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

Political Economy Thematic Report (Draft)

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Acronyms and Abbreviations

ALSF	African Legal Support Facility
BOU	Bank of Uganda
AU	African Union
COMESA	Common Market of Eastern and Southern Africa
CSOs	Civil Society Organizations
DPs	Development Partners
DRC	Democratic Republic of Congo
EAC	East African Community
ERA	Electricity Regulatory Authority
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
HIV/AIDS	Human immunodeficiency virus/Acquired immunodeficiency syndrome
ICT	Information Communication Technology
IGAD	Intergovernmental Authority for Development
KCCA	Kampala Capital City Authority
LAPPSET	Lamu Port-South Sudan-Ethiopia-Transport Corridor
LC	Local Council
LG	Local Government
MDAs	Ministries, Departments and Agencies
MFPED	Ministry of Finance Planning& Economic Development
MTR	Mid-Term Review
MW	Megawatts
NAADS	National Agricultural Advisory Services
NDP I	First National Development Plan
NDP II	Second National Development Plan
NEMA	National Environmental Management Authority
NPA	National Planning Authority
NRM	National Resistance Movement
OPM	Office of Prime Minister
PAP	Poverty Action Plan
PEAP	Poverty Eradication Action Plan
PFMA	Public Financial Management Act
PMDU	Prime Minister’s Delivery Unit
PPPS	Public-Private Partnerships
PR	Public Relations
SAGE	Social Assistance Grants for Empowerment
SAPs	Structural Adjustment Programmes
SCG	Senior Citizen Grant
SGR	Standard Gauge Railway
UDB	Uganda Development Bank
UBOS	Uganda Bureau of Statistics
UNHS	Uganda National Household Surveys
URA	Uganda Revenue Authority
UWEP	Uganda Women Entrepreneurship Programme

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Executive Summary

Overview

The mid-term review of the political economy of the NDP II indicates that there was a degree of learning by doing from the earlier plan. The new plan abandoned the broad-ranging coverage of its predecessor, focusing on a narrower set of sectors i.e. agriculture, and minerals, oil and gas and tourism, with infrastructure and human capital as enablers. To improve coordination and follow-up, a Delivery Unit was created in the Office of the Prime Minister to deal with "big results" issues, removing structural impediments, ensuring visibility of public interventions and inculcating a culture of delivery in the public service.

The prioritization indicated at the national level was not wholly transferred to the sector and project levels. Projects not started during NDP I for lack of time or funds were wholly transferred to NDP II, while the new plan added many more. Moreover, the linkage between plans and budgets at the national, sector and local levels was tenuous at best. There seems to be a lack of political will to hold the various levels accountable for inadequate planning and for missing targets. The parliamentary committees have commented on this anomaly, but to reach some sense of alignment will require that the national plan and its derivatives at the ministry and local government levels become stronger resource allocation tools than is the case today.

Ownership of the Plan

The NDP II, similar to the first one, received prima facie support from the President, Parliament and other levels of Government. The core agencies with regard to its implementation—the Office of the Prime Minister, the Ministry of Finance, Planning and Economic Development, and the National Planning Authority—were eager to ensure a better streamlined and more impactful process than was the case for NDP I.

In terms of ownership i.e. living by the letter of the national plan, government ministries and agencies demonstrated little enthusiasm, the local levels had more pressing issues to attend to, such as resource mobilization, while the private sector and civil society were not actively canvassed. First, the MDAs tended to pay the national plan little attention, not following its stipulations to any large extent, as there were no consequences for missing targets. Second, the private sector, the "engine of the economy," while responding well to the incentives in the system (notably tax holidays), had few opportunities to strategize on the economy—as happened in the developmental states of East Asia that Uganda is seeking to emulate. Civil society, like the private sector, had had discussions with the Government during the preparation phase of the plan, but it had little or no involvement in the monitoring and evaluation activities of the NPA.

Looking ahead, plan ownership must be demonstrated to be meaningful. This will mean that the national planning exercise must have political backing and likewise political implications when targets are not met. The process should not be confined to aspiration. It should not be an exercise that is repeated every 5 years without leaving any appreciable impact on institutional behaviour.

Plan Implementation

The Government recognises that successful implementation of the plan will require effective follow-up and a broader ownership among all stakeholders, including the local level. Two innovations have been the Prime Minister's Delivery Unit and the participatory meetings "Barazas" organized by the Office of the Prime Minister and held at local levels to discuss the role of staff from line ministries and local leaders in plan implementation. By the end of 2018, the OPM had held Barazas in some 30 districts. However, given the breadth of issues and the fact that there are over 130 districts in the country, it will take a while before the whole country is covered. The PMDU has potential to improve implementation and follow-up, but more time is required for a more accurate assessment of its value addition.

Progress on structural issues has been slow. Land management has continued to be a key impediment to the private sector's investment plans as well as the Government's infrastructure development programmes during NDP II. A land commission was setup to study the issues and suggest a way forward. Given past experience, however, expectations are low. Procurement reforms are also ongoing, but even here progress has been slow, caught up in corruption and the institutional malaise of the public sector. It is clear that institutional strengthening at all levels will be required and much store has been put into the ongoing restructuring of the public sector, involving the merger and revamping of institutions to reduce role duplication, curb malfeasance, improve supervision and enhance efficiency. However, at NDP II midterm, the structural reform efforts were yet to bear fruit.

The emphasis on infrastructure, notably roads and energy, continued during NDP II with visible results. The country is about to launch the Isimba and Karuma dams, adding some 750MW to the national grid. Given that additional power projects are planned, there is concern that power supply might exceed demand in the near term, an argument that the Government dismisses readily.

Roads (asphalt quality) have been completed in most areas of the country under NDP II, while a number of road projects are planned around Kampala, including flyovers. Improved infrastructure has mitigated the cost of doing business in Uganda to some extent, although structural impediments and the cost of capital continue to erode the country's competitiveness. There is need for a wholesome and well-sequenced approach to national planning so that the benefits of the infrastructure improvement are not distorted, or even reversed, by slow structural reforms.

Oil is the *quintessential* development issue in Uganda today. Oil-related projects are already having an impact on the country and expectations are rising among the population. A much-repeated caution is not to treat oil income as an excuse to expand current expenditure and to use it on investments that enhance the welfare of the population on a sustainable basis. This will require that the encashment of oil leads to projects that support economic diversification and create employment in other areas of the economy, notably manufacturing. However, this is easier said than done and macroeconomic discipline of the highest order will be required.

Although the private sector has no explicit role in monitoring and evaluating of the NDPs, it has responded well to the Government's incentives, especially in the area of ICT. It complains about the low level of aggregate demand, and the generally high cost of credit, with local businesses much more affected than others. Moreover, the framework for PPPs is not yet clarified.

With respect to cross-cutting issues, the NDP II evinces some successes. Social protection is now high on the government's agenda as the number of aged people increases in the country. However, the grants to the elderly, on a pilot basis, are supported by development partners and there are fears they might not be sustainable.

Uganda has been consistent in pursuing gender equality, in spite the challenges. Women have advanced in politics, government and academia in recent decades. However, maternal mortality rates remain high, while female morbidity and deaths due to HIV/AIDs are higher than for men. Universal primary and secondary school programmes have increased the number of women and girl children in school although, for a variety of reasons, including pregnancies and early marriage, their attrition rates are higher than for boys.

The youth in Uganda are held in some consternation today, while their restiveness is unmistakable. The biggest demands of the youth are education and jobs. However, one does not necessarily lead to the other, causing distress across the board. The youth are demanding that their voices should be heard, and that they should be given the resources needed to enable them be part of the country's economic transformation. However, the NDP II and the previous plan gave the youth issues cursory treatment, with no specifically tailored programmes to meet the urgent employment needs of the youth.

Growth, Inclusion and Equity

The Ugandan economy continued to perform below NDP II projections, during 2015-18, a gap of 200 basis points, a prolongation of the low growth episode that set in in 2011. The question is whether it is the result of external shocks or that of a structural shift in Uganda's growth. Uganda's agriculture has performed poorly for close to a decade. In effect industry and services are the real engines of the economy. Two conclusions are, first, that Uganda should intensify its structural reforms, especially to reduce the inefficiencies in the system, including those caused by rampant corruption; second, that alternative growth scenarios should be considered when drafting development plans. Politically motivated (high) growth projections serve little purpose.

The labour market is segmented, with a small wage sector and a large informal sector, where the bulk of the population seeks a livelihood. Not much can be done in the short-run to fix the imbalance, but a lot could be done to ensure the youth that policies are being put in places to improve their situation. Today some 30 percent of the youth in Uganda are neither in School nor in employment, putting a question mark on the achievement of the youth dividend.

Uganda's rate of poverty reduction in past decades was unprecedented in the region, but there have been recent setbacks. The poverty decline during the 1990s and 2000s was caused by rapid growth and well-targeted interventions, notably agriculture grew by over 5 percent on average. Similar recent attention in northern Uganda helped to reduce poverty incidence in the area from 50 percent of Uganda's total to 25 percent. Conversely, poverty in eastern Uganda and that in Kampala has increased—caused in the former case by slow recovery of livelihoods, including restocking herds, and in the latter by a constrained urban economy in an environment of slow growth. The Income inequality at household and spatial levels has increased in recent years, although still much lower than, say, the Southern African countries.

Regional and International Issues

Uganda's future is with the EAC and it has sought to align its national plans with those of its neighbours and the region as a whole. However, the country is no longer the leading reformer in the region and needs to address a number of institutional weaknesses as a matter of priority to avoid a sharp decline in its competitiveness. With respect to the EAC convergence criteria and other international commitments, the country seems well placed to meet them, although the expanding debt and relatively large fiscal deficit (with grants) will require additional attention as the region moves towards the full Common Market.

1.0 Introduction

1.1 Overview

1. This report is the mid-term evaluation of the political economy of Uganda’s Second National Development Plan (NDP II), which covers the period 2015/16-2019/20. The NDP II is the second in a series of plans that comprise the country’s Vision 2040, which was embarked on in 2010 and espouses Uganda’s socio-economic transformation. The report was commissioned by the NPA.

1.2 The Political Economy Context

Fractious Legacy

2. By the mid-1970s, Uganda’s post-independence crisis was in full bloom. President Idi Amin had expelled Asian business families from the country, virtually ending inward investment and development assistance. Across Uganda, public administration, hospitals, and schools were in disarray. Coffee exports, the main source of foreign exchange, declined sharply, as smallholders reverted to subsistence. Consumer goods disappeared from the shelves and prices soared. Corruption became a systemic affliction instead of the nuisance it had been in the 1960s.

3. Amin’s regime ended in the late 1970s but not the socio-economic distress. In the early 1980s, Yoweri Museveni led a guerrilla war against “Obote II,” a reference to the independence leader’s second round in power. In 1986, he eventually took power from the military junta that had a year earlier overthrown Obote II.

Peace, Reform, Decentralization and Demographic Dividend

4. There have been at least four political and economic transitions in Uganda since mid-1980s. The first was the transition from war to peace that allowed the Government to redirect resources to social inclusion and a more democratic political dispensation. The latter was exemplified by the promulgation of a new constitution in 1995 and the reintroduction of political pluralism—although the NRM continued to dominate.

5. The second transition was due to far-reaching economic reforms, supported by the international community that helped raise investment and growth rates, lowered poverty rates, and supported economic diversification. Uganda has been able to sustain a sustainable level of macroeconomic stability, since the 1990s.

6. Thirdly, the Government embarked on the devolution of administrative and political power to districts and parishes. From a handful of districts in the 1990s, their number had reached 130 in 2018. The expansion has revealed challenges not foreseen during the design stage,

notably a lack of capacity to generate local revenue. Dependence on grants from the centre remains a fact of life for many districts, as is their relative lack of independence from the central bureaucracies.

7. The fourth transition has been demographic, comprising the youth dominance of the population and urbanization. Uganda's population has more than doubled since the mid-1980s to some 44 million at the end of 2018. At the rate 5.2 percent per year, Uganda is one of the fastest urbanizing countries in Africa, with implications for job creation, access to social services, power structure and security. The youth, increasingly educated but equally restive, will be a key ingredient in the process of economic transformation i.e. the demographic dividend.

Structural Adjustment, Poverty Reduction and Economic Transformation

8. In terms of economic policy, the NRM embraced structural adjustment policies (SAPs) in the 1980s, supported by the international community. They helped to generate growth, but did not adequately address poverty and inequality. During the 1990s and early 2000s, the Government embarked on the Poverty Action Plan (PAP) and Poverty Eradication Action Plan (PEAP) again with support from development partners. During this period, the economy grew at 6 % per annum, on average, while the poverty rate was halved, from 56% in 1992 to 24.5% in 2010.

9. In spite the progress, the Government felt inclined to formulate and implement a longer-term strategy for the country, steeped in its vision of economic transformation. The first national development plan was accompanied by a 30-year "Vision 2040" for the country. The NDP II, the subject of this mid-term evaluation, is the second in a series of plans linked to this vision of a peaceful, middle-income country which has transcended its roots of a poverty-stricken peasant economy.

1.3 Learning by Doing: NDP II and NDP I Compared

10. The NDP II sought to consolidate the gains of NDP I, make adjustments suggested by experience, and identify areas where further reform gains could emerge. The NDP II evinces more realism with regard to what could be achieved in 5 years. It focuses on fewer goals—productivity enhancement, infrastructure development, human capital accumulation, and quality service delivery. Table 1 compares the objectives of NDP II to those of NDP I.

Table 1: NDP II and NDP I Objectives Compared

NDP II	NDP I
Theme: To achieve middle-income status by 2020, through strengthening the country's competitiveness for sustainable wealth creation, employment and inclusive growth.	**Theme:** Growth, employment and socio-economic transformation for prosperity.
• To increase sustainable production, productivity and valued addition in key growth opportunities • Increase the stock and quality of strategic infrastructure to accelerate the country's competitiveness • Enhance human capital development • Strengthen mechanisms for quality, effective and efficient service delivery	• Increasing household incomes and promoting equity • Enhancing the availability and quality of gainful employment • Improving the stock and quality of economic infrastructure • Increasing access to quality social services • Promoting science, technology, innovation and ICT to enhance competitiveness • Enhancing human capital development • Strengthening good governance, defence and security • Promoting sustainable population and use of the environment and natural resources

Sources: Republic of Uganda (2010, 2015)

11. With respect to growth opportunities, NDP II identified a smaller number of sectors than NDP I: agriculture; tourism; minerals, oil and gas and two overarching pillars: infrastructure and human capital (Table 2)[1]. It abandoned the earlier plan's "umbrella" approach, where sectors were placed into four pots i.e. primary sectors, complementary sectors, social sectors, and enabling sectors but where prioritization was not explicit.

