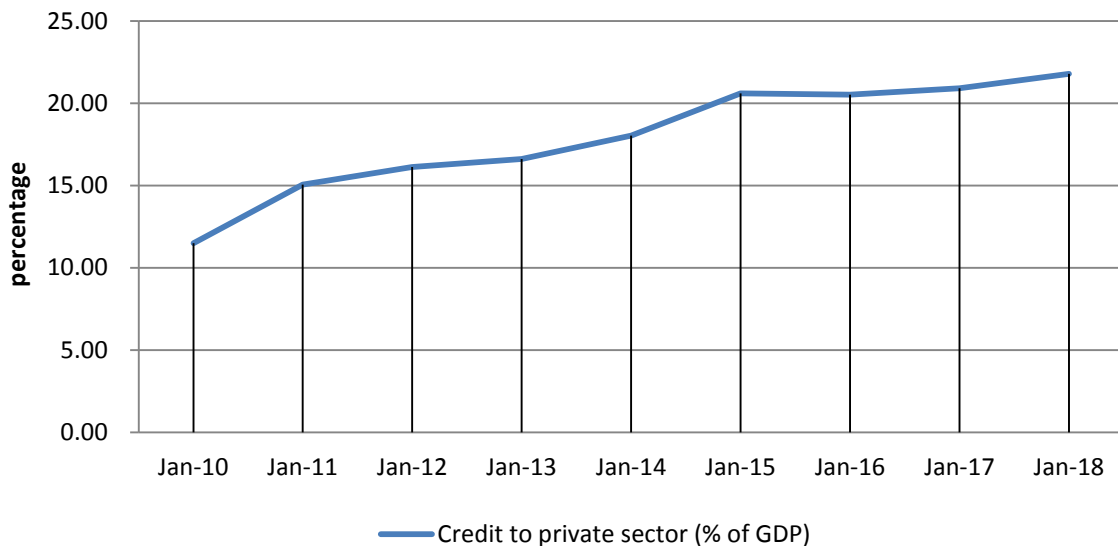


Source: Bank of Uganda

4.3 Credit Financing to the Private Sector

98. 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 June 2018, the total outstanding credit to the private sector was 21.8% of GDP, 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 increased by 1.2 percentage points over the first three years of NDP II compared to 6.5 percentage points over the five years of NDP I. The trend in outstanding credit to the private sector is summarised

Figure 17: Outstanding credit to private sector (percent of GDP)



Source: Bank of Uganda

99. Growth in credit to the private sector was highest in the Mining and Quarrying sector (albeit from a very low base), Electricity and Water (mainly electricity) and agriculture (mainly to agriculture processing). Noteworthy is that credit to manufacturing sub-sector has registered a decline over the first four years of NDP II, which may partly account to the poor growth posted by the manufacturing sector over the review period. Equally, the Building, Mortgage, Construction and Real Estate subsector also recorded reductions as summarized in table 16.

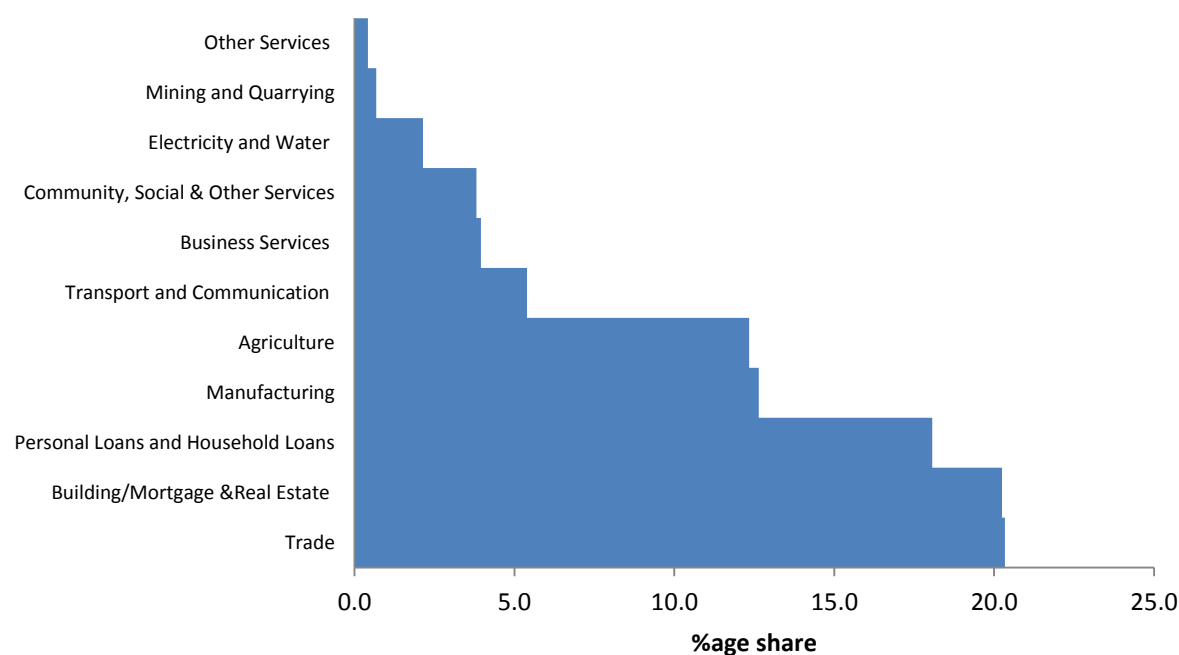
Table 16: Sector Distribution of Outstanding Credit to the Private Sector (% of GDP)