Table 2: NDP II Priorities and Planned Interventions

Priority Areas	**Description of planned interventions**
Agriculture	• 12 sub-areas of focus: cotton, coffee, tea, maize, rice, cassava, beans, fish, beef milk, citrus, and bananas. • Strengthening agricultural research • Implementing the single spine agricultural extension system • Technological adaptation at the farm level • Increasing access to and effective use of critical farm inputs • Promoting sustainable land use and soil management • Increasing access to agricultural finance with specific options for women farmers

[1] This can be compared to the eight "primary sectors" in NDP I: agriculture, forestry, tourism, mining, oil and gas, manufacturing, information and communication technology, and housing. As is well known, the longer the list, the less the prioritization.

	• Strengthening agricultural institutions for effective coordination and service delivery
Tourism	• Improvement, diversification and exploitation of tourism products through aggressive marketing • Investment in tourism facilitating infrastructure • Appropriate skills development and quality of leisure and hospitality services at tourism attraction sites • Curbing poaching and conservation of wildlife and sites.
Minerals, Oil and Gas	• Sustaining investments in oil and gas mainly on construction of pipelines for crude oil, and production of liquefied petroleum gas and the oil refinery • Increasing the prospecting and processing of selected minerals, iron ore, copper, cobalt, phosphates and 3Ts
Infrastructure Development	• Fast-tracking plans for the Standard Gauge Railway (SGR), expanding the road water and air transport infrastructure. • Enhancing the electric power grid and ICT Services to link up the country and reduce production costs.
Human Capital Development	• Increasing the stock of skilled labour, building a health workforce and supporting investments that generate employment.

Source: Republic of Uganda (2015).

12. The NDP II's average growth rate was expected to be 6.3% compared to 7.1% for NDP I. It was estimated that by 2020, the country's per capita income would be US$ 1,039 i.e. well within the lower ranks of middle-income countries. Hence a major goal of NDP II was to usher Uganda into "middle income" status.

1.4 Addressing Strategic Bottlenecks

Inequality, Unemployment, Inadequate Infrastructure and Climate Change

13. The NDP II identified a number of "constraints" and "bottlenecks" that had to be addressed: rising inequality, unemployment, especially among the youth, still low levels of infrastructure development, especially access to modern energy in rural areas and to sanitation in urban areas, high cost of doing business, corruption and the slow pace of land reform. Last, the new plan also highlights the issue of climate change, the effects of which are visible in Uganda today.

14. The plan underlines that the slow pace of economic reforms and political uncertainty have disrupted domestic and foreign investment with knock-on effects on growth and the country's ability to meet its socioeconomic targets, including the push for middle income status.

Changing the Public Sector's Way of Doing Business

15. The NDP II identifies a number of strategies to guide plan implementation: the first relates to strengthening the state's role and changing its way of doing business. The second focuses on bringing about structural transformation, notably industrialization, fast-tracking skills development, promoting export-oriented growth, and harnessing the demographic dividend. The third set of approaches relates to integrating cross-cutting issues, not least gender and youth issues, into programs and projects.

1.5 Imperatives for Success

16. The NDP II also identified five features (i.e. imperatives) for the success of the new plan:

- Spatial balance—to ensure an even pace of urbanization and regional development
- Prioritization—given Uganda's vast needs
- Employing value-chain analysis to extract benefits from emerging development niches, notably the oil sector
- Alignment of priorities and budget systems to ensure effective and efficient service delivery
- Engagement of non-state actors in the implementation and monitoring and evaluation of the plan.

1.6 Outline of the Rest of the Report

17. Chapter 2 discusses the methodology and approaches used for this mid-term political economy evaluation of NDP II.

18. Chapter 3 looks at the leadership and ownership of the NDP II amongst the government bureaucracy and other stakeholders, including civil society. It focuses especially on the extent to which the institutional mechanisms employed by the Government and the NPA were effective in disseminating messages to the broader public and at the local level.

19. Chapter 4 examines the implementation of the NDP II and the results achieved at midterm, including impacts on state capacity, service delivery, land management, decentralization, urban development and cross-cutting issues, including gender, the environment, social protection and governance and democracy.

20. Chapter 5 looks at the issues of growth, inclusion and equity. It investigates the impact on poverty and inequality, both at the household and spatial levels. In particular, it examines

how the benefits of public investment, in terms of infrastructure (e.g. roads) and social services (i.e. education, health, water), were distributed among the regions of the country.

21. Chapter 6 analyses how key international and regional issues have affected NDP II implementation and assesses the implications of further regional integration, including intraregional infrastructure outlays and assenting to regional treaties and protocols, for the country's development prospects, including peace and security.

22. Chapter 7 concludes the report with a policy discussion and recommendations.

2.0 Methodology

2.1 Introduction

23. The methodology used for this political economy evaluation was fourfold: First, the evaluation team used the thematic questions in the TORs to develop a list of issues to discuss with stakeholders on NDP II design, ownership, implementation, governance and performance.

24. **Second,** the team selected a number of institutions thought to be knowledgeable about the NDP II process, notably government ministries and agencies, including local government, the private sector, development partners and civil society, with the latter including NGOs and universities. We also conducted some focus group discussions in line ministries (Annex 1).

25. **Third,** discussions and secondary data were collected from the Uganda Bureau of Statistics, the National Planning Authority and the Bank of Uganda, helping to establish a basis for triangulation and validation of some of the impressions gathered from the interviews.

26. **Fourth**, the evaluation team undertook extensive literature reviews of public policy outcomes for Uganda and other African countries, which similarly are seeking economic transformation through strategic planning. It also looked at some examples of planning and economic development from East Asia.

2.2 Evaluation Questions

27. The TORs for the evaluation of the political economy theme had a total of 14 thematic questions (Annex 2), drawing, roughly, on the OECD-DAC evaluation criteria—relevance, efficiency, effectiveness, coherence and impact. The questions were mapped onto four areas of political economy, numbered A to D (Table 3) i.e. ownership and policy coherence; plan implementation and results; growth, inclusion and equity; and regional and global issues. The individual sections in Table 3 are expanded into fully-fledged chapters of the evaluation.

Table 3: Mapping Evaluation Questions to Areas of Political Economy Relevance

Areas of Political Economy Relevance/Thematic Questions	**Rationale for the Mapping/Comments**
A. Ownership of the Plan **Question 1:** The relevance, ownership and leadership of the NDP II amongst key stakeholders (Executive, Parliament and Civil Society **Question 5:** What political economy factors have contributed to exceeding / missing NDP II objectives/targets? **Question 13:** What can be done to strengthen political ownership,	The questions relate to the leadership and ownership of NDP II, stakeholder involvement, and how the various views were brought into alignment. It discusses how stakeholder responses changed in comparison to NDP I.

leadership and behavioural change for achievement of the NDP II objectives?	
B. The Plan's Implementation **Question 6:** How has political economy affected the (setting of) priorities within and between sectors? **Question 7:** To what extent has the private sector, civil society and DPs played the role envisaged for them in the NDP II and why? **Question 9:** How have political economy factors influenced the effectiveness of institutional arrangements surrounding the development, implementation and monitoring of the NDP II? **Question 11**: From a political economy perspective, what needs to be done to influence more effective implementation of the NDP II? **Question 14:** Extent of implementation of the proposed reforms.	The implementation of national development plans is invariably intertwined with the politics of the country. It examines the role played by the various stakeholders, including central and local bureaucracies, the private sector, and development partners. It also looks at issues of governance and accountability.
C. Growth, Inclusion and Equity **Question 3:** The comprehensiveness of the Plan in addressing its overall target of attaining middle income status by 2020, through strengthening the country's competitiveness for sustainable wealth creation, employment and inclusive growth. **Question 8:** To what extent has the NDPII addressed regional disparities in development, particularly in Northern Uganda? **Question 10:** What is the emerging evidence as to what extent the focus on economic growth had an impact on poverty reduction and socio-economic transformation?	Uganda embarked on the NDP series because it needed a development vehicle that focused on growth in a more aggressive manner than the PEAP. It looks at aspects of inclusive growth, notably with respect to gender, children, the youth and the elderly, and other vulnerable groups. To what extent is growth generating employment and boosting livelihoods? Increasingly, that growth has also touched on the proponents of wealth creation in the country, notably land.
D. Regional and Global Issues **Question 2**: The flexibility of the NDP II to cater for emerging integration issues **Question 4**: How have international and regional political and economic trends had an impact on the implementation of the NDP II and the ability of Government of Uganda to meet the targets in the NDP? **Question 12:** How can the potential benefits of regional integration be best factored into the next NDP?	Uganda, a landlocked country, with a number of neighbours in a state of perennial conflict, has had to contend with adverse regional and global political and economic events. Regional integration has been an important buffer to shocks. These factors have had important implications for the assumptions made by the NDP II and for the type and size of the remedial measures required to address them.

2.3 Observations on Data and Information Collection

28. The data collection indicated that general knowledge on the national development plans varied greatly between institutions, and was quite low at the level of local government. Moreover, experts aside, few officials that we interviewed and fewer still among civil society could distinguish between NDP I and NDP II. However, that did not mean that the various respondents did not have views on government policies or on particular projects. They were also eager to express their opinions on the quality of service delivery and on the extent of corruption, and how it could be addressed.

3.0 Ownership of the Plan

3.1 Overview

29. This chapter examines the issues of policy ownership, governance and leadership of the NDP II. The ultimate goal of a national development plan is to impact the behaviour of government ministries, departments and agencies, forcing them to change their way of doing business and to innovate.

30. President Museveni was consulted repeatedly during NDP II formulation and he presided over its launch in 2015. The latter was crucial for generating interest for the plan among the central bureaucracies: Parliament, development partners and civil society—although penultimately "buy in" would depend crucially on the marketing and PR skills of the NPA, and the goodwill it could engender with the broader public. Notably, the President gave the Chair of the NPA an ex-officio seat in the Cabinet, boosting the position's prestige, but also complicating MFPED's supervision of the Authority.

3.2 Political Alignment

31. In terms of political alignment and ownership, the policy thrust of NDP II is consistent with that of the NRM Manifesto. They have similar flagship interventions in the areas of transport and energy infrastructure, ICT and human capital development.

32. The Ugandan Parliament and its economic committees have been actively involved in the national planning process. However, for NPA's monitoring and evaluation work to be impactful, its findings must have implications for ministerial and agency budgets. If such reports, like those of the Auditor General, are adopted for regular parliamentary scrutiny, they could garner the political credibility they need to have impact on the bureaucratic behaviour of the MDAs and other levels of government. In the absence of such a parliamentary signal, national development plans will continue to punch under their weight.

3.3 Stakeholder Engagement in NDP II

Ministries, Departments and Agencies

33. Although the NPA's lack of policy traction with MDAs was observed during the previous plan, the situation has not changed much during NDP II. Ministerial plans continue to be delinked to budgets, similarly NPA's monitoring and evaluation reports have no notable consequences on ministerial behaviour. Although the NPA retains a desk for each MDA, there is no direct working relationship between the entities and the Authority, hence the general absence of behavioural alignment.

Local Governments

34. Local governments receive the bulk of their financing from the centre, as their own revenue efforts are feeble, especially in the rural-based districts. In many of the latter, technical and managerial capacities are scarce and local bureaucracies are beholden to the line ministries at the centre. However, since line ministries do not have effective plans of their own, they can hardly demand them of their local government clients. This situation has not changed much under NDP II. (Box 1).

Box 1: Views from the Local Government Finance Commission

Respondents at the Local Governance Finance Commission were of the view that under the national development plans more local expenditure was delegated from the centre than during the PEAP. Local development is today much more tied to ministerial preferences at the centre than before. They also did not see much local government involvement in the push for economic transformation, arguing that getting LGs to build more schools is not enough. There is need for more productive interventions and boosting of livelihoods at the local level.

They suggested that the Government should help local levels to build capacity, including for prioritization. They noted that without capacity at the local level, performance contracts and targets become ritualistic, without much hope of being met. They also urged for a return to a more people-centred approach to decentralization, noting that focusing on a narrower set of areas, such as education, health, water and roads under PEAP, would be simpler and have more traction at the local level. They saw the need for organizing more visits between districts for peer learning and as a means of establishing communities of practice.

Source: Author's notes

Private Sector

35. The Government's economic transformation strategy for the country is based on an active involvement of the private sector—which it calls the engine of the economy. However, the private sector complains repeatedly about the absence of strategic interaction with policymakers on development issues, while it has not featured, as earlier anticipated, in plan monitoring and evaluation. Respondents at the umbrella Private Sector Foundation were of the view that while the Government was forthcoming on a host of issues, including a common approach to providing tax and related incentives to investors, domestic and foreign, it needed to be more consistent in its positions. For example, while Public-Private Partnerships (PPPs) were expected to play a key role in financing the national development plans, the modalities for doing so, on a large scale, are not yet crafted, and hence not much has been achieved to date.

Civil Society

36. The success of the NDP is hinged on the participation of all stakeholders, including civil society and development partners. A more inclusive approach would ensure that even the "non-state" stakeholders embrace the NDP and contribute to its successful implementation.

But as observed for the NDP I, the participation of civil society was mainly paid lip service under NDP II. Moreover, the Government's mistrust of many NGOs and umbrella civil society organizations persists.

Development Partners

37. As major financiers of segments of the NDP II, development partners remain an important stakeholder group, although their cohesion as a group has been distorted in recent years by the rising importance of China and India as sources of financing. The latter put less emphasis on coordinating development approaches in dealings with the Government. Still, the Government has woken up to the need, from the strategic and efficiency points of view, to have a more balanced portfolio of projects supported by development partners—with Japan, for instance, taking on sizeable amounts of the road construction business in recent years. Some partners, such as Sweden have focused on capacity building—helping to lift the teaching staff capacity at Makerere University from struggling to highly competent in the space of a decade and a half.

3.4 Conclusion

38. In terms of leadership and ownership of the NDP II, the issue is not so much about how it was received at launch but about whether it continued to have traction with the bureaucracy and the public. Respondents in the various ministries only evinced a passing familiarity with issues that the first and second plans were focused on. Many were of the view that it was obscure government work which had little general interest. It is clear that the NDP II and national planning more generally need to be popularized.

39. The suggestion of an annual NDP Monitoring Forum, convened by the Presidency, to examine the plan's progress sounded like a good first step. However, pitching the process at such a high level, has pitfalls, notably being overtaken by other national events/crises. Thus, while such a high-level gathering is necessary, if for no other reason than to enliven the NDP debate, smaller and more focused meetings convened by the NPA and even civil society, including at the local level, would be required to, for example, look at monitoring and evaluation reports on key plan initiatives. This would also help establish the NPA as a thinktank to contend with in the country.

4.0 Plan Implementation at Mid-Term

4.1 Overview

40. This chapter examines how the NDP II was implemented, looking in particular at the institutional responses, with respect to the delivery of services. It also looks at the results achieved so far and examines the political economy impediments to the realization of the plan's mid-term targets.

4.2 Stakeholder Involvement in the Implementation of NDP II

Designated Stakeholder Roles

41. The NDP II was accompanied by an elaborate specification of the roles that stakeholders in the would play in its implementation, including with respect to accountability and reporting (Table 4.1). The Presidency was assigned the overall leadership of the process, including oversight of implementation of the plan. On the other hand, the Cabinet would provide policy direction and champion NDP's implementation, while Parliament would "oversee" the implementation of the plan and ensure that the national budget was aligned to the NDP II priorities.

42. Although this cascading of responsibilities is common among bureaucratic hierarchies, the sense that every level of government somehow has direct responsibility for the NDP II could explain the absence of a champion for it in the policy sphere—because by design the responsibility belongs to all.

Table 4: Matrix Indicating Key Stakeholder Roles and Accountability Functions in NDP II

Government Department/ Agency	Assigned Role in NDP II	Accountability Function
Office of the President/Presidency	• Take overall leadership and oversight of the implementation of the plan to ensure its attainment. • Convene the national M&E Forum	• Pursue zero tolerance to corruption
Cabinet	• Provide policy direction for the NDP II • Champion the implementation	• Review and assess efficiency and effectiveness of policies, programmes and interventions
Parliament	• Ensure that the national budget is aligned to the NDP priorities • Oversee the implementation of NDP II • Enact enabling legislation	• Hold the executive accountable for the implementation • Undertake field oversight monitoring and present reports to the executive for corrective action
Office of the Prime Minister	• Coordinate implementation of the Plan • Fast track implementation decisions	• Submit periodical reports on coordination of

	from cabinet and resolutions passed by Parliament relating to NDP implementation	implementation of the NDP to NPA, Cabinet and Parliament
National Planning Authority	• Develop the National Development Plans • Align long term, medium term, and annual budget allocations to the NDP priorities	• Issue Certificate of Compliance of the National Budget • NPA to report on the outcome and impact results of the plan
Ministry of Finance, Planning and Economic Development	• Timely release of funds for the implementation of the NDP	• Ensure direct linkage between planning, budgeting, and resource allocation during implementation. • Ensure accountability for the resources disbursed • Ensure efficient and effective procurement systems
Ministry of Public Service	• Clearly define the roles and responsibilities of MDAs/LGs to eliminate duplication of roles/efforts	• Provide and monitor the reward and sanctions framework
Sectors/Ministries, Departments and Agencies	• Effective implementation of plans in line with the sector set targets and performance indicators	• Provide timely accountability for allocated resources, including results
Local Governments	• Implement the district development plans	• Mobilize local revenue to finance local government priorities
Non-state Actors - **CSOs** - **Private Sector** - **Development Partners**	• Partner with the Government through PPPs and other development interventions for effective implementation of NDP in line with set priorities • Align partnership strategies to the NDP II and sector strategies and promote the use of government systems and procedures • Assist Government through financial, technical and other forms of assistance to ensure effective implementation of the NDPII	• Reduce transactions costs and promote value for money • Promote accountability to Government and the citizens of Uganda in the use of development resources
Bank of Uganda	• Monitor performance of the financial sector • Monitor performance of monetary policy • Monitor the performance of the external sector, including capital accounts	• Not explicit, but the maintenance of macroeconomic stability by BOU was a key achievement

Source, NPA (2015)

Accountability Functions

43. Table 4 provides some examples of the accountability functions that were allotted to the various stakeholders. The Presidency, as the overall leader of the process, was expected to "pursue zero tolerance to corruption" during the NDP II. However, this is too general a role and likely was meant as an admonition. The role to be played by other instances was more specific. The Parliament, Cabinet and the Office of the Prime Minister were expected to undertake review work related to the implementation of the plan. Notably, Parliament would "hold the executive accountable" through its own reviews of the pace of implementation, including field visits. So far these rather promising and categorical stances have not yielded much. Parliament has been so busy with other pressing issues, including the issue of term limits for the Presidency to have had the time to examine the progress of the NDP II in any detail.

44. In terms of policy coherence and follow-up, the creation of a Prime Minister's Delivery Unit (PMDU)2 has been a major step in the right direction, although raising questions about the shift in roles within the institutions responsible for the implementation of the NDP II (Box 4.1). Additionally, to inculcate policy coherence at the local level, the Office of the Prime Minister introduced meetings of citizens (Barazas) at parish and district levels to assess the performance of managers from the line ministries and local leaders responsible for delivering programmes and projects. The OPM sees these participatory efforts as key means to boost transparency and accountability, and to show that the decentralization efforts of the Government have meaning. However, given the number of districts in the country and the multifarious issues arising at the local level, the frequency of the Barazas needs to be extended substantially to cover more than a handful of projects each year.

Box 2: The Prime Minister's Delivery Unit

The Cabinet had found the implementation of NDP I to have fallen short of expectations and wanted to ensure better performance for future plans. The Prime Minister's Delivery Unit (PMDU) was approved in 2015, within the same cabinet minute as the NDP II, which had suggested the creation of the unit. The establishment of the PMDU was meant to fill a lacuna in the national development planning process i.e. the absence of a mechanism for following up and enforcing discipline. The PMDU is now part of the permanent structure of government.

The PMDU is currently headed by a former Finance Minister and has, by design, a small staff of highly trained and motivated individuals. The evaluation team was informed that PMDU's aim is to drive the implementation of the Government's priorities i.e. infrastructure development, industrialization, job creation and poverty reduction through wealth creation and service delivery. The head of the Unit described its work as focused on high visibility of delivery, inculcation of a performance culture and ensuring catalytic impact on the rest of the public sector. The Unit will maintain this approach by keeping a lean and agile team, collecting timely data to ensure that its interventions are evidence-based and by embarking on critical but amenable tasks with scalable solutions. Indeed, the Unit refers to some of its interventions as "laboratory" work or labs.

Among recent interventions, which have received visibility, is the introduction of biometric clock-in and clock-out meters for health centres and primary schools (i.e. under universal primary education (UPE)) in selected districts. In both cases, considered key to service delivery, staff absenteeism was rife. For example, absenteeism among head

[2] The creation of the PMDU was suggested by the NDP II as a means of ensuring coherent implementation of the Plan, focusing on the key areas i.e. Big Results.

teachers in the worst performing UPE schools (involving 1936 schools and 2000 teachers drawn from the eastern parts of the country) was up to 40% per term. Since they are not subject to manipulation or human error, the instruments have helped to raise health and education staff attendance (i.e. time on task) to over 95% percent, when compared to the self-reporting tools used earlier. Indeed, the Government has resolved to, in the future, pay staff on an attendance-only basis. This is being considered for replication in more districts and other parts of the public sector. Other projects within PMDU's sights include assessing the role of feeder roads in rural development and tracking projects in infrastructure with a view to assessing value addition. It also aims to use modern technology to get on time feedback on project implementation and on issues such as the condition of the roads or school enrolment in parishes from all over the country.

The Unit is also credited for singling out malaria as the health issue of priority concern in Uganda, on which to focus the Government's meagre preventive resources. More recently, the PMDU was allotted the task of increasing Uganda's coffee production to 20 million bags (from 3.5 million bags in 2017) before the end of NDP II in 2020, a task on which it has embarked with gusto, but which also reveals its limitations in terms of size and reach, given that it has to work in a policy space with many players, lacking the "lab" policy environment that it seeks to emulate. It had to arrange, by exerting pressure on all relevant entities, for the delivery of 3 million coffee seedlings to farmers. However, it is doubtful whether this is an effective use of the PMDU's analytical and catalytic role. In trying to unblock seemingly isolated obstructions in the delivery system, the Unit might risk being dragged inexorably into the structural challenges afflicting the broader civil service i.e. averting focus from the "big" policy issues.

However, even as the PMDU's prestige is enhanced, it is worth considering the implications for the NPA, the producer of the plans and enforcer of their implementation. In effect, the PMDU and the NPA are, with regard to the implementation of the NDP II, two heads of the same coin, ultimately supervised by the same instance, the OPM. They will need to collaborate if future conflict between their roles is to be avoided. PMDU argued that it does not "deliver" as such and that the essence of its work is to "catalyse." The evaluation team got the impression that the NPA similarly needed to have greater visibility and to be able to catalyse on a larger scale.

Source: Authors notes from visit to the PMDU

45. In the implementation strategy, the MFPED was also allotted important roles in ensuring accountability in resource use and the integrity of the procurement processes linked to the NDP II. Moreover, if well executed, MFPED's establishment of a direct link between planning, budgeting, and resource allocation, would mark a level of accountability that was missing under NDP I. It is doubtful, however, whether the NPA's own certificate of compliance, which it now provides to conforming departments, is, absent consequences for non-compliance, having impact. The certificate could become an important instrument for raising accountability and enforcing discipline if linked to specific incentives, including budgetary ones.

46. On the whole, and perhaps with the exception of MFPED, and in the case of OPM the creation of a delivery unit, the accountability functions allotted to the various stakeholders (Table 4) lack specificity and hence are difficult to evaluate. Agencies are expected to do their bit, while no particular institution is given the ultimate responsibility for ensuring that targets are met or that failure to do so has consequences.

4.3 NDP II Implementation: Issues Arising

47. Implementation under NDP II has been challenging because of legacy issues from NDP I, midstream shifts in political emphasis and the difficulty of mobilizing resources from domestic and foreign sources. At launch in June 2015, the NDP II had a list of 742 projects, comprising "ongoing," and "retained" projects from NDP I and new i.e. pipeline projects for

the new plan and a range of targets (Annex 4). The number of NDP I projects ongoing at the start of NDP II was relatively small, and so the former's large portfolio of projects, the bulk still uninitiated, was adopted wholly by the new plan, while adding a host of new projects of its own.

48. But perhaps the most serious impediment to prioritization was the politically-driven need to have something in the project list for every part of the country. There was no hint at all of old NDP I projects being dropped for new ones under NDP II. Prioritization means hard trade-offs and the project list for NDP II did not indicate that this was happening to any large extent.

49. The second set of impediments are structural in nature, relating to the difficulties of project preparation and implementation (Box 4.2). They include governance issues, land acquisition challenges, inadequate project preparation and follow up, especially at the local level, and inadequate counterpart funding. However, the PFPED suggests that the rather disconnected manner in which the NDP II's portfolio of projects and programmes was gathered was partly to blame. The modalities for identifying priority projects were not subjected to any test. This resulted in unnecessarily broad projects and programmes which were difficult to subject to feasibility studies ex ante and hence were difficult to finance.

Box 3: Project Implementation Challenges During the NDP II

- Lack of proper accountability, leading to misallocation, diversion and misuse of funds
- Land requisition problems (lack of a budget to compensate landowners)
- Poor contract management due to changes in design and limited resources to undertake feasibility studies
- Poor project preparation (there is limited capacity to prepare bankable projects at the MDAs level)
- Projects at the local levels are poorly tracked. It is difficult to ascertain effective and efficient utilization of resources (owing to weak monitoring and evaluation)
- Inadequate counterpart funding and late releases of funds (leading to low prioritization and sequencing of projects)
- Different sources of project ideas identified in NDP II—priorities are broad and result into conflicting prioritization of programmes and projects in government
- A number of sectors have no asset management strategy (leading to poor management and maintenance of government projects due to inefficient use of resources. This is particularly acute in the road sector

Source: MFPED, 2018.

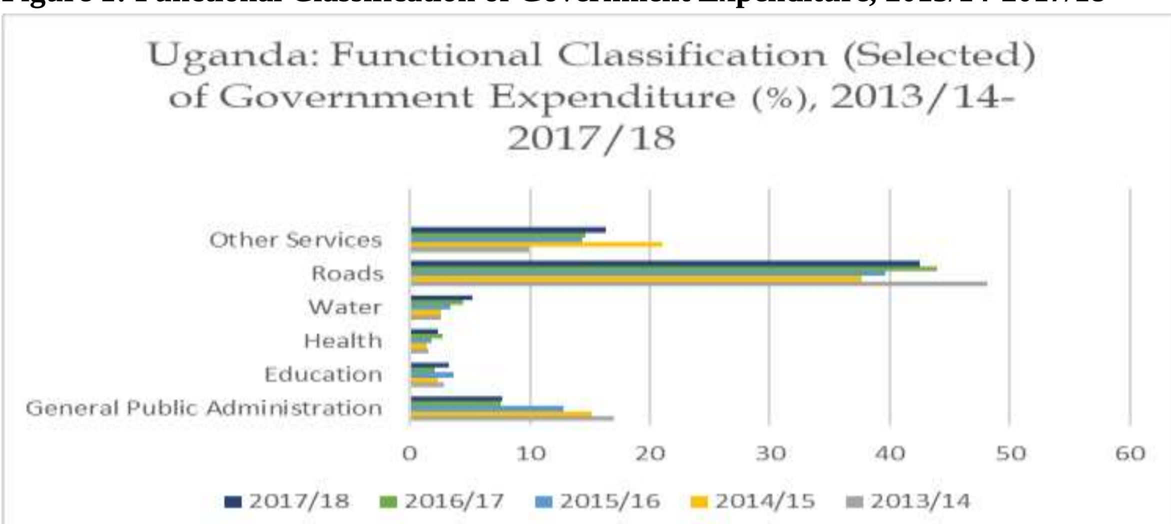
4.4 Financing the NDP II

50. The NDP II had estimated that 57.8% of the financing of the plan would emanate from the Government and 42.2% from the private sector. The overall cost of the plan was set at 196.7 trillion shillings (about $70 billion in early 2015). The government would finance its portion through taxes, grants, and borrowing (including at non-concessional terms). In doing so, it, however, underlined the importance of conforming to the regional convergence criteria and other international understandings, such as those with the IMF.

51. The data in NDP II reveals that the Government projected an amount of capital spending that would meet plan objectives, estimated its own input and expected the private sector would cover the residue. For example, in the works and transport area, the Government expects to finance investment on an almost 50/50 basis with the private sector, in agriculture at 69/31, while it expects the private sector to finance most of the investment in "social development." Still, how the private sector would be compelled to meet its side of the bargain is harder to tell given the absence, apart from the rough estimates of the Uganda Investment Authority, of an explicit coordination mechanism on investment between government and the private sector.

52. Recent data show, however, that some NDP II priorities were allocated a substantial amount of resources in the first years of the plan. This was especially true for the roads sector, which has accounted for over 40% of total government spending during the NDP II, on average (Figure 1). Given that total government expenditure has been rising in recent years, reaching 27.1 trillion shilling in FY 2018/19, a substantial amount of money has gone to that sector in real terms.

Figure 1: Functional Classification of Government Expenditure, 2013/14-2017/18



Source: MFPED, 2018

53. The other NDP II priority sectors have not received as much money as roads, although water and education have seen their shares in spending maintained over the years, while those of health expenditure have declined, partly explained by lower development partner support to targeted programmes within the sector, notably, HIV/AIDS. Still it is notable that general government administration has seen relative decline in outlays, and might experience further decline when the comprehensive restructuring of ministries is completed in the year ahead.