Sector	Jun-10	Jun-11	Jun-12	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17	Jun-18	NDP 1 %age change	NDP II %age change
Agriculture	0.74	1.00	1.05	1.30	1.72	2.01	2.12	2.41	2.69	134	34
Mining and Quarrying	0.09	0.04	0.07	0.06	0.04	0.10	0.13	0.13	0.15	-52	54
Manufacturing	1.52	2.06	2.16	2.32	2.38	3.18	2.87	2.67	2.75	57	-13
Trade	2.34	3.39	3.64	3.50	3.89	4.21	3.89	4.21	4.43	66	5
Transport and Communication	0.88	1.16	1.05	0.96	0.97	1.06	1.44	1.41	1.18	9	11
Electricity and Water	0.13	0.14	0.16	0.23	0.21	0.34	0.41	0.39	0.47	65	36
Building, Mortgage, Construction and Real Estate	2.09	3.02	3.67	3.75	4.08	4.65	4.68	4.30	4.41	95	-5
Business Services	0.38	0.65	0.58	0.86	0.79	0.98	0.79	0.86	0.86	106	-12
Community, Social & Other Services	0.33	0.50	0.57	0.52	0.59	0.68	0.69	0.68	0.83	80	23
Personal Loans and Household Loans	2.43	2.38	2.47	2.26	3.09	3.11	3.24	3.69	3.94	27	27
Other Services	0.56	0.71	0.70	0.84	0.25	0.29	0.28	0.15	0.09	-56	-68
Total	11.49	15.05	16.13	16.61	18.03	20.60	20.53	20.90	21.79	57	6

Source: Bank of Uganda

100. The trade sector has overtaken real estate as the sector receiving the most credit. These are closely followed by personal/household loans, manufacturing and agriculture as summarized in figure 18 below.

Figure 18: Sectoral shares of credit to the private sectors of June 2018

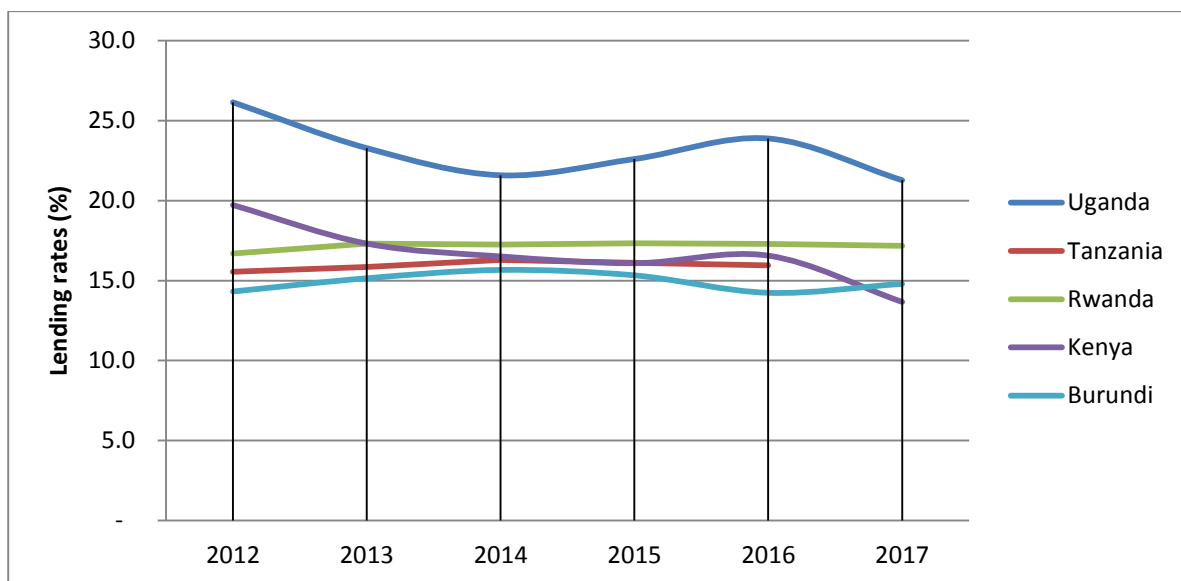


Source: Bank of Uganda

4.4 Lending Interest Rates

101. The average lending interest rate (%) in 2017 was 21.3%, 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 2017 of 21.3% was the highest in the region compared to 16% in Tanzania, 17.2% in Rwanda, 13.7% in Kenya and 14.8% in Burundi. 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 19: Lending Interests rates among EAC countries



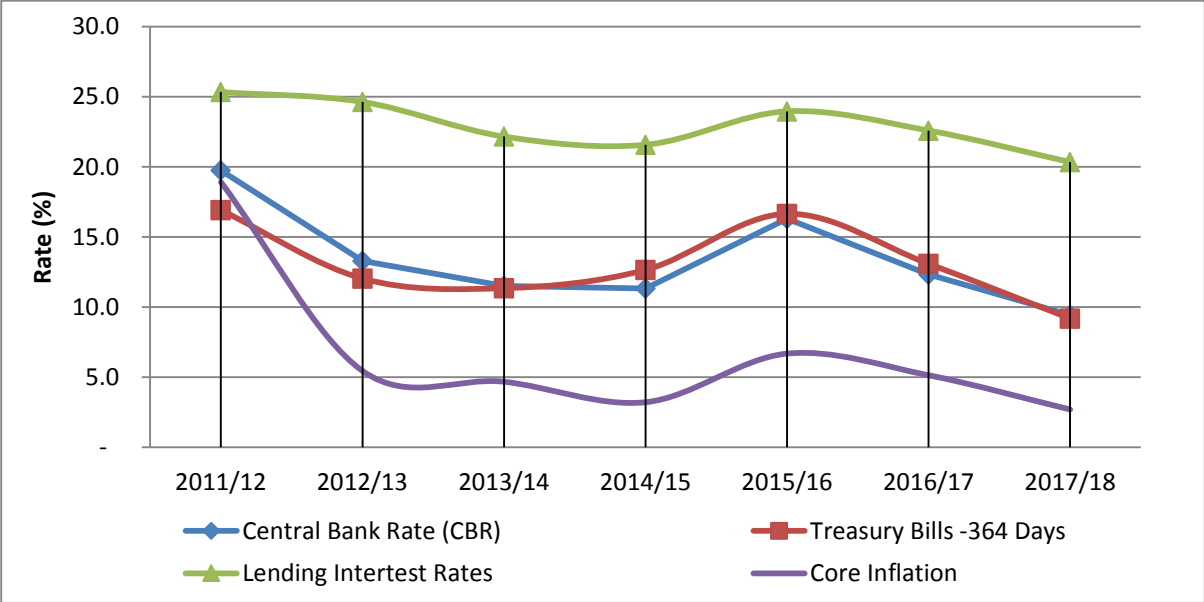
Source: WorldDevelopmentIndicatorsbyWorldBank

102. 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.