4.5 Results at Mid-Term

Structural Issues: Land Management, Procurement Reforms and Institutional Strengthening

54. The NDP II, from the view point of NDP I experience, underlined that land reform was important for the eradication of the uncertainties that poor land management imposes on the business environment and household activities more generally. It also highlighted that reforms in procurement were necessary in addressing corruption. Moreover, that in the two cases, and many others, there was a need to strengthen institutions across government.

55. **Land Management:** In spite previous attempts, land reform in Uganda has been slow and recalcitrant, becoming even more complicated with each subsequent attempt to unravel the multi-modal land tenure systems of the country. The failure to reform land management in Uganda has led to poor urban development, especially in Kampala, low levels of investment for lack of suitable land, and a poor link between land ownership and the financial sector, as only a small portion of the land, is titled. In 2016, the Government set up a Commission of Inquiry into Land Matters to look into the effectiveness of law, policies and processes of land acquisition, land administration, land management and land registration. The Government hopes that the Inquiry will provide a firm basis for a broad land reform effort. However, if the past is an example, the auguries for land reform are not good. It will require much innovation, diplomatic prowess and political will to untangle the land question in Uganda in the foreseeable future.

56. **Procurement Reforms:** The government is drafting a procurement law to make the process less cumbersome, while maintaining its credibility. The reform is linked to capacity building efforts across government. It is hoped that the new law will help speed up project implementation and reduce the cases of corruption that pervade procurement functions in the country today.

57. **Institutional Strengthening:** The Government has sought to strengthen the way it operates for at least two decades—entailing streamlining public structures, reengineering service delivery systems and governance structures. An important vehicle was the creation of specialized agencies, with competitive remuneration, for areas ranging from tax collection to managing the City of Kampala. However, the persistence of malfeasance, even in the new structures, showed that the “centres of excellence” approach needed to be complemented by efforts to improve governance in the public sector as a whole (refer to Box 4.1 above). Critical issues that persisted within the civil service during the NDP II included a non-competitive reward system and a sanction system that is unevenly reinforced.

58. In 2015, the Government, through the Ministry of Public Service, launched a comprehensive restructuring of its ministries and agencies. The results are beginning to filter through the system, and promise to integrate key units and eliminate the technical and operational silos in which some agencies have been operating for decades. It is hoped that the reform will heighten political responsibility over the agencies and also reduce the cost of government, which has escalated in recent years.

59. Looking ahead, the NDP I sought to introduce performance contracts, the establishment of a school for the civil service, a public salaries commission, and a "caravan" approach to service delivery. To date, under NDP II, few performance contracts have been instituted across government and there are wide gaps still among the salaries of government employees, even among those with similar responsibilities and job descriptions. However, the government established a civil service college in Jinja, in 2010, which has trained a large number of civil servants to date, and will likely have impact on NDP II implementation in the remaining years. The college plans to use mobile technologies to take its courses to the local government level in the whole country.

Infrastructure

60. The Government's infrastructure thrust continued under NDP II, with the continuation of large projects in irrigation, urbanization, transportation and low-cost energy.

61. **Energy:** The Karuma and Isimba dams are near completion, together they will bring some 750 MW to the national grid. The Ayago dam, along the Nile, is still under consideration, but construction could commence before the end of NDP II in 2020 (ERA, 2017). Additionally, to evacuate all the power that is planned for generation, the Government is constructing transmission lines across the country, notably a Tororo-Lira line and a Lira-Gulu and Ayago line. Moreover, a number of substations are under construction in strategic areas of the country to boost transmission.

62. The rapid increase in the construction of power lines has been accompanied, however, by vandalism and pilferage of assets. In a given year, some 40 transformers are destroyed, while numerous underground cables are uprooted. Umeme, the power distribution company, estimates that losses incurred annually due to vandalism of its assets equal to 100bn shillings (Ilungole, 2018). In government circles, the establishment of a special force to protect the country's power assets has been mulled. Meanwhile, the government-owned parastatals linked to power generation and evacuation have been accumulating losses.

63. There is also a general concern that given the power coming on stream in the next few years there might be excess supply of electricity. This is partly because the private sector expansion has been slower than planned as has economic growth. Moreover, the rural electrification strategy of the government has rolled out at a much slower pace than envisioned. However, the Government has argued that given the new business ventures planned in the various parts of the country, as well as regional demand, all the power being generated in the country will be used, adding that in a rapidly expanding economy, more power is preferable to less.

64. **Roads:** The expansion of the country's roads continued at a relentless pace during NDP II. Within a year of launching the new plan, another 700km of paved roads, carry-overs from NDP I, had been added to the transport grid, making a total of 4,157km (UBOS, 2018). The new paved roads were relatively well distributed in the country, although projects around Kampala predominated. The near future will see the construction of the Kampala-Jinja expressway, which will alleviate a major constraint on Uganda's trade with Kenya and the rest of the region. The current road is narrow and congested all year round. Highways are also planned to medium-sized towns in the vicinity of Kampala, such as Bombo and Mpigi to reduce the pressure for housing and services on the former.

65. An important policy concern under NDP II has been how to preserve the road assets that are being constructed in most parts of the country. In past years, maintenance was neglected almost entirely and assets were run down within a decade. The new thinking advocates for well-planned road maintenance strategies as part of service delivery, with dedicated budgets for the purpose. This will imply that the assets will last longer and save resources for other purposes.

66. **Standard Gauge Railway:** With Kenya's portion of the SGR up and running, and with the Mombasa and Nairobi portion complete, there was some pressure on Uganda to embark on its own portion—Malaba to Kampala. Negotiations related to the right of way for the SGR have been completed and the owners of the land compensated. However, respondents informed the evaluation team that the Government has bulked at the cost implications of the project, although the project will likely proceed, if at a slower pace during NDP II.

67. **Irrigation:** Over the NDP II period, a number of irrigation projects were completed in the east and west of the country, while a number of new ones will be launched in the south and north. Although irrigation schemes have been operating on a smaller scale for many years, especially in Tororo and Kasese, this is the first time that irrigation technology is being rolled out to all regions of the country. It is expected to raise production during the dry season and improve the incomes of smallholders. However, irrigation schemes cannot be promoted in isolation of agricultural modernization and marketing. In some rice growing areas, improved productivity has led to a rice glut, as local markets are saturated, with few organized marketing outlets in sight.

68. **Other Infrastructure:** Other infrastructure projects during the NDP II include the rehabilitation of Entebbe International Airport, plans for the construction of the Albertine Regional Airport, to ease access to the oil fields, and the development of a phosphate industry in Tororo to the east.

4.6 Oil and Related Developments

Pipeline and Refinery

69. Oil is an inevitable point of discussion in Uganda, both among politicians and the population at large. However, actual commercial flow of oil is only likely to happen towards the end of NDP II in 2020. Still, many of the projects in the plan have some link to the encashment of the oil discovery in western Uganda, including the oil pipeline to the sea and

the oil refinery, planned for Hoima. The consortium for the oil pipeline—Total Oil of France, China National Offshore Oil Corporation and Tullow Oil of the UK—has been put together and the paperwork is near complete, although discussions over the financial model had not been completed by the end of 2018, as expected. Stanbic Bank of Uganda, a lead arranger of a substantial portion of the financing, expected financial close by June, 2019.

70. On the refinery, the project was ultimately awarded to the Albertine Graben Refinery Consortium headed by General Electric of the US. The process was far from straightforward, with a Chinese and then a Russian consortium considered at some stage in the process and then dropped. The African Legal Support Facility (ALSF) helped the Government side negotiate a Project Framework Agreement.

Impact of the Oil Encashment

71. Although commercial oil is not flowing yet, the encashment of the oil business is happening on an expansive scale, and is bound to be one of the mainstays of NDP II. It is beginning to have real impacts on the economy, as downstream opportunities for the sector expand, with implications on employment for both casual and technically qualified staff. Many universities in the country, notably Makerere, have introduced courses related to the oil business. Oil exploitation prospects are also having a positive effect on the country's financial sector, which is expanding its horizon's beyond manufacturing and trade.

72. The most far-reaching impacts have been on the transformation of the oil theatre in western Uganda. The construction of support infrastructure in the area by the Government and the local community's own housing and office space projects, are having unprecedented impacts on the local economy, providing employment and other household opportunities for generating income. Hoima, once an off-the-beat outpost in the western periphery of the country, is becoming an important commercial centre, and its political clout has risen accordingly.

73. However, land wrangles have risen in tandem, as many households have had to make way for the oil infrastructure, and claim that compensation was inadequate. Already there are fears that the local population, not unlike in other countries, might get a raw deal in terms of sharing returns from oil production, and oil-related jobs. There is always a risk of environmental degradation, notably the destruction of Lake Albert which was otherwise protected by its remoteness, when production begins in earnest.

4.7 Private Sector Development

Engine of Growth

74. The NDP II, like the first plan, has envisaged key roles for the private sector in the country's development. However, a well-formulated partnership between the Government and the private sector in strategic areas of the economy has not happened. It has been claimed in official circles that this was for lack of a critical mass of Ugandan capitalists with whom to establish a pact for development—as happened in East Asia, where governments extended incentives to the private sector, including tax and capital import allowances, on condition

that they met certain development objectives. The Prime Minister's Private Sector Forum has tried to play the bridging role between the Government and the private sector.

75. In terms of structural impediments, the high cost of doing business is a disincentive for investors, domestic and foreign. However, recent improvements in energy, transport, and ICT infrastructure have been mitigating factors. In transport, the road infrastructure traverses most parts of the country today, while new rail and airport projects are in the offing. The entrance of new ICT companies has boosted competitiveness, while introducing new products and moderating the cost of access to ICT services. As noted above, a number of electric power dams, notably Karuma and Isimba, will come on stream in a couple of years, while the Bujagali dam in Jinja, which was launched in 2012, has had its financing terms restructured. In the medium term, the Government expects the average electricity tariff in the country to be between 5-10 US cents, which would be a major boost to the private sector and the rest of the economy.

76. The private sector has also been concerned, as noted above, about the relatively low level of aggregate demand in Uganda, which was expected to grow rapidly as the country approached middle income status. In the wake of the oil discovery, many business people rushed into activities where the impact of oil-related development was expected to have the biggest impact, notably housing. However, there was a serious miscasting of the demand structures, with most of the house construction targeted at the slowly expanding middle class, while neglecting houses for the larger groups of low-level civil servants and young private sector professionals. The result has been a sharp decline in the market prices of the larger houses, and a market correction in favour of smaller and more amenable structures for the less affluent.

77. However, respondents in the private sector indicated the Government's laissez faire approach has been a mitigating factor, allowing them to invest in most areas of the economy without much restriction. This approach has been criticised by some as indicating weaknesses in strategy as the incentives provided so far, including tax holidays, were not matched with concrete obligations on the part of investors, say in terms of total investment or job creation.

78. In terms of investment, the Uganda Investment Authority estimated that some US$1.6bn private sector projects (not all realized) were licenced annually at the end of NDP I and beginning of NDP II, with manufacturing at about 50%, agriculture and related at 14.5% and construction at 9%. The sources of investment were Uganda (37%), China (15%) and India (10%), although investment from Kenya is thought to be quite substantial. In terms of the number of individual investments, there has been concentration in the central region and around Kampala, although in terms of value eastern Uganda dominates, thanks to the large investment there in fertilizer production.

79. In terms of access to long-term financing, the Government has changed its view of the Uganda Development Bank (UDB) as a long-term development finance vehicle. The UDB introduced a 5-year strategic plan in 2017/18, which will see its balance sheet expand from 325bn shillings to 1 trillion.

Financial Sector Response and the Cost of Doing Business

80. Uganda has seen a steady expansion of the financial sector with innovations including the introduction of Islamic banking, agency banking as well as allowing commercial banks into the insurance business. Moreover, the Uganda Stock Exchange is growing in confidence, gearing to attract more companies, including cross-border listings, into its fold. However, the cost of capital in Uganda is not regionally competitive. Much more needs to be done during the rest of NDP II to resolve impediments to doing business in the country, including the cost of credit and complications associated with access to land for business purposes that were described above.

81. In the tax area, an electronic tax system for posting returns to the URA has been introduced, while tax holidays for large investments, although eroding the tax base, have been maintained. Besides, the Companies Act (2012) has been streamlined to make Uganda regionally competitive, while the Investment Bill (2017) is under parliamentary deliberation. But perhaps most important in this regard is the National Investment Policy, which is being drafted and is expected to be ready during 2018/19.

82. The limited access to credit seems to affect smaller and medium-sized enterprises, mainly owned by Ugandans, more acutely than the larger companies. Micro enterprises face prohibitively high rates of interest, in the range of 35% and beyond. A recent UBOS (2016) survey indicated that in starting a business, individual households mostly depend on own savings and the support of relatives and friends. The share depending on formal banking institutions for financing is very small.

4.8 Corruption and Malfeasance

83. The battle against corruption in Uganda has intensified under NDP II but is far from being won. The country has been ranked among the lowest scoring 20% of the countries surveyed (about 180) for close to a decade. The country ranked 152 out of 185 countries in 2018, compared to 50 for Rwanda, 116 for Tanzania, 145 for Kenya, and 159 for Burundi (see discussion in Chapter 6). Although corruption is endemic, with the judicial system and other law-enforcing agencies affected, it is not for lack of laws. Uganda has in place an Anti-Corruption Act, an Inspectorate of Government Act, a Public Finance Management Act, as well as a Leadership Code—all targeted at removing corruption and malfeasance from the public realm.

84. The Auditor General estimated that in 2017/18, close to 865bn shillings were lost to corruption and malfeasance, with authorities "mischarging" expenditure, allowing wasteful expenditure or making payments for undisclosed arrears and other expenditures. It is noteworthy that the egregious cases, such as the pension fund and Katosi-road scums have been tried and led to stiff sentences, although a respondent in the judiciary noted that they comprised a mere drop in the ocean of possible cases that could arise from the country's corruption onslaught.

85. At the end of 2018, the President announced the creation of a unit in State House ostensibly targeted at eradicating corruption, although it is difficult to believe that such a move will

have much impact on the entrenched governance challenges of the country. However, it sends out a powerful message that corruption is not tolerated by the top leadership and, if combined with a better structured and sustainable approach across the public sector, could provide a longer-term basis for fighting corruption or at least curbing its excesses.

4.9 The Environment and Climate Change

86. The negative impacts of climate change have continued to manifest themselves during NDP II in terms of erratic rainfall, landslides, prolonged drought, higher than average temperatures, receding water levels, and disappearing rivers. As a primarily agrarian economy, dependent of smallholder agriculture and rudimentary technology, the impacts have been perceptible (BOU 2017).

87. Climate change has been aggravated by manmade ecological pressures on the environment. Forest depletion, mainly through charcoal burning, firewood harvesting and illegal logging, continued unabated. The Government has also degazetted some forest reserves for human settlement. The reclamation of wetlands real estate and industrial developers in Kampala and other centres has continued. According to NEMA, this is mainly done by "powerful" and politically connected people who can resist eviction.

88. Under NDP II, a number of policies have been introduced to address climate change in Uganda. They include reforestation programmes led by the National Forest Authority, cancelling of some land titles in Kampala's wetlands, and weather-proofing infrastructure investments. The latter has not been consistent, however, and contractors of large infrastructure projects continue to do pretty much what they like.

89. In 2017/18, the Government cancelled all land titles relating to the Luwafu Forest Reserve in Mpigi. Moreover, a total of 239km of boundaries of forest reserves in the centre and the west were resurveyed and marked with concrete pillars, while 297 hectares of degraded forests were rehabilitated through replanting (MOFPED, 2017).

4.10 Cross-Cutting Issues

90. This section comments on progress made with respect to a selected number of cross-cutting issues during NDP II.

Social Protection

91. Towards the end of NDP I, the government introduced Social Assistance Grants for Empowerment (SAGE) aimed at the improvement of the livelihoods of citizens aged 65 and above (in Karamoja the cut-off age was 60 years)—a vulnerable family grant (VFG) and a senior citizen grant (SCG), worth some 25,00 shillings a month. The former became controversial as definitions of households can be flaccid in both rural and urban areas in Uganda. The SCG, a personal entitlement, thus became the grant of choice and is being rolled out to more districts. The Government has contracted PostBank Uganda as the payments service provider for the program. The latter uses it presence on the ground in many parts of the country to execute the task. However, given the slow pace of roll out, the wide-spread poverty, and the rather arbitrary choice of beneficiaries, some respondents

indicated that they did not expect to benefit from the program in the medium term. Moreover, the program has been funded through grants from development partners and might not be sustainable.

Gender Mainstreaming

92. Uganda has been consistent in its pursuit of gender equality in past decades and further initiatives were introduced in NDP II. During 2017/18, policies were introduced in the areas of gender, equal opportunities, occupational safety, and health policy all with strong initiatives for gender empowerment and equality. In 2016/17, the Government introduced the Uganda Women Entrepreneurship Programme (UWEP) to boost the entrepreneurial skills of women, and to enhance their participation livelihoods outside their homes. UWEP includes support to women's groups through credit provision, training, assistance with marketing, provision relevant of technology and strengthening of policy and legal frameworks. By the end of 2018, 3,499 projects worth Ushs18.5 trillion had benefitted, as well as a total of 44,570 women (MFPED, 2018).

93. In other areas, especially politics, the emphasis on equality is beginning to show. For example, in 2018, Uganda had a total of 112 women in Parliament of a total of 426 MPs, and was ranked 16th by the Inter Parliamentary Union on the proportion of women in the legislative assemblies. Women are well-represented in the rest of Government as ministers, permanent secretaries, and heads of agencies. At the lower levels, the introduction of universal primary and secondary education has boosted the number of girl children in school, although attrition rates are still higher for them than for boys.

94. Still, the battle is far from won. The NDP I document identified a number of cultural practices and traditions that impede female advancement, that have persisted, and likely will have to be revisited by all subsequent plans. Aside from denial of inheritance rights to females, they include gender-based violence, high rates of school dropouts, owing to early marriage, pregnancy or having to take care of sick relatives, and a higher disease burden, including HIV/AIDS infection

Youth and Child Rights

95. **Youth.** With regard to the youth, the Government has undertaken a number of initiatives under NDP II, some like the Youth Livelihood Project, introduced in 2013/14, being a rollover from the previous plan. Though promising in its intentions, the Project has been controversial for its leakage of resources, through corruption. A National Youth Policy was embarked on during NDP1 and completed in 2016. Besides, the country borrowed money from the World Bank in 2015 for a Comprehensive Skills Development Project in pursuit of the Government's Skilling Uganda Strategy—which emphasizes providing marketable skills to the youth and the working-age population.

96. However, these initiatives have not made much of a dent on the underlying pressure of youth unemployment. Ironically, increased access to tertiary education, Uganda has some 100 tertiary education institutions, including some 40 public and private universities, has exacerbated the pressure. It will require an innovative approach, including extensive public works programs, as tried in Ethiopia in recent years, in all parts of the country to resolve the youth "useful" economic engagement issue. The youth have stated repeatedly that they want to be part and parcel of the push for economic transformation.

97. **Children.** Respecting children's rights has been part of Uganda's economic and political discourse for decades, but it is only recently that policies and legislation in support of children have been embarked on, a number during NDP II. In early 2016, the Government undertook a review of available child protection systems in the country, before launching its Integrated Early Childhood Development Policy later in the year to guide stakeholders in handling children's issues. In 2017, the Government, with development partner support, launched a 5-year National Child Participation Strategy geared at providing an environment in which children can express views on issues affecting their lives. Additionally, national and sub-national structures for child protection have been established, while a helpline has been created to report child abuse cases to the authorities—although the response from the latter has been lukewarm.

98. As an indicator of the challenges ahead, street children begging amongst the traffic are now a common sight in Kampala, many of them from rural areas, as far away as Karamoja. This points at the social deprivation and lack of protection in which a great share of Uganda's children finds themselves. The Government began implementing a street children strategy in 2017, which aims at removing them from the street, providing them alternative lodgings and eventually taking them to school. However, success has depended partially on reaching some accommodation with the adults that ship them out from their homes and coordinate their movements in Kampala (MOFPED, 2018)

Politics and Democracy

99. Although Uganda is a fully-fledged democracy and holds regular elections, opposition parties have blamed the Government and the ruling party, for monopolizing the political space and stifling free expression. However, the Government prides itself for maintaining peace and social stability, in a turbulent region, which has enabled the country to embark on political decentralization and economic transformation. The presidential, parliamentary and local government elections, in December 2016, were characterized by accusations of rigging, and apathy among opposition groups. A number of political parties consider the idea of a national dialogue, proposed by political "elders" to be a good one, although other parties see it as a tactic by the ruling party to divide the opposition.

4.11 Conclusion

100. This chapter has surveyed the implementation of NDP II as well as its preliminary results at mid-term. In many ways, the first few years of the NDP II were a continuation of the policies and programmes initiated during NDP I. However, the new plan sought to be more focused and impactful. In the event, the implementation went relatively well in areas where the Government has vested its prestige and political capital, notably infrastructure. However, the overall progress has been uneven due to the relatively weak policy coordination and implementation mechanisms.

101. The structural issues loom large, but without a quick solution in sight. They include land issues, low productivity in agriculture, high costs of doing business, corruption and a public sector that has stagnated in terms of new ideas. The delivery unit in the Prime Minister Office is a great innovation, but the Government has not had a good record in sustaining working solutions, before sclerosis sets in.

102. The NDP II is not having as much impact at the local level as expected, and more effort is needed to "animate" the local leaders. This might require a much better-targeted approach to national planning at the local level than attempted so far, including use of vernacular—an approach similar to the Barazas run by the Prime Minister's office. Part of the approach must be to link good planning to good results.

5.0 Growth, Inclusion and Equity

5.1 Introduction

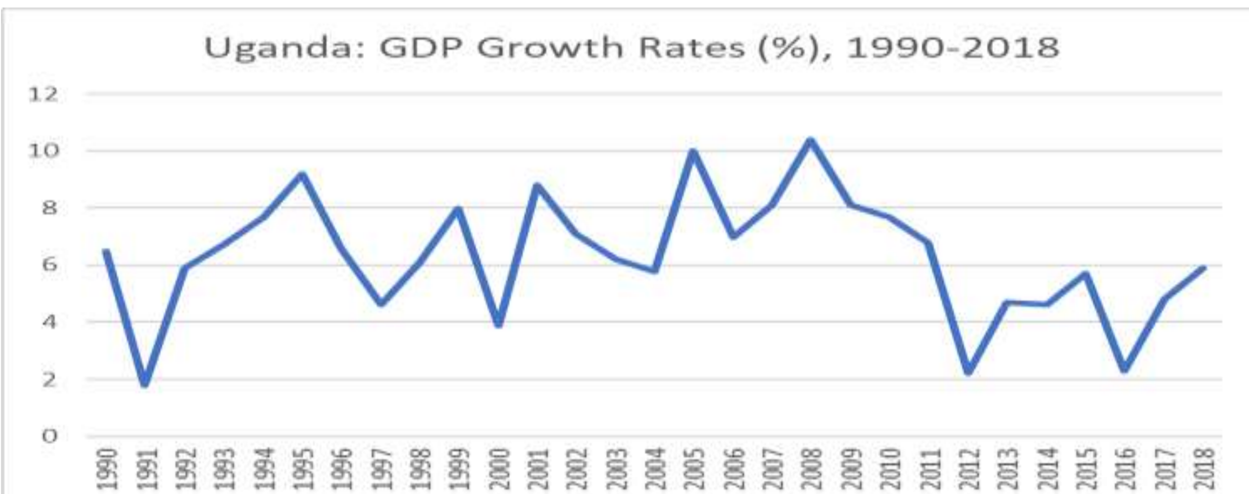
103. This chapter looks at the issues of growth, social inclusion and equality during NDP II and assesses the plausibility of the economic transformation being sought by Uganda's policymakers. It highlights some of the pitfalls of becoming a middle-income country that must be avoided during NDP II and in future years.

5.2 Structural Shift in Growth Performance

Boom and Bust

104. Although Uganda demonstrated "Tiger-like growth" during the late 1990s and for most of 2000s, and had shown resilience during the global financial crisis of 2008 and 2009, growth plateaued during NDP I and NDP II (Figure 2). It reached a low of 2-3 percent in some years after 2010/11, indicating negative per capita growth, but never reached the 6.3 percent projected by NDP II.

Figure 2: GDP Growth Rates (%), 1990-2018



Source: UBOS (2018), IMF (2019)

105. During NDP II, growth has not returned to the high rates of a decade ago (Figure 5.1). The growth retrenchment had implications for government revenue, social programs and livelihoods in rural and urban areas. The growth slowdown had domestic as well as external causes. Within the region, the political implosion in South Sudan affected one of Uganda's expanding markets for food and manufactured exports, with instability in Eastern DRC, to Uganda's west; having similar impact is some years. The global energy shocks and recession, had negative effects of their own on the Ugandan economy, mostly reflected in an erosion of its competitiveness.

106. However, the bulk of the causes of the decline in growth have been domestic. Uganda's rankings in global competitiveness cost of doing business and corruption perceptions

portray an underlying institutional and structural malaise, which must be dealt with if the country is to return to its reformist and high growth past.

Alternative Growth Scenarios

107. Projected growth during NDP I and NDP II fell short of projections for a period of up to eight years. The gap suggested that either policymakers insisted on unrealistically high growth projections for political reasons or the planning process is not flexible enough to allow for mid-term adjustments.

108. Looking ahead, it will be important for the authorities to work with a set of alternative growth scenarios in their planning. The impact of a large growth drop-off, as in the case of NDP I and NDP II, can be large over a 5-year development plan, putting the plan's integrity and reliability into question. Likewise, if reaching middle-income status was premised on the strength of the growth projected in the plans, the failure to reach it implies that middle-income status might not be reachable in the medium term.

5.3 Sector Performance

109. This section discusses sector performance, focusing on agriculture, services and industry, and more broadly examining their capacity for growth and employment generation.

Agriculture's Underperformance

110. The majority of the Ugandan population depends on agriculture for livelihood, although the bulk of agricultural households practice low-productivity subsistence farming. During NDP I and NDP II, agricultural output growth never went above 4 percent, and was often below 1 percent, its performance being closely linked to that of overall GDP. Figure 5.5 shows that agricultural output has been anaemic in recent decades, growing at 2.5% on average instead of the NDP II rate of 5.6%, putting the Government's policy thrust, partly based on a substantial agricultural sector response, into question. Agriculture's performance was disappointing to the authorities interviewed, given the supportive policy stance of the government, and the emphases on the sector in the national development plans. However, Figure 3 indicates that the agricultural terms of trade were moderately balanced i.e. did not swing too much to the farmers disadvantage, as witnessed in the 1970s.

111. The marked contraction of agriculture as a percent of GDP in recent years3, raises the question of whether it is experiencing secular decline i.e. agriculture declining in favour of industry and services as part of the modernization process, or simply a result of inadequate policies, weather shocks and structural impediments, including land issues and missing markets i.e. discouraged smallholders (Figure 4).

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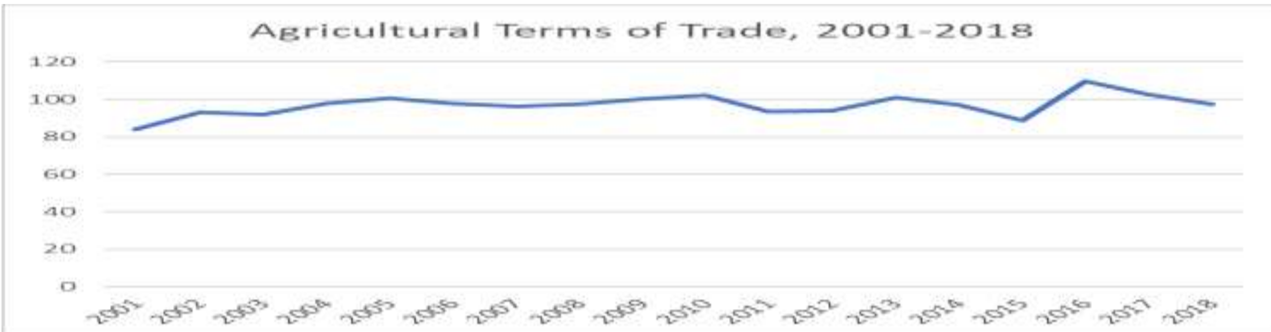
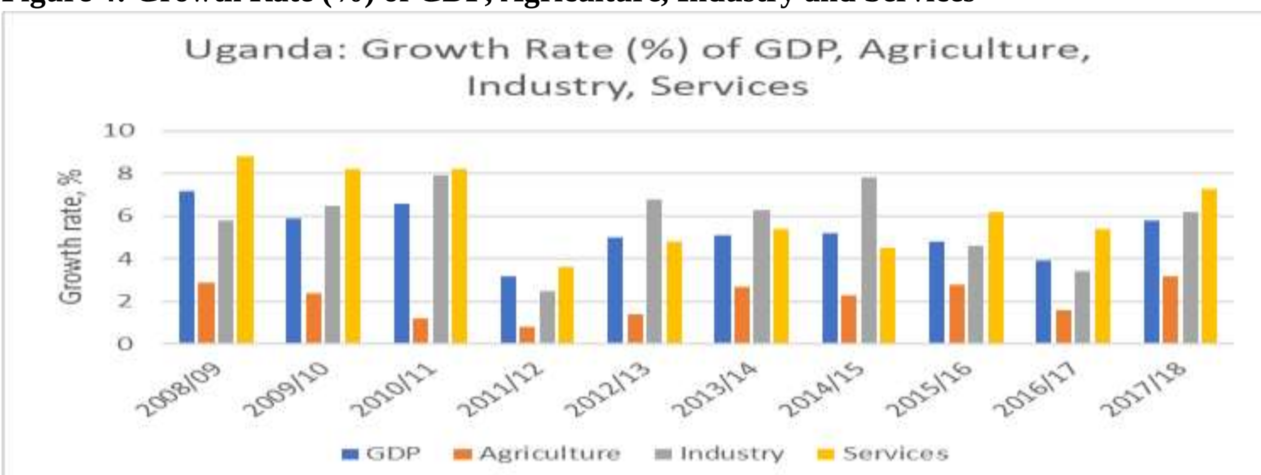
[3] According to the evaluation of the PMA by Oxford Policy Management (2005), agriculture in Uganda declined between 1977-1986. It grew by 6% during 1989-1999, but growth was intermittent afterwards.