103. 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 dropped to an annual average of 11.3% in 2014/15 before increasing to annual average of 16.3% in 2015/16, during which period the core inflation increased to 6.7%. In 2016/17, the annual average CBR was 12.3% and 9.4% in 2017/18 and the core inflation responded by reducing to 5.1% and 2.7% over the two years respectively. Overall, core inflation and the lending interest rates have tended to move together over the review period as summarised in the figure 20 below.

Figure 20: Trends in CBR, Core Inflation and lending interest rates



104. 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

105. 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).

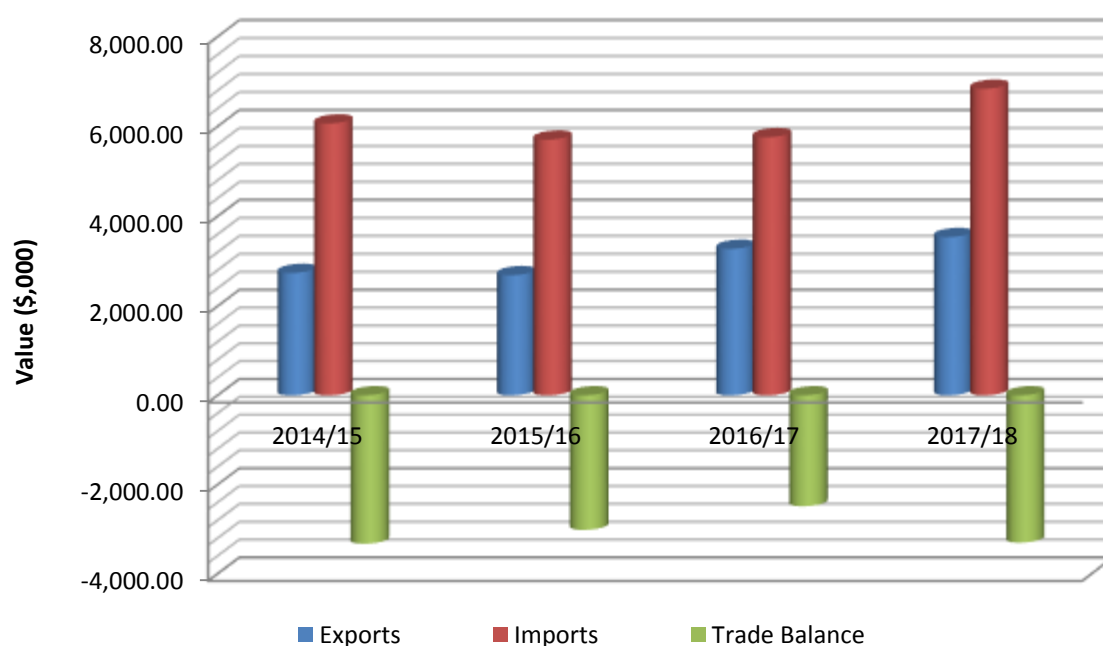
5.0 External Sector Performance

5.1 External trade growth and Performance

5.1.1 Merchandise Trade

106. 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 31.6% growth in normal value over the first three years of NDP II compared to a 19.2% growth registered during the NDP I period. On the other hand, imports have growth by 19.8% compared to 6.3% registered during NDP I. Over the first three years of NDP II, Uganda has continued to experience a negative trade balance, which deteriorated by 9.4% compared to an improvement of 2.2% registered during NDP I as summarised in the figure 21.

Figure 21: Value of Uganda's External Trade (\$ Million)



Source: Bank of Uganda

5.1.2 Growth of Exports

107. **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 first three years of NDP II, total exports registered an annual average growth rate of 9.33% compared to the 3.71% recorded during NDP I.

The growth of exports of the main export commodities is summarised in the table 17 below.

Table 17: Percentage annual growth of the main export commodities

	2014/15	2015/16	2016/17	2017/18	NDP I	NDP II Proj.	NDP II Actual
Total Exports	1.18	(1.85)	21.82	8.01	3.71		9.33
Cash Crops							
Coffee	(0.87)	(12.10)	39.34	0.40	10.23	6.45	9.21
Cotton	(16.41)	33.60	98.87	(14.80)	54.15	2.17	39.22
Tea	(11.83)	1.53	(8.91)	34.99	1.47	5.72	9.21
Flowers	(6.38)	(11.18)	9.12	15.46	2.77	3.01	4.47
Others- projected in NDP II							
Electricity	(10.16)	(30.00)	164.04	(3.81)	15.09	9.08	43.41
Fish & its prod. (excl. regional)	24.18	(15.84)	14.29	11.18	2.07	0.92	3.21
Maize	107.58	10.49	(4.24)	59.00	32.95	3.62	21.75
Beans	85.15	30.39	13.04	122.57	33.96	0.67	55.34
Edible Fats and Oils	(3.18)	(44.65)	(28.51)	(17.98)	7.13	6.15	(30.38)
Plastic Products	3.72	(23.16)	(13.81)	10.82	27.91	21.64	(8.72)
Rice	(4.24)	(15.50)	(4.63)	27.04	19.61	3.21	2.30
Sugar	7.77	(18.93)	106.11	(33.04)	9.80	20.49	18.05
Others- not projected in NDP II							
Gold	(8.08)	87,321.71	112.30	(20.84)	(34.90)		29,137.73
Tobacco	(32.77)	15.84	(35.90)	15.48	(0.41)		(1.53)
Hides & skins	(9.69)	(17.12)	(9.05)	7.27	49.97		(6.30)
Simsim	11.39	(41.69)	(45.38)	38.75	48.47		(16.11)
Base Metals & Products	(5.39)	(22.22)	6.56	4.71	7.33		(3.65)
Beer	(42.96)	(16.73)	26.53	(9.65)	(13.59)		0.05
Cement	(0.07)	(25.74)	(26.74)	(9.56)	4.38		(20.68)
Cocoa Beans	(8.81)	28.52	(16.55)	(0.00)	10.23		3.99
Crude oil (excl petroleum products) 3/	(12.79)	1.06	21.62	14.41	29.02		12.36
Fruits & Vegetables	56.09	54.34	(15.23)	31.53	24.55		23.55
Groundnuts	254.16	129.73	(82.94)	280.72	8,567.16		109.17
Other Pulses 1/	42.42	13.63	21.80	6.98	159.01		14.14
Soap	(7.80)	(18.33)	(4.84)	15.20	15.59		(2.66)
Vanilla	79.69	95.32	30.35	47.99	246.51		57.89
Water	(25.44)	(46.29)	(12.40)	37.87	45.61		(6.94)
Other Exports 2/	(6.07)	(1.82)	13.11	13.79	12.35		8.36

Source: Computed based on Export statistics by Bank of Uganda

108. As shown in the table 17, the actual annual growth of export is higher than projected under NDP except for Plastic Products and Edible Fats and Oils, both of which have registered negative growth rates of 8.72% and 30.38% respectively over the first three years of NDP II compared to the projected growth of 21.64% and 6.15% respectively. Overall, most commodities have registered positive annual growth in exports over the first three years of NDP II except Water, Soap, Cement, Simsim, Tobacco, Plastic Products, and Edible Fats and Oils.

5.1.3 Exports as a Percentage of GDP

109. 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 objective of export-led growth is being achieved.

Table 18: Exports as a Percentage of GDP

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

Source: BoU and UBOS

5.2 Balance of Payments

110. The current account balance has improved on account of improved performance of exports and decline in imports. The current account balance (excluding grants) has improved from a deficit of \$2,052.5 million, reaching \$999.3 million in 2016/17 before deteriorating to \$1,725.8 in 2017/18. The capital account has registered positive and improving balances albeit from a low base as summarised in table 19.

Table 19: Balance of payments (USD million)

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Current account	-1,510.48	-2,038.99	-1,862.88	-1,163.28	-861.00	-1,617.83
Capital account	32.74	91.05	99.08	119.81	150.53	105.38
Financial account	1,485.90	1,722.25	945.54	1,060.60	1,153.41	852.06
Net errors and omissions	329.89	604.19	468.64	84.31	-4.38	450.62
Overall Balance	-338.05	-378.49	349.63	-101.45	-438.56	209.76

Source: Bank of Uganda

111. The outturn for the current account balance is substantially better (smaller) than the projected current account deficit in NDP II.

Table 20: Current account – NDP II targets and Outturns (percent of GDP)

	2015/16	2016/17	2017/18
NDP II target – including grants	-10.0	-10.3	-8.9
NDP II target – excluding grants	-10.3	-10.5	-9.1
Outturn	-4.8	-3.3	-5.9

Source: Bank of Uganda; NDP II

International Reserves

Table 21: Gross International Reserves – NDP II targets and Outturns

	2015/16	2016/17	2017/18
<i>NDP II projections</i>			
In billions of USD	4.1	4.2	4.6
Import cover (in months of next year's imports)	3.9	3.8	4.0
<i>Outturn</i>			
In billions of USD	3.0	3.4	3.2
Import cover (in months of next year's imports)	5.4	5.6	4.4

Source: Bank of Uganda; NDP II

112. The level of gross international reserves has 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 projects¹⁰.

¹⁰ 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

113. 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 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.

6.0 Recommendations

6.1 Performance of the Real Economy

114. Over the first three years of NDP II, Uganda has registered annual real GDP growth rates of 4.9%, which is lower than the NDP II targeted average annual growth of real GDP of 6.3%. To attain the NDP II target average GDP growth rate of 6.3% by end of NDP II (2019/2020), Uganda will need to register an 8.5% annual GDP growth rates over the remaining two years, which is ambitious given that a number of prioritised infrastructure projects to drive growth have progressed at a very slow rate while productivity of the agricultural sector and the industrial sector have not gained traction to deliver the anticipated growth. 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 MTR recommends that:
 - (i) 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). As the next NDP is developed it is worth exploring how 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, and would 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.
- (ii) **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).
- (iii) **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.

- (iv) **All projects falling in Tier 1 and 2¹¹ 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.
- (v) **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.
- (vi) 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 projects 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. Furthermore, including additional projects necessarily means that some projects that have been included in the NDP have to be dropped. To strengthen alignment:

- (i) 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 responsibility for “alignment” should be placed on the MTEF and the implementing MDAs.

¹¹ A Tier 3 project would only get priority once it has been fully appraised in moved to Tier 2

- (ii) NDP MTR 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.
- (iii) NDP II implementation framework should include penalties for sector agencies who significantly deviate from planned and approved development priorities under the NDP.
- (iv) The NDP can propose policy reforms that should be undertaken to achieve the NDP development objectives by the respective sectors/agencies of Government.
- (v) 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 prioritisation 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.

6.2 Fiscal Performance

115. The low tax to GDP ratio is attributed to a number of challenges in the tax administration process. A number of reforms have been initiated that continue to improve tax administration but more effort is still needed. The MTR proposes a number of recommendations and these include:

- (i) Remove the zero VAT rate for firms involved in 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.
- (ii) 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 Asycuda system allows for following a firm from importation to domestic business activities.

- (iii) 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.
- (iv) 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.
- (v) 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.

116. Given the large financing requirements of projects that are being 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 MTR 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.

6.3 Price and Monetary Developments

117. 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). The MTR proposed recommendations that the BoU/MoFPED investigate in more detail what the appropriate level of the CBR should be to achieve the desired inflation objective.

Appendix

Appendix 1: Selected BoP memorandum indicators

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
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
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
Exports as a % of GDP	11.34	11.49	11.81	9.75	9.93	10.90	12.28	12.72
Imports as a % of GDP	23.05	22.57	20.42	18.28	18.09	18.55	18.21	20.07
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
Current Account Balance as a percentage of GDP	-8.55	-8.75	-6.12	-7.35	-6.76	-4.72	-3.33	-5.91
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
BOP overall balance as a percentage of GDP	2.99	-3.22	-1.37	-1.36	1.27	-0.41	-1.69	0.77
Total external Debt Stock (end of period)	2,904.92	3,254.08	3,825.16	4,300.70	4,380.10	5,309.20	6,213.79	7,261.93
o/w External arrears	82.68	80.89	81.62	75.95	0.00	0.00	76.47	77.49
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
Debt Service (maturities excl. IMF) as a %age of exports	4.44	4.09	3.92	4.86	5.75	5.31	5.58	9.40
Debt Service (maturities excl. IMF) as a %age of export of Goods and Services.	2.67	2.32	2.31	2.82	3.21	3.06	3.67	6.13
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
Debt Service (maturities incl. IMF) as a %age of exports	4.45	4.16	3.98	4.92	5.82	5.34	5.58	9.40
Debt Service (maturities incl. IMF) as a %age of export of Goods and Services.	2.67	2.36	2.34	2.86	3.24	3.07	3.67	6.13
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
Debt Stock to Exports ratio (%)	126.42	121.99	131.35	158.91	159.95	197.53	195.43	208.68
Total Aid to GDP (%)	3.95	3.29	2.30	1.94	2.01	2.29	2.78	2.21
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
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