Figure 3: Uganda: Agricultural Terms of Trade, 2001-2018*



Source: UBOS, 2018. * The ratio between prices for food crops and clothing and apparel was used as a proxy for the agricultural terms of trade

Figure 4: Growth Rate (%) of GDP, Agriculture, Industry and Services



Source: MFPED, 2009, 2018

112. A number of innovative approaches have been devised by the Government in efforts to change the sector's performance, notably the response of smallholders. An example is the introduction of the Uganda Agriculture Insurance Scheme as a pilot project in 2016 to cover small as well as large farmers for weather related and disease shocks. The Government provides a premium subsidy to commercial insurers as well as training to farmers and agents, while the Insurance Regulatory Agency provides regulatory oversight. The goal is for commercial banks to increase lending to farmers, constrained in the past owing to the high-risk exposure associated to lending to agriculture. An assessment of the project by MFPED, during 2017/18, was positive, and modalities for the roll out to the rest of the country were being prepared by ministry staff. However, sustainability will require that the focus on reaching farmers, exerted during the pilot phase, is not lost, and that the participation of the private sector is clarified. Smallholders in Uganda seldomly use modern inputs and encouraging them to do so, using more effective agricultural extension services, will likely boost yields.

Engines of Growth: Industry and Services

113. In spite the Government's policy partiality for agriculture, recent years have indicated that services and industry are the real engines of Uganda's growth, though not yet of employment. With the exception of 2011/12, when election related disturbances affected growth negatively, industry and services have growth at above 4 percent per year, with industry performing above 6 percent for most years and services following closely. However, with the exception of public services, that comprise a small portion of the total, the service sector is urban based. However, opportunities are opening up to expand rural-based services, not least owing to rural electrification and the Government's efforts at financial inclusion, including the insurance of farmers mentioned above.

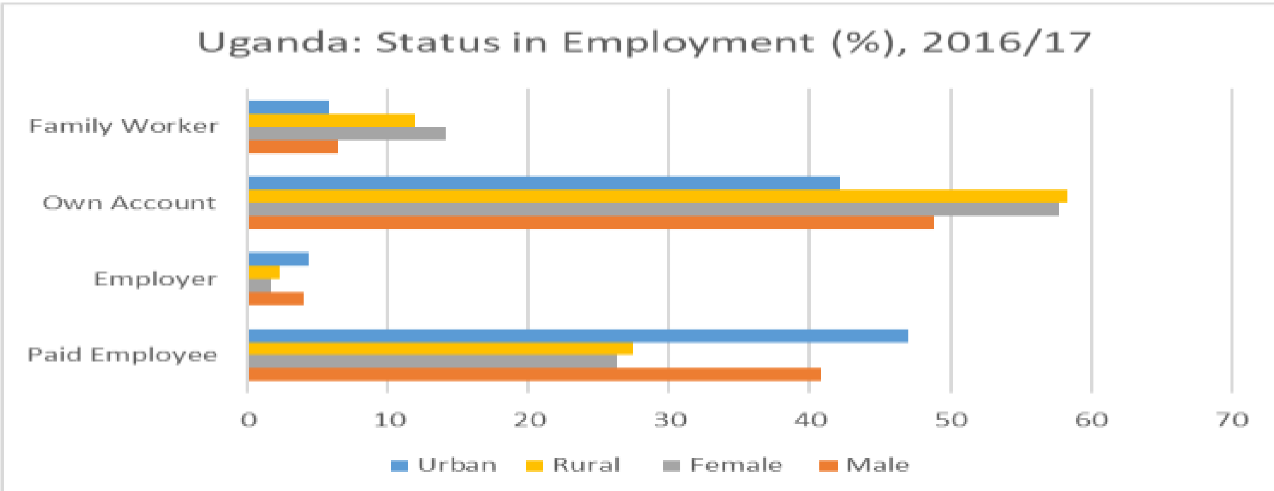
114. Industry is also mainly urban based or, in the case of mining, in enclave type situations in rural areas. A recent assessment by UBOS (2017) showed that domestically financed industry projects were more labour intensive than their foreign funded counterparts due to differences in the technologies used. It noted that foreign technologies tended to be much more modern and labour saving. With the Government's focus on employment creation, it might require examination of the technologies being imported in the country, and to insist that the employment numbers outlined in the project documents are realized, or reasons given for the failure to meet them.

115. Without doubt the biggest single industry in the country in the next decade will be that of oil. It is clear that while it might not create as many direct jobs as expected, as there is a limit to the number of engineers and financial managers that will be needed, much store is put into its impact on employment of downstream activities, including the service industry. Although NDP II estimates that these will be substantial, it has been difficult for stakeholders to prepare themselves adequately as the oil process in Uganda has taken years to crystallize. Still, it is estimated that the encashment of oil will have additional impacts in terms of increased demand for modern services in real estate and finance.

5.4 Uganda's Labour Market

116. This section takes a brief look at Uganda's labour market, drawing on the National Labour Force Survey conducted by UBOS between November 2016 and July 2017. It also looks at the employment situation of the youth in the country.

Figure 5: Uganda: Status in Employment, 2016/17



Source: UBOS, 2018

117. Uganda's labour market remains largely informal, with over 60% of the labour force of 15 million working on own account i.e. "self-employed." This group is amorphous, including smallholders in rural areas and market sellers and street vendors in urban areas. It is also dominated by women, in both rural and urban areas. Within the group of paid employees, urban dwellers and men dominate. There is also a significant number of family workers i.e. working on family holdings or within homes as part of the household. This group is also dominated by women.

Table 5: Employment Activity Status for Uganda's Youth (18-30 years), 2016/17

Status	Male	Female	Rural	Urban	Uganda
In Employment	54.4	40.7	42.6	56.3	46.9
In School Only	10.5	6.0	6.9	10.4	8
Both School and Employment	4.4	1.6	2.5	3.7	2.9
Neither in Employment nor School	29	50.5	46.9	27.2	40.7
Not stated	1.6	1.3	1	2.5	1.4

Source: UBOS, 2018.

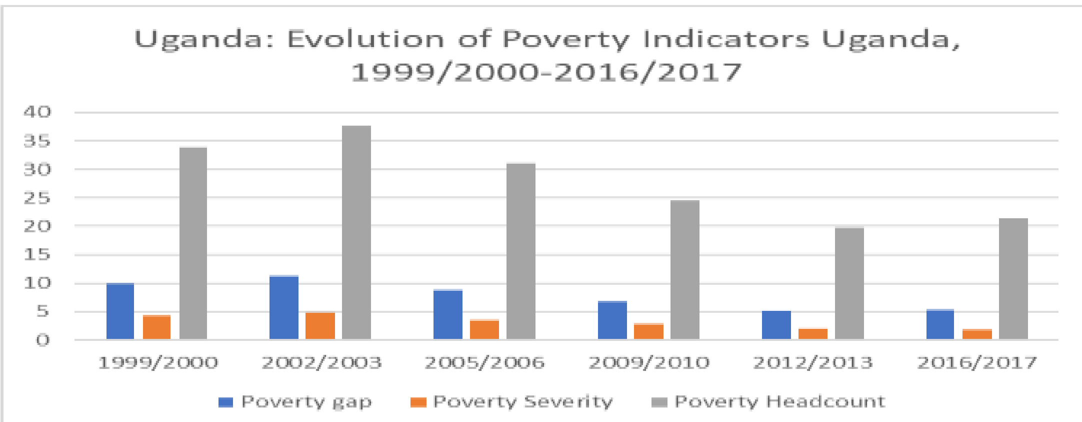
118. On the other hand, Table 5 shows that less than 47 percent of Uganda's youth aged 18-30 were in employment, while 41 percent were neither in employment nor in school. The majority of the latter were women, pointing at the pressures, narrated elsewhere in the report, of keeping girls in school in Uganda. In urban areas, up to 27 percent of the youth were unemployed (and not in school), partly explaining the youthful restiveness in Kampala and other urban areas.

5.5 Poverty and Inequality

Progress on Poverty

119. Poverty in Uganda fell from 56.4 to 19.7 percent i.e. by 65 percent, between 1992/93 and 2012/13, a period of twenty years. Poverty fell to 6.6 million from 9.8 million in the early 2000s. However, poverty rose under NDP II reaching 21.4% in 2016/2017. The country's performance on poverty reduction was closely correlated with growth more generally, notably that of agriculture, with the largest decline in poverty occurring during the growth boom of the 1990s and early 2000s.

Figure 6: Evolution of Poverty Indicators in Uganda



Source: UBOS, 2018.

120. Poverty is unevenly distributed in Uganda. The central region had only 6.1% of the population (0.4 million) in poverty in 2012/13, while the eastern and northern regions had 5.6 million poor people (83.3%)—a result of the conflicts that have ravaged the two regions in recent decades.

Table 6: Uganda: Number of People Living under the Poverty Line by Residence (millions, %)

	2012/13		**2016/17**	
Uganda	6.6	100%	10.1	100%
Rural	5.9	89.4%	8.7	86.1%
Urban	0.7	10.6%	1.4	13.9%
Central	0.4	6.1%	1.7	16.8%
Eastern	2.4	36.4%	4.2	41.6%
Northern	3.1	46.9%	2.4	23.8%
Western	0.7	10.6%	1.8	17.8%

Source: UBOS, 2018

121. However, while outcomes for 2016/17 suggest a general increase in poverty levels across the country, the northern region has been an exception, reducing the number of poor people from 3.1 million in 2012/13 to 2.4 million in 2016/17, and now contributes a quarter of the poor people instead of close to a half in 2012/13. This has been thanks to the return of peace

to the region, proximity to South Sudan and the demand for food from that country, and the impacts of governments projects there. The nothern region has switched places with the eastern region, where the number of poor people increased by close to 75% in four years.

Income Inequality

122. Household inequalities have increased in Uganda in recent decades partly because of the country's rapid growth, absence of social safety nets and other mitigating features, such as subsidies and equalization expenditure, and the dynamics of household mitigation measures.[4] Uganda's income inequality, as measured by the Gini coefficient, was, at 0.42 in 2016/17[5], relatively high in a regional sense: Kenyan inequality was estimated at 0.408 in 2015, while that of Tanzania was 0.378 in in 2011. Using UBOS data, it can be estimated that while the richest 10% of the households had 10 times the incomes of the poorest 10% households in 1996, the former were 15 times richer in 2016/17.

Table 7: Gini Coefficient by Selected Sub-Region, 2002-2017

	2002/2003	**2005/2006**	**2009/2010**	**2012/2013**	**2016/2017**
Kampala	0.47	0.39	0.43	0.35	0.41
Busoga	0.38	0.36	0.33	0.37	0.36
Eastern	0.35	0.35	0.31	0.33	0.33
Mid-Northern	0.35	0.33	0.34	0.37	0.40
Karamoja	0.44	0.40	0.51	0.43	0.34
West Nile	0.28	0.32	0.31	0.34	0.32
South-Western	0.36	0.35	0.40	0.34	0.38
Uganda	0.43	0.41	0.43	0.41	0.42

Source: UBOS (2018)

Spatial Inequality

123. Table 7 gives a mixed picture of trends in inequality in the country in a spatial sense. While the capital has seen increases and declines in inequality, its Gini coefficients have been lower than those of the country as a whole. The spending effects of central government on the incomes and wellbeing of Kampala dwellers is a factor. It is also notable that Karamoja, one of the poorest regions of the country, has demonstrated high rates on inequality until the most recent survey, when relative peace has returned to the area—implying that inequalities can shift markedly in fragile areas.

124. Although concerns over spatial inequality in Uganda are not new, there is a real fear today that if targeted actions are not taken, some parts of the country could be left behind. The NDP II had a chapter that discusses regional equalization programs targeted at areas of the country that have experienced war and associated social conflict (Acholi, Luweero, Rwenzori, Karamoja, and Teso) or where poverty, the disease burden or economic isolation have constrained development (West Nile, Eastern Busoga, Bunyoro, and the Islands in Lake Victoria). While emphasis would be on pacification and reconstruction in the former,

[4] See for example the article on income inequality in Uganda by Lwanga-Ntale (2014).
[5] Although still far from that of South Africa at 0.634 in 2011.

reduction of income poverty and improvement of economic indicators would be the actions taken in the latter regions. In both, enterprise development, education services and basic infrastructure would be key considerations.

125. However, spatial inequality is foremost characterized by the absence of steady sources of employment and access to modern services. That is why the evolving distribution of industries in Uganda is instructive. It is clear that the oil industry is already increasing incomes and wellbeing in a good part of Bunyoro, and will likely have similar impacts in other parts of western Uganda. Acholi and much of northern Uganda has turned to farming, and incomes have risen their too. Things have not gone as well in eastern Uganda, even though conflicts have subsided. It is taking longer for communities there to return to normalcy, likely because they have not been able to restock their cattle and agriculture is not as interesting or lucrative.

126. In terms of services, agricultural extension support to rural areas, especially to marginalized regions, reached only a fifth of the households in 2012/13, and only 5% in 2017/18. On the other hand, feeder roads had increased in all the areas mentioned above, raising access to 90% for Karamoja, for example. However, access to electricity is still extremely low. Only 11% of households in Busoga were connected to electricity, 5% in Teso, 3% in West Nile, and about half a percent in Karamoja. Connection to the grid in Kampala was some 85%. As a mitigating factor, many poor households in Uganda are taking increasingly to solar energy, especially as the cost of the equipment is falling.