Appendix 2: Implementation progress of Flagship Infrastructure Projects

Core Project		Objective	Implementation status
Karuma Power (600MW)	Hydro Plant	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)	<p>a. By March 2018, the overall progress of physical works (civil, hydro-mechanical and electrical- mechanical) was about 76 percent.</p> <p>b. Concrete works for dam blocks 1 to 16 are almost complete and installation of nine radial gates was completed at the dam section.</p> <p>c. The project is on course for completion in December 2018.</p>
Isimba Power (188MW)	Hydro Plant	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.	<p>a. Physical works are estimated at 79 percent by March 2018.</p> <p>b. Civil, electromechanical and hydro mechanical works have all been certified as completed at 79.4, 79.3 and 79 percent respectively.</p> <p>c. Project received a new owner's engineer in January 2018, a joint venture of Artelia EAU from France and KKAT consult from India.</p> <p>d. The project is expected to be completed by August 2018.</p>
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.	<p>a. Discussions are ongoing with a potential private developer.</p>
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.	<p>a. Progress on Tororo-Lira transmission line is at 74 percent;</p> <p>b. Progress on acquisition of way-leaves on Lira- Gulu-Agago transmission line is at 90 percent</p>

Core Project	Objective	Implementation status
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.	a. RAP compensation is at 90 percent completion
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.	a. RAP implementation waiting for updated Chief Government Valuer (CGV) report approval. b. Procurement of project supervisor was completed and procurement of EPC contractor is ongoing.
Standard Gauge Railway	To develop and operate a modern, fast, reliable, efficient and high capacity railway transport system as a seamless single railway operation.	a. Kampala SGR sections between GoU and GoK were signed including the agreement on the development of the respective sections at the same time. b. Joint travel for GoU and GoK to China to negotiate the remaining financing issues was undertaken c. Acquisition of RoW for Malaba-Kampala route was completed; Acquisition of RoW for LRT is being initiated and feasibility studies for the same were completed. d. Operation and maintenance framework for SGR was developed.
Entebbe Airport Rehabilitation	To expand, modernize and reconstruct Entebbe International Airport.	a. 30 percent works for new cargo center and 20 percent of works for the modification of the passenger terminal building were completed b. 15 percent rehabilitation works for expansion of Apron 1, detailed designs for Apron 2 and detailed designs for run way 12/30 and its associated taxi ways were completed. c. A total of 42 new aviation police units have been built in Kigungu in order to relocate the current units at the cargo centre site. d. A new baggage handling system featuring X-ray monitors has been placed in the check-in area to improve the baggage handling capacity from the current 500-700 bags an hour to approximately 1,200-1,800 bags an hour.

Core Project	Objective	Implementation status
		e. An additional six check-in counters have also been installed to enhance security at the facility.
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.	a. UNRA has initiated the pre-qualification process for contractors to undertake the design, build, finance, operate, maintain and transfer of the expressway. b. IFC is the Lead Transaction Advisor c. 7.607 hectares of land and 44 PAPs have been paid.
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.	a. UNRA has initiated the pre-qualification process for contractors to undertake the design, build, finance, operate, maintain and transfer of the expressway. b. IFC is the Lead Transaction Advisor c. 7.607 hectares of land and 44 PAPs have been paid.
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.	a. Geotechnical investigations for alignment materials, borrow areas and quarries is ongoing. b. Draft Feasibility study and preliminary design have been submitted.
Kampala-Mpigi Express Highway	Construction of a four- lane, dual carriage highway connecting, Kampala, and Mpigi districts.	a. Project commencement is awaiting allocation of funds from GoU and partners
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.	a. Government acquired a loan from African Development Bank to a tune of sh. 3.95 trillion to finance the works on the road. b. China State Construction Engineering Corporation Limited was awarded the contract to carryout civil works on the road.
Kibuye-Busega-Nabingo	Construction of a four- lane, dual carriage highway connecting, Kampala, and Mpigi districts.	a. Project commencement is awaiting allocation of funds from GoU and partners
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.	a. The NBI Fibre has been extended to 53 more MDAs in FY 2017/18 bringing the total number to 342 sites. b. A Fiber Optic cable spanning 2,346km has been laid. c. 18 Transmission Sites have been built to date, along with a National Data Centre (NDC) and a state-of-of the-art Network Operations Centre (NOC) setup for provisioning and monitoring of several services including Internet Bandwidth and other e-Government Services.

Core Project	Objective	Implementation status
Hoima Oil Refinery	To construct a green field refinery with a capacity of 60,000 barrels of crude oil per day.	<p>a. Government has signed the Project Framework Agreement (PFA) with the Albertine Graben Refinery Consortium (AGRC) aimed at accelerating the construction of the oil refinery in Hoima.</p> <p>b. A pool of four companies for the consortium which include YAATRAAfrica (Mauritius), Lionsworks Group Limited (Mauritius), NuovoPignone International SRL (Italy) and SAIPEM SPA (Italy) have been identified. Uganda is represented by UNOC on the consortium.</p> <p>c. The agreement will ensure development, design, financing, construction, operation and maintenance of the oil refinery in Hoima District.</p>
Oil-related Infrastructure Projects	To enable oil production by 2020.	<p>a. Identification of a lead investor for the East African Crude Oil pipeline has been done and negotiations are ongoing.</p> <p>b. The Front-End Engineering Design (FEED) study for the development of the (EACOP) was completed in August 2017. Steps are underway to have the Final Investment Decision completed in FY 2017/18.</p>
Albertine Region Airport	To improve regional and local access to infrastructure, markets and skills development in the Albertine region	<p>a. 4 Bilateral Air Services Agreements (BASAs) were negotiated (Qatar, Switzerland, Canada and Saudi Arabia)</p> <p>b. Feasibility study to undertake an Economic, Financial and Investment appraisal of the proposed development of Kabaale Airport was prepared.</p>
Albertine region roads	To improve regional and local access to infrastructure, markets and skills development in the Albertine region	<p>a. Civil works contracts for package 1 (Masindi (Kisanja)-Park Junction Road Upgrading Project (84km) Pakwach (Tangi Jct)-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.</p> <p>b. As for package 4 (Lusalira-Nkongge-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</p>

Core Project	Objective	Implementation status
		Kaseeta-Lwera Road Upgrading Project (68km)), procurement is at bidding stage and bid submission is scheduled for May, 2018.
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 annual production of 400,000, a 12MW waste heat-based power generation plant and a steel mill of annual production of 300,000 tonnes	<p>a. Geotechnical site investigations were carried out to establish the type of soils where the plant is to be set up.</p> <p>b. Earthworks and grading of the site are now underway and pre-fabricated plant machinery for the first phase has been imported into the country.</p> <p>c. All plants, including the steel mill, are expected to be in operation by December 2019.</p> <p>d. Currently over 150 skilled Ugandan workers have been employed and by December 2019, over 1000 people will be employed.</p>
Agriculture Cluster Development Project (ACDP)	To raise productivity, production, and commercialization of selected agricultural commodities in specified clusters of districts across the country.	<p>a. A rapid assessment was conducted in the 13 project districts of Iganga, Bugiri, Namutumba, Pallisa, Butaleja, Tororo, Serere, Soroti, Dokolo, Lira, Amuru, Nwoya, Hoima to sensitize them on the project and increase project ownership.</p> <p>b. Farmer and Farmer Organization selection and categorization criteria were finalized. Market- Led User-Owned ICT4AG-Enabled Information Services (MUIIS) was the BEB selected to conduct profiling and registration of farmers and farmer organizations. The contract was cleared by the Solicitor General on 09th April and the consultant signed on 10th April 2018.</p> <p>c. Finalized contract signing for the E-Voucher Management Agency on 22nd March and engaged the firm to fast track contract implementation</p>

Core Project	Objective	Implementation status
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.	<p>a. Second phase of MATIP approved to reconstruct an additional 11 out of the remaining 14 identified markets in four regions of the country.</p> <p>b. Rehabilitation ongoing at different stages</p>
Farm Income Enhancement and Forest Conservation II	To improve household incomes, food security and climate resilience through development of agricultural infrastructure.	<p>a. The project has embarked on construction of irrigation schemes with a total of 4,638 hectares namely, Olweny Irrigation Scheme (600ha) in Lira district which is estimated at 91 percent progress, Mubuku II irrigation scheme (480ha) in Kasese district at 8.6 percent progress, Doho II irrigation scheme (1,178ha) in Butaleja district at 6.8 percent progress, Ngenge irrigation scheme (880ha) in Kween district at 21.2 percent progress and Tochi irrigation scheme (500ha) in Oyam district at 11 percent progress.</p> <p>b. Wadelai Irrigation scheme (1,000ha) in Nebbi/ Packach districts is expected to commence by the end of this FY 2017/18</p> <p>c. The project shall also manage catchment areas of the 5 irrigation schemes, covering 39 districts with total area of 45,281SqKm to reduce sediments entering the irrigation schemes and improve farming practices in the watershed areas.</p>
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.	<p>a. The programme has financed 3,499 Projects/ enterprises worth US\$18.480 billion with 44,570 women beneficiaries.</p> <p>b. As at February, 2018, out of the US\$3.081Billion owed by the women entrepreneurs, US\$1.55Billion had been recovered which translates into 50.2% of the total amount due.</p>
Youth livelihood Project (YLP)	To empower the youth to harness their socio-economic potential and increase self-employment opportunities and income levels.	<p>a. A total of 13,107 projects have been financed by the YLP benefiting 163,130 youth of which 45% are females.</p> <p>b. Over 160,000 jobs have been created.</p> <p>c. Since the commencement of the programme, Shs16.460Billion has been repaid which represents 67% of the total amount paid.</p>

Core Project	Objective	Implementation status
Comprehensive Skills Development Project	To improve the regionally located technical colleges into centres of excellence.	<p>a. Commissioned a National Teachers College in Kole District at Abilonino</p> <p>b. Private Sector foundation Uganda (PSFU), through Skills Development Facility (SDF), signed agreements with 23 companies to offer internship to equip 884 students from over 30 public and private technical and vocational training institutes with relevant skills.</p> <p>c. Completed rehabilitation works at UTC Kyema; rehabilitation and expansion works at Ahmed Seguya TI; and, construction of walk ways and a dining hall at Nakawa VTI.</p>
Renovation of 25 Selected General Hospitals	To improve access to healthcare by rehabilitating 25 general hospitals across the country.	<p>a. Out of the 25 general hospitals expected to be rehabilitated, 21 were supported with funds for expansion and renovation and these include; Adjumani, Kitgum, Kabarole, Kiboga, Kapchorwa, Pallisa, Itojo, Kitagata, Bugiri, Atatur, Apac, Abim, Bundibugyo , Kaberamaido, Masindi, Kagadi, Kambuga, Tororo, Gombe, Bududa and Kaabong.</p>
Mass treatment of malaria for prevention	To provide quality assured services for Malaria prevention and treatment to all people in Uganda.	<p>a. The six wave “chase malaria” campaign commenced in 2017. By March 2018, all six waves had been completed with over 38 million Ugandans receiving mosquito nets.</p> <p>b. The campaign is intended to reduce malaria morbidity and mortality through achieving universal coverage with Long Lasting Insecticide-treated Mosquito Nets (LLINs) as the country reaches the pre-elimination phase.</p>

Appendix 3: Implementation progress of National roads under rehabilitation/meintanence