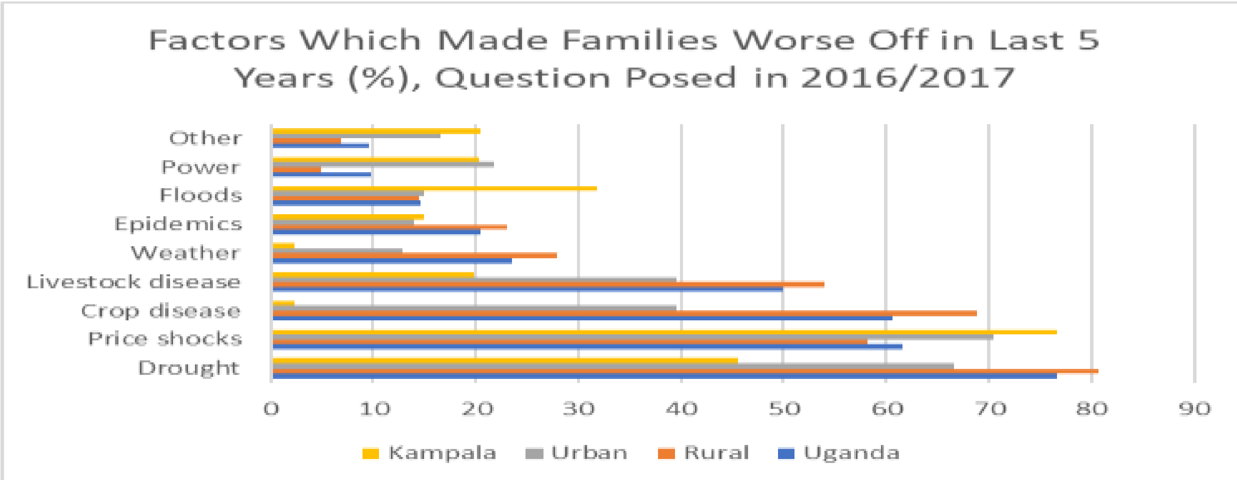
127. While availability of health services at the local level is intermittent, the most promising area in terms of social inclusion in Uganda has been the provision of potable water. Some 67.7% of rural households had access to potable water in 2012/13, rising to 75% in 2016/17 i.e. at NDP II midpoint. A good example is Karamoja, where availability rose from 78.8% in 2012/13 to 92% in 2017/18—partly explained by government attempts to introduce a more settled lifestyle to the region.

128. Access to tertiary education has improved markedly in all regions of Uganda in the wake of privatization. Close to 100 tertiary institutions are operating in the country, although not all are accredited by the Government. However, cost is a factor, and while the number of young people attending universities has boomed in recent years, there are very few coming from fragile and marginalized communities in rural and urban areas.

Shocks to Wellbeing

129. The 2016/17 UNHS sought information on events that had made their households and communities worse off in the five years preceding the survey, although reflecting broadly on the general sources of shocks to livelihoods in Uganda.

Figure 7: Factors That Made Families Worse



Source: UBOS, 2018

130. Drought was the single most important shock on household wellbeing in both rural and urban areas—but with a higher impact on rural Uganda. Presumably urban households have their own farms in urban areas or are connected to the rural economy, through family relations and food supplies. Price escalation, notably food inflation, was identified as a significant source of shocks, especially for Kampala dwellers. Urban dwellers, Kampala most significantly, indicated that floods were a significant shock to their livelihoods—affecting their access to services, work and markets. Floods were identified as health hazards as they spread non-treated effluents over large areas.

5.6 The Middle-Income Trap

131. Uganda's push to become a middle-income country in the medium term, in the wake of the oil discovery to the west of the country, has provided an important motivation for policymakers, while also raising expectations among the population. However, African examples show that unemployment, poverty and inequality do not disappear overnight. Indeed, if corrective policies are not devised early enough, they could accumulate in slums and other enclaves around the capital, other urban areas and the rest of the country, even as other groups become richer.

132. Middle-income states are linked everywhere to rapid urbanization. Today the urban population in Uganda is growing at a rate of 5.2 percent, compared to 3.2 percent for the total population. Since the introduction of the first plan in 2010, the urban population has doubled to 7.4 million. The policy dilemma for Uganda under NDP II is how to respond to the call for better social services in its rapidly expanding cities and towns, while protecting the needs of smallholder farmers and other rural dwellers. The policy response will require much innovation, but also flexibility as each new challenge will have its own nuance in a rapidly changing economic and demographic situation.

6.0 Regional and International Issues

6.1 Introduction

133. This chapter examines how Uganda has managed the demands of regional integration as well as the imperatives of adjusting to changes in the global economy. It specifically looks at the implications of the EAC convergence criteria on the NDP II. Uganda under the IMF's Policy Support Instrument (PSI)—notably on reserves and inflation levels—has made commitments, which could constrain its monetary and fiscal policies.

6.2 A Landlocked Cosmopolitan Country

134. Uganda shares borders with Kenya, Tanzania, Rwanda, DRC, and South Sudan—all members of the East African Community (Burundi has no contiguous border with Uganda) and pursuing good relations with its neighbours has become a key goal of its foreign and economic policies. The country has had a contingent of its troops stationed in Somalia in the past decade, as part of the African Union's peace keeping forces there.

135. Beyond East Africa, Uganda is a member of the African Union (AU), Common Market for Eastern and Southern Africa (COMESA), East African Community (EAC), and the Intergovernmental Authority on Development (IGAD). Besides, through the Nile Basin Initiative, which aside from members of the EAC also includes Egypt, The Sudan, Ethiopia and the DRC, it collaborates on environmental issues with a host of riparian countries, with interest in the River Nile and its tributaries and the impact they have on the livelihoods of millions of people.

6.3 Global Impulse and Trade Performance

136. As a small, open, Uganda has few means of protecting itself from changes in the regional and global economies, except through good neighbourliness, efficient macroeconomic management and the promotion of economic flexibility and productivity. Seen from these perspectives, it has done well in recent years its efforts to promote further integration, while also taking advantage of opportunities arising—such as the discovery of oil and the rising demand for goods and services among its neighbours, notably DRC and South Sudan.

137. **Exports:** Uganda's exports have been relatively strong during NDP II, consistently over US$3bn per year, although only able to cover half of the import bill, owing to the large capital-intensive projects being implemented in the country (Table 8).

Table 8: Uganda's Current Account Movements (% of GDP) 2012/13-2017/18

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Exports	11.8	9.7	9.9	10.9	12.0	12.3
Imports	20.4	18.3	18.1	18.5	18.0	18.9
Current Acc. Balance	-6.1	-7.3	-6.8	-4.8	-3.4	-4.8
BOP overall balance	-1.4	-1.4	-1.3	-0.4	-1.7	0.5

Source : MFPED, 2018.

138. An important structural shift in Uganda's trade in recent years has been the increasing trade with its neighbours and the rest of Africa. Almost half on its exports go to countries within COMESA, with Kenya's share ranging from 15 to 18% in the past decade. Exports to Rwanda and the DRC were also strong—indeed the Eastern part of the DRC relies on Uganda as a gateway to the Mombasa port in Kenya.

139. The share of Uganda's exports to the EU, once the main destination, has been declining and is now below 15% of the total. The rest has been taken up by Asia and the Middle East. The diversification of export destination i.e. coffee exports to the US has reduced the risk of depending on a few sources for foreign exchange generation.

140. In 2016, the Bank of Uganda undertook a survey to measure the size of informal trade at the country's borders. They found that it is quite substantial, often as large as half the value of the official trade. Informal trade with DRC has, for example, exceeded US$200 million per year in recent years. Since most of the latter are manufactured goods, they have given Uganda's nascent manufacturing sector an additional boost. The dilemma for governments is whether to turn a blind eye to this or to seek to curb it. Curbing it could ruin the livelihoods of many households, while encouraging its leads to revenue dissipation.

141. **Imports.** On the other hand, import flows have shifted to Asia, which has supplied upwards of 55 percent of Uganda's imports during NDP II. This is explained to some extent by the large projects being implemented in Uganda by Chinese and Indian firms. Imports from COMESA, dominated by Kenya, have averaged about 13%. However, the EU, at 11 percent of total imports, is still a major supplier of equipment, drugs and even food.

142. However, overall balance of payments has been moderated by strong investment inflows and remittances from Uganda's expanding Diaspora. Foreign reserves amounted to US$ 3.5bn in early 2018 i.e. equivalent to 5 months of imports. This has in turn prevented the shilling from too steep depreciation versus other currencies. Its value has hovered around 3750 shillings to the dollar for some years, with the Bank of Uganda undertaking support operations in 2017/18 when it came under pressure owing to weak exports and remittances.

6.4 Addressing Sovereignty Constraints

143. The East African integration project is largely on track, although with setbacks as individual countries try to balance the benefits of regional economic and political collaboration with their own sovereignty constraints (Annex 3). The EAC has become not only a regional agent of restraint for all Partner States, but also an important convener on strategic regional issues. It has helped to return peace to South Sudan and has also sought a lasting solution for Burundi.

144. However, belonging to a regional entity, allowing free movement of people within its border, will induce, with time unfathomable shifts in investment and industrial location. This is already inducing competition among states as the latter are key to job creation and welfare. The success of the EAC will partly depend on how the emerging frictions are resolved. The leaders have focused on easing trade follows, as the path of least resistance. East African has a total of 7 one-stop border posts, covering all borders in the EAC.

Combined with electronic inspection and recording, the time it takes to clear customs in the region's borders has been slushed by more than 50%.

145. Kenya is the biggest exporter to the region (some US$1.5bn on average in recent years, 30% to Uganda) and has benefitted greatly from the new regional infrastructure. Its success has bred resentment and although a Non-Tariff Barriers Act was assented to by the Partners States, it has not yet come into force. However, Kenya has been accused of using odious health clauses to ban food and grain imports from its neighbours.

146. Promoting industrialization and competitiveness are the cornerstones of the integration strategy. The areas identified by the regional leaders for fast-tracking include the automotive industry, cotton, textile, apparel and leather industries.6 Partner States are reviewing national policies, laws, and regulations to comply with the stipulations of the Common Market. The EAC Export Promotion Strategy, 2018-2022, is focused on a fully functioning Customs Union. Additionally, the Common External Tariff for the region is under review by the Partner States with the view of maximising export development, industrial competitiveness and employment and poverty reduction.

6.5 Regional Projects: Pillars for Integration

147. The EAC has focused on infrastructure as the key pillar for its integration. Among the core projects identified are: Airports/aviation projects, that have encouraged the expansion of national airports and resuscitation of regional airlines. Kenya's national carrier now flies to the US, while Rwanda and Tanzania are expanding their national fleets. In the meantime, Uganda has resurrected its defunct airline and hopes to have it in the air by 2019—which will contribute to the infrastructure and tourism pillars of NDP II. Still, decades after the last attempts to revive Uganda Airlines, questions of its viability and sustainability as a business proposition are still raised among government officials and within the business community. On the other hand, national airlines have markedly improved air travel within the region, while the exercise of fifth freedom rights by Partners States has eased travel to overseas.

148. Energy projects have been encouraged in all countries. The EAC 2050 vision document is targeting for a regional generational capacity of 122,569 MW. The EAC Railway masterplan includes standard gauge railway lines covering Kenya, Uganda, Rwanda, Burundi, Tanzania and South Sudan—in all covering some 3200km. Besides work is planned on road infrastructure, including a highway to ease connections between Rwanda, Uganda, and Kenya. Maritime projects on Lake Victoria and port projects such as Lamu Port-South Sudan-Ethiopia-Transport corridor (LAPSSET) have helped to open up the region and beyond.

149. For Uganda and Tanzania, the US$3.5bn pipeline from Hoima to Tanga is promising to be one of the largest projects ever embarked on in the region, with important implications for suppliers and other downstream activities. It implies, importantly, that the encashment of Uganda's oil is having implications on the integration of the East African economies.

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[6] As an indication of sovereignty issues, the Governments of Uganda and Kenya retracted their assent to raising tariffs on old clothes as they stood to lose their benefits under the African Growth Opportunity Act of the US.

6.6 Regional Convergence and Alignment

Competitiveness, Ease of Doing Business and Corruption

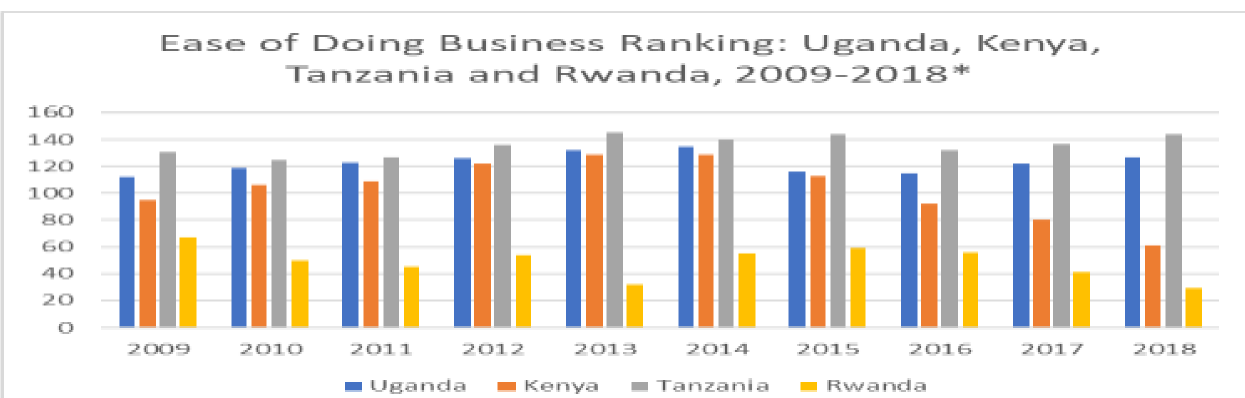
150. Uganda has consistently ranked, along with Tanzania, among the bottom 50 countries in the global competitiveness rankings (Figure 8).

Figure 8: Uganda and Neighbours: Global and Regional Competitiveness

Source: World Economic Forum, 2018. * Note that the ranking begins from 1 "most competitevive" onwards.

151. The slow but steady improvement since 2014 reflects the infrastructure gains of recent years, notably energy, although still at higher cost than for its neighbours. The issues of access to land and the high cost of credit are yet to be resolved. Kenya has been better at leveraging its access to the sea to raise its competitiveness, while landlocked Rwanda has been much more effective in enforcing regulations and statutes related to international trade and business. Uganda's low level of competitiveness is reflected in its scores on the ease of doing business of the World Bank (Figure 9).