S/N	Road project / contract name	Progress to date - planned - %	Progress to date - actual - %
1	Kibuye - Zana - Entebbe Airport (37Km)	97.2	97.8
2	Kitala – Gerenge (10kms), Natete - Nakawuka – Kisubi (29.5kms) Nakawuka – Kasanje (9.5kms) and Misindye - Bukerere - Kiyunga - Nakibona - Namalili (38.6kms)	95.5	90.8
3	Kayunga – Baale (46kms), Baale – Galiraya (42.5kms) and Kayunga – Nabuganyi (20kms)	86.1	82
4	Luweero- Kikyusa-Zirobwe(37km)&Kisuule-Nakaseke-Kapee- ka-Busunju(51km) Roads	100	97.84
5	Term Maintenance of 48 selected National Roads -Phase v (21LOTS)- LOT02: Katuugo-Kinyogoga -Kaweweta(42km), Ngoma-Kinyogoga (27km), NgomaKasozi-Kyamukonda(31km) and Ngoma -Kyankwanzi (15km) Roads	86.18	24.98
6	Term Maintenance of 21 selected National Roads LOT 07: Katikamu -Bamugolode-Nakasongola (103km) Roads	100	88.48
7	Periodic Maintenance of (04) Selected National Unpaved Roads Total- ing to 152 km ; Lot 4 : Kasiso – Mazzi – Kalungi Road (57Km)	100	100
8	Term Mantainance of Mitala- Maria - Bulo-Kanoni(30km) and Mityana - Busunju(30km)	97.22	75.02
9	Provision And Installation Of Reinforced Concrete Marker Posts To Demarcate Road Reserves On Selected National Roads: Lot 1: Busega - Masaka Road (105km)	85.71	97
10	Kyapa-Kasensero (41km) and Lyantonde-Kaliro-Ntuusi (58km) Roads	100	38
11	Villa Maria - Kyamulibwa-Kabulasoke (48km) and Kyabakuza-Kiwan- gala-Ndagwe-Kabale (62km) Roads	95	60
12	Provision and installation of Reinforced concrete Marker posts to De- marcate Road Reserves on Three selected National Roads (3Lots)-Lot 2; Masaka-Mbarara road (86km)	130	95
13	Rakai-Ntantamukye (50Km)	52	47
14	Sembabule-Nkonge road (58km)	52	40
15	Mbirizi-Matete-Sembabule-Katonga Road (58km)	100	37
16	Kyabakuza-Kyojja-Matete-Kaliro Road (70km)	54	28
17	Myanzi-Kasanda-Kiboga (63km) and Lusalira-Kasambya-Nkonge (39km)	100	94.5
18	Wakitundu-Bulera-Bukuya-Kayindiyindi Road (70km)	100	100
19	Nyakiragaju – Bugamba – Kitwe (53km) Road	100	37
20	Kabwohe - Kitagata – Kabira (51km) And Kabira - Rukungiri (15km)	100	96.2

S/N	Road project / contract name	Progress to date - planned - %	Progress to date - actual - %
21	Kabwohe - Nyakambu – Bwizibwera (35km) &Nyakambu – Nsiika (12.4km)	100	91.2
22	Kakukuru - Rubare - Kyempene - Rubirizi (35.1km).	105.1	98
23	Periodic Maintenance of Muhanga - Kyogo - Kamwezi (20.1km) and Rwashamire - Kyafora - Kiyenje (18.9km)	342.9	93.5
24	Kihihi – Nyamirama – Burama (25km) and Kanungu – Rugyeyo – Kabaranga (38km)	100	96
25	NkendaBugoyeNyakalingijo road 17.5 km	100	93
26	Kibuku - Nyabusozzi (14km) and Kahunge - Bisozzi - Rwamwanya (34km)	100	100
27	Kyenjojo - Katooke - Muzizi (38km), Rugombe - Katooke (23km) and Fort Portal - Kijura (41km) roads	100	100.0
28	Provision and Installation of Reinforced Concrete Marker Posts to demarcate Road Reserves on two selected National Roads Lot 2: Fort Portal - Bundibugyo - Lamia (103.6km)	100	100
29	Provision of Services of Road Construction Equipment Hire Facilities for Uganda National Roads Authority for a period of 4 years, Western Region(Fort Portal, Hoima and Masindi)	60	40
30	Kasisi-Kabata-Kyanga (30km)	100	98
31	Nyakigumba-Katebwa (7km) &Ntandi-Kikyo-Bundibugyo (22km) Roads.	100	86
32	Hoima-Kiziranfumbi-Kagadi-Kagadi-Muzizi and Hoima –Biiso (145.2km)	100	100
33	Massode-Nkokoo-Road(37.7km)	100	89
34	Kagadi-Kibaale Road(40.2km) (Isunga-Bugwara-Kikaya) rd.	98	96
35	Bukwiri-Kyankwanzi and Bukwiri-Ntwetwe-Kiyindiyindi Road (75km)	86	40.4
36	Provision of Services of Road Construction Equipment Hire Facilities for Uganda National Roads Authority for a period of 4 years, Western Region(Fort Portal, Hoima and Masindi)	88	90
37	Nkooko-Nalweyo Road (32.8Km)	100	66
38	Masindi- Hoima(54km),Masindi-Biiso (51km) and Masindi-Kigum- ba(39km)	100	88
39	Kisanja-Park Jcn-Parra(80km)	90	87
40	Biiso-Bukumi, Bukumi-Butiaba, Butiaba Army Barracks Access(20km), Bukumi-Wanseko(51km) and Buliisa-Park Junction(22km)	78	45
41	Provision of services of road construction equipment hire facilities for UNRA for four years Lot 3 western region Fort Portal, Hoima and Masindi	92	84
42	Adjumani - Mungula - Amuru Road (88Km)	100	93
43	Obongi - Kulikulinga (45km)	100	90

S/N	Road project / contract name	Progress to date - planned - %	Progress to date - actual - %
44	Obongi - Kulikulinga (45km), Adjumani - Sinyanya (33km) and Dzai- pi - Tete - Nimule (35km)	100	34
45	Moyo-Obongi Road (28km)	100	93.2
46	Pakele-Pabbo Road (32.0km)	45.16	12.5
47	Lira Town Roads	100	99.99
48	Lira-Aduku-Apac,&Ngetta- Puranga (91.8km)	58.33	57.15
49	Apac- Akokoro-Masindi Port (91km)	52.77	55.6
50	Apac-Cegere – Teboke Road (28km)	100.0	100.0
51	Ogur - Apala Road (217km)	108	99
52	Aduku – Teboke – Loro road (35Km)	100	99.9
53	WANDI - YUMBE Road(70km)	100	100
54	Wandi – Rhino Camp (51km), KobokoLodonga – Yumbe (36km)	99.9	99.9
55	Panyimur – Eruss – Goli - Paidah (61Km), Paidah - Anyavu-Vu- ra(65Km) and Anyavu - Vura (27Km) roads	86	80
56	Owaffa – Kubala – Omugo Road (Section 8+000 – 12+000) – 4.1Km	100	30
57	Kitgum-Orom Road (90km) &Palabek-Atiak Road (64km)	91.31	85.33
58	Pajule-Pader-Kwonkic (27 km) &Namokora-Lokapel-Adilang (74km) Roads.	94.18	87.46
59	Acholibur - Puranga road (62 km).	48.08	39.12
60	Kitgum-Kalongo-Patongo (77km) &Patongo-Lukee (20km) Roads	100	47
61	Ngomoromo - Nyimur - Bibia (36Km)	100	100
62	Kitgum-Palabek (44 Km)	48.95	26
63	Term Mantainance of Gulu - Rackoko (90km)	100	71
64	Aber – Anyeke- Ngai – Atwal - Aromo - Awere (100Km)	100	100
65	Loro – Anyeke – Minakulu (32km)	100	62
66	Katine-Ochero (70km)	100	91
67	Kumi-Ladot (26km) &Ladot-Palisa (22km)	100	90
68	Serere-Pingire-Arapo-Mugarama&Arapo-Mulondo	60	38
69	Amuria-Acowa-Usuk (38km) and Katakwi-Usuk-Orungo (33km)	92	91
70	Soroti-Gweri-Toroma-Magoro (54.0km) &Magoro-Ngariam (27.0km)	100	100
71	Kapir - Ngora - Mukongoro (44km), Mukongoro - Kidongole (14km), Soroti - Brooks Corner (25km) roads	56	49

S/N	Road project / contract name	Progress to date - planned - %	Progress to date - actual - %
72	Chosan-Amudat (30.8 km) and Chosan-Angatun- Namalu (33km)	101	93
73	Moroto-Lokitanyala Road (44km)	63	56
74	Matany – Lokupo-Turtuko (32km) and Turtuko-Apeitolim(37km)	62	47
75	Kanawat-Kaabong, Kaabong-Kapeedo, &Kapeedo-Karenga Roads	100	95
76	Ariamoi-Lopei&Kotido-Kapelimoru-Lopei	100	74.4
77	Muyembe - Namalu (65km), Girik River - Bukwo (30km), Chepsikun- ya – Girik River (26.1km)	94.44	84
78	Kapenguria - Kwoti (15km), Budaka – Kadeluna - Butebo (21.7km) and Bugusege - Buteza (9.3km)	100	98
79	Malukhu – Musoto – Nabiganda - Naboia (29.2km),	100	91.4
80	Tororo-Nagongera (20km), Nagongera-Busolwe- Busaba (24km), Bu- solwe- Nabumali (35km) and Busolwe - Budumba (17.5km) roads	100	100
81	Kamuli - Kaliro (46 Km) And Kamuli - Bukungu (68 Km) – Roads	100	96
82	Iganga - Bulopa - Kamuli (58 Km) And Buwenge - Nakabugu - Kaliro (48 Km) Roads	100	96
83	Kaliro - Nawaioko - Irundu Road – (26.0 Km)	213.08	100.0

Appendix 4: Implementation status of Works on Bridges, March, 2018

S/N	Bridge Name	Implementation Progress
1	2 nd 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

S/N	Bridge Name	Implementation Progress
		Construction of approach roads on Muyembe side is on-going. Construction 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 Karamoja Sub-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 report 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 Kapchorwa –Suam	Under liquidated damage, progress is 80 percent
15	Leresi Bridge in Butalejalesi- Budaka road	Substantially completed and is operational and under DLP
16	Ndaiga bridge on Bugiri –Malaba road	Substantially completed and is operational since march 2016 and DLP expired
17	Kabaale bridge – on Kyankwanzi Ngoma link in Nakaseke 100m	Substantially completed and is operational and under DLP ending May, 2018

S/N	Bridge Name	Implementation Progress
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, Queensway – 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 8 th 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: Planned and on-going Energy Projects

Project Category	Project Description
Power evacuation	a) Bujagali/Isimba 132kV to evacuate 183MW Isimba hydro power plant to the grid b) Karuma Interconnection project to evacuate 600MW Karumahydro power plant to the grid c) Agago/Achwa 42MW (83-105MW) hydro power plant to the grid
Grid extension	a) Mbarara/Nkenda 132kV transmission line b) Hoima Fort Portal Nkenda Project. This line will also evacuate 58MW oil and gas thermal power plants and 48MW Muzizi hydro power plant
Regional interconnection projects for power trade and exchange	Kenya Uganda Rwanda 220kV Interconnection project with associated substations at Lessos, Tororo, Bujagali, Mbarara South, Mirama and Birembo
Industrial and Commercial load centres	Power supply to industrial and commercial loads (Power Supply to Industrial parks, Free Trade Zones and the Standard Gauge Railway Project that shall increase power demand and minimize deemed energy)

Transmission lines (2018)	a)	Mbarara	–	Nkenda	132kV	Line
	b)	Mbarara	–	Mirama	220kV	Transmission Line
	c)			Nkenda-Hoima	220kV	line
	d)			Queensway		Substation
	e)	Waki, Lubilia, Rwimi, Nkusi, Mahoma, Agago Achwa (phase 1)				

Source: MEMD FY 2018/19 MPS

Appendix 7: Energy Projects for Industrialization and Commercial Centres in FY 2018/19

Construction Project	Description of Load Centre
1. Sukulu substation	Supply of 60-200 MW to Sukulu Industrial Park
2. Mbale Substation	Supply of 80-200 MW to Mbale Industrial Park.
3. Kawanda-Kasana 132kV transmission line and a substation at Kasana	Supply of Kaweweta, Kapeka and Nakasongola industrial parks starting with a load less than 20MW and finally supplying 60-100MW
4. Extension of 132kV transmission line from Moroto substation	Supply of 60MW to Moroto Cement Factory
5. Kabaale, Tilenga and Kingfisher substations and associated grid extensions	6. a) Evacuate 58 MW from Oil and Gas project 7. b) Supply 130 MW to the project area and Kabaale industrial park
8. Tororo, Buwoola, Iganga, Nyenga and Namanve SGR substations	Supply 40 MW for SGR use

Source: UETCL