Figure 9: Uganda and Neighbours: Ease of Doing Business

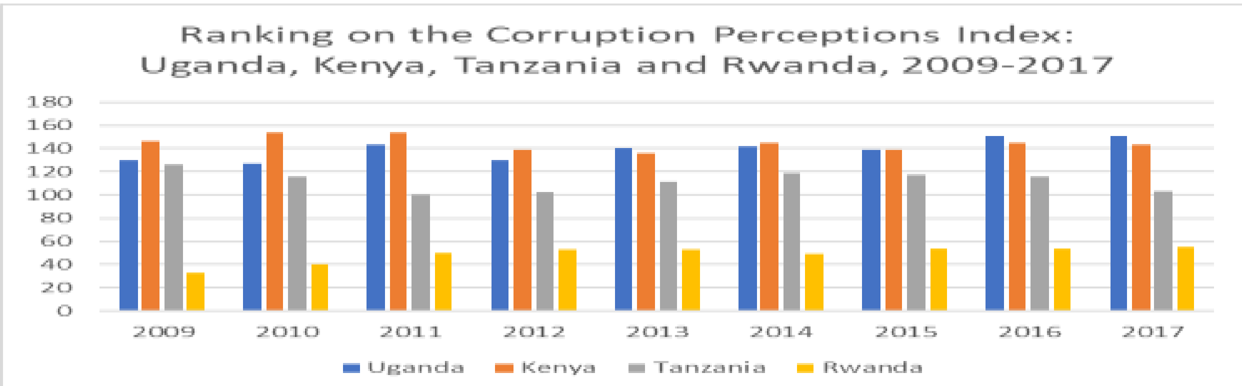


Source: World Bank, 2018. * A higher ranking indicates "lower ease of doing business."

152. Although Uganda is an easier place to do business than Tanzania, it has been behind Kenya, in recent years, notably during NDP II. However, Rwanda has posted favourable rankings in the past decade. An overview indicates that public sector accountability and follow-up *vis à vis* the demands of the private sector were important factors.

153. Figure 10 presents trends in corruption perceptions in East Africa. Uganda has been, along with Kenya, in the bottom quintile of the global corruption perceptions index for close to a decade.

Figure 10: Uganda and Neighbours: Corruption Factor



Source: Transparency International, 2018

154. Although corruption perceptions as depicted in Figure 6.3 seem to be at similar levels in Kenya and Uganda, the former has been able to ring-face its revenue collection agencies and to preserve a high revenue to GDP ratio (up to 25% in recent years) compared to less than 14% for Uganda, and to reduce dependency on development partners. Tanzania and Rwanda show that determined leadership can reduce corruption and/or keep it at a low level.

Meeting EAC Macro-Convergence Criteria

155. The East African Partner States have agreed a set of convergence criteria to guide them in the runup to the full-fledged Common Market. The NDP II states explicitly that the Government would frontload expenditure spending to ensure that the fiscal deficit would remain in line with the EAC convergence criteria. The criteria's ingredients highlighted are listed in Table 9

156. Aside from the size of the fiscal deficit of the EAC, the other convergence criteria and the IMF's understandings do not sound onerous. The convergence also emphasizes institutional reforms within member countries, in particular good governance, to enhance competitiveness and reduce the cost of doing business, as discussed in the previous section.

Table 9: Macroeconomic Convergence Criteria for the EAC versus NDP II

EAC Convergence Criteria	Comments
Ceiling on fiscal deficit (including grants)—3% of GDP	The NDP II suggested a higher deficit than 3 percent (including grants) during the initial years for the Government to frontload its infrastructure projects. However, the fiscal deficit (including grants) has averaged 4 percent since 2013/14, rising to 5.3% in 2017/18. The NDP II suggests a sharp scaling down of expenditure in its last two years to meet the criteria. It will require adjustment of the order of 200 basis points to meet the ceiling in the next few years.
Ceiling on inflation—8% (Additionally, Uganda's PSI with the IMF requires core inflation to be below 5%)	According to MFPED, headline and core inflation have been in the lower single digits and are expected to convergence to 5 percent in the next 4 years, meeting the EAC and IMF criteria. Uganda has been good at managing inflation, thanks to good management of monetary growth.
Ceiling Public debt—50% of net present value	Uganda's public debt as a % of GDP was 26% in 2012 and rose to 40.2% in 2017/18, which is 10% below the convergence debt. However, the headroom in the debt side is crippling fast, leaving little room for flexibility.
Reserve cover—4.5 months of imports	In early 2018, reserves were at US$3.5bn, equivalent to 5 months of imports. It is well within the government's capacity to sustain. However, the spending patterns of the Government could well shift when oil comes on stream, introducing a new debt dynamic.

Source: MFPED, 2018.

6.7 Conclusion

157. Uganda's future is with the EAC and its national plans must be aligned with those of the region. It looking ahead, it will be important to remember that Uganda has the potential to lead regional performance in a number of areas, given its rich natural endowment, including oil. However, it needs to address its institutional weaknesses as a matter of priority, and not hope that they will fade away as regional integration matures.

158. The Government has conceived a good number of projects with regional links that will further improve connectivity, commerce, and tourism. But they need to be well-conceived, with an eye on their eventual impact. Competitiveness, even within the EAC will continue to be the driver of progress. Investors seek incentives, but the most important of all is a business-friendly environment in terms of ease of starting, operating and closing a business. The regulatory environment has to be simple enough, while poor governance, in a bid to cut corners, inevitably results in poor project execution and loss to the population in terms of service delivery.

159. More specifically, political economy issues at the EAC level have not been given enough attention. For example, other states fear that Kenya might benefit more than them from the arrangements. Indeed, some, like Tanzania, once called for a slowdown of the process of integration. Such seeds of discontent could prove harmful to Uganda, which has vested in

the success of the EAC. They should be discussed at the highest levels, with a view to finding workable solutions. It will require political will from all parties.

160. Regional instability is another area of concern. Ugandan traders and the economy suffered during the recent conflict in South Sudan. A number of refugees fled to Uganda from there, putting pressure on rural economies, in spite of donor assistance. Peace and stability must be sustained for the NDP II to meet ist objectives.

161. Regional integration has proven an important source of economic and political stability in East Africa—promoting peace, growth and the welfare of almost 150 million people. Although Uganda’s economy is inexorably linked to those of its neighbours, it still needs to remain competitive as the choice of direction of investment and industry location will still matter a great deal.

7.0 Policy Discussion and Recommendations

7.1 Introduction

162. This chapter discusses the main findings of the midterm political economy evaluation for NDP II.

7.2 Extend Ownership Beyond Key Agencies

Plan Leadership and Ownership

163. The NDP II had, on the face of it, considerable political “buy-in” and support. It was proceeding from an earlier plan which had recorded some successes and with the hope that a process of learning by doing was underway. Parliament, the Cabinet and the implementing agencies demonstrated cohesion and sense of purpose during the consultation and design phases, and the plan was launched by the President in 2015, with the usual admonishment Stakeholders noted, however, that more effort, in terms of leadership and coordination, was required if the second plan was going to have greater impact than the first, adding that ownership meant owning up to the less than satisfactory performance of the first plan, seeking adjustment and midterm corrections, and making sure that prioritization was not paid lip service.

164. The NDP II, like the first plan, was politically well-aligned, its pillars, transport and energy infrastructure, ICT and human development, drawing on the NRM Manifesto. But, similarly with NDP I, political alignment and prima facie support from top leadership were not enough to enforce compliance. It will be important to enhance the NPA’s standing among peer agencies within Government so that its recommendations and monitoring and evaluation reports can have the traction and impact required. It might well be that parliamentary adoption and scrutiny of NPA’s monitoring and evaluation reports, on a systematic basis could have the impact desired i.e. aligning plans with budgets and censoring non-compliance.

Local Level, Private Sector, Civil Society and Development Partners

165. The ownership of the plan as well as its leadership have revolved around government institutions. There was no indication that the private sector and civil society had greater involvement in NDP II than in the last plan. To have traction and greater impact, NDPs must be owned more broadly, especially by MDAs, local governments, the private sector and civil society. The recent efforts by the Office of the Prime Minister to “talk development” at the local level called Barazas are laudable, but given the 130 plus districts in Uganda today, a more structured approach, touching on resource mobilization and control over resources at the local level, will be required to build enthusiasm for planning.

166. Development Partners are an important stakeholder group in Uganda. They are the first port of call for potential investors into Uganda from their home countries. Aside from funding, they can be sources of development ideas, such as that of managing the infrastructure assets of the government, on which the EU delegation to Uganda has been vocal.

7.3 Plan Implementation: Lessons Learnt

Lessons from the First Plan

167. Although the second plan was in many ways an extension of first, a number of lessons were learnt from the implementation of the earlier plan i.e. the importance of prioritization in the face of resource scarcity and the cardinality of an effective mechanism for plan enforcement and follow-up. Under NDP II, they were responded to in two respects, on the one hand, a focus on a smaller set of sectors and the identification of infrastructure and human capital development as enablers and, on the other, the creation of a delivery unit in the office of the Prime Minister.

168. While the value of "doing fewer things but doing them well" and boosting implementation capacities at the central and local levels is percolating through the bureaucracy (cf. the delivery unit of the OPM), the structural and political obstacles are still formidable. For example, many established positions in Government, especially technical ones in the field, are not filled, with implications for local level implementation and follow-up. Duplication of roles and wasteful expenditure are yet to be addressed in an effective manner. Moreover, resource availability has put an effective ceiling on what can be achieved within the remaining years of the NDP II.

Accountability Functions

169. The evaluation noted that the accountability functions for the NDP II were spread too thinly among agencies. As a result, a real champion for national planning in Uganda is yet to emerge. The NPA would be expected to play that role, but its reach and influence have been curtailed by bureaucratic and administrative constraints, not least the convoluted supervisory architecture.

170. In terms of plan enforcement and follow-up, the Prime Minister's delivery unit is an excellent idea, and has already proven its worth in a range of areas. However, there is a risk that it might take on ever bigger challenges that could usurp its utility as a technically strong and agile unit that can zero in on issues of consequence in public service delivery—notably teacher and healthcare giver attendance in primary schools and health clinics, respectively—and provide evidence-based guidance on the way forward. However, although the PMDU was proposed by NDP II, the links with the NPA and its monitoring and evaluation functions are far from clear.

171. On issues of financing, it has not been clear how the Government will compel the private sector to participate in the NDP II as there are few institutional arrangements for the sector to share its views on a regular basis. In terms of what the private sector has to offer, the Government operates on the basis of guesstimates, leading to annual swings in investment.

Structural Reforms and Corruption

172. In terms of structural reforms, including on land issues, procurement and institutional strengthening, work continued under NDP II, although slow and tentative. The big elephant in the room, corruption, continues to have a stranglehold on the public sector and the rest of

the economy. Its persistence threatens to reverse the gains made in some key areas, for instance the delivery of feeder roads and potable water to local communities.

Sector Level

173. At the sector level, strong performance was recorded in the delivery of infrastructure. A number of energy projects are near completion, while all-weather roads now criss-cross the country. However, with expanding physical assets, attention has turned to how to manage roads and energy infrastructure effectively. Effective repair and management strategies could save the Government a lot of money. However, an institutional structure to manage this has not been finalized.

174. In spite its prominence in national planning, agriculture continues to be a big disappointment. Its growth has been lower than projected in the last decade, including the NDP II years. The pace of investment is low as is that of commercialization. The issues impeding progress are well known, such as land ownership and access to credit, but will likely not be resolved in the remaining years of NDP II. However, the newly introduced insurance scheme for agriculture promised to expand smallholder access to capital on a more sustainable basis.

175. The oil sector continued to have positive impacts on the economy, even before the flow of commercial oil, including oil-related management courses in state-owned universities. The projects related to oil, the pipeline and the refinery, will be the biggest ever in the country's history. They already have implications for the rest of East Africa through the oil pipeline project, which will pass through neighbouring Tanzania.

Private Sector

176. The high cost of doing business continues to be a key impediment to private sector expansion in Uganda. It impacts the sector differentially, with bigger, and mostly, foreign firms able to get more favourable terms from commercial banks in the country or from their backers abroad, while small and medium-term firms, mostly local, have fewer alternatives. Many avoid the banks completely and depend on own savings and support from family and friends to finance their businesses. Still, the coming on stream of new power supply, reducing the cost of electricity, and the improving road network are mitigating the cost implications. The business sector continues to complain about rampant corruption, although many business people see an eminent tipping point, where the expanding middle class will be able to resist wanton corruption effectively.

7.4 Implications of the Growth Retrenchment

Plateauing of Uganda's Growth

177. Following a decade and a half of high growth, Uganda's growth rate declined markedly after 2010, which coincided with the introduction of the national development plans. It has not returned to the earlier growth rates, nor has it reached the projected NDP II growth rate of 6.3%. If low growth persists, it will be difficult for the country to achieve middle-income status during the current plan. While poor weather and external shocks have played a role,

domestic structural impediments, such as a high cost of doing business and land reforms paralysis, bare some of the blame. Agriculture has performed below expectations compensated for by higher growth in the industry and service sectors. The latter have become the real engines of growth in Uganda, although not yet for employment.

Employment, Poverty and Inequality

178. The labour market in Uganda comprises a small portion of public and private sector workers that receive wages and a much bigger portion of self-employed individuals that work on own account. While wage employment has expanded with the recent inflows of investment in many areas of the economy, the informal sector employment has expanded even more, as the youth enter the job market. Only about 50% are able to find work, while about 30% are neither in school nor working, a veritable time bomb, which should give policymakers pose for thought.

179. Most progress on poverty reduction was made during the growth boom years of the late 1990s and early 2000s. Low recent growth, especially in agriculture, has led to an increase in poverty nationally, though not its severity. However, it is notable that northern Uganda has seen a drastic reduction in poverty in recent years, thanks to the return of peace, which has enabled smallholders to return to their farms. Poverty in eastern Uganda has worsened, however.

180. Spatial inequality continues to be a challenge and might be aggravated by the concentration of mega projects in parts of the country. However, some infrastructure projects such as the extension of potable water to vulnerable communities and feeder roads have been very successful.

Avoiding the Middle-Income Trap

181. Uganda is on the verge of becoming a middle-income country, with all is trappings. However, the challenges of poverty, unemployment and inequality will not disappear overnight and could escalate within parts of the cities or sections of the country. The possession of oil riches might tend to exacerbate these challenges, if not handled right. Above all, the country’s decades long emphasis on macroeconomic stability should not be allowed to dissipate.

7.5 The Integration Imperative

Regional and Global Impulses

182. As a small open economy, with no direct access to the sea, Uganda has been keenly aware of the importance of good neighbourliness as well as that of capacity to manage external shocks. It has also been agile in taking advantage of opportunities opening up in the country and region, notably the oil discovery and the opening up of markets in South Sudan and eastern DRC. At the same time, it has had to improve its regional and international competitiveness. The EAC has become an important regional agent of restraint in political and economic matters hence boosting regional investment in Uganda, and the country’s exports to the region. As the country looks ahead to the full economic market, sovereignty

issues, the meeting of regional convergence criteria and responding to external economic shocks will require institutional maturity and rigour.

Impact of Convergence Criteria

183. With the exception of the ceiling on the fiscal deficit (including grants), the EAC convergence criteria are unlikely to affect the implementation of the NDP II, as the frontloading of infrastructure projects will be reduced in the last years of the plan. However, with the deficit at about 200 basis points over the ceiling in 2018, measure need to be taken to ensure compliance.

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Annex 1: Stakeholder Engagement During the Evaluation

Annex 2: Political Economy Questions

Sn.	Thematic Evaluation Questions
PE1	The relevance, ownership and leadership of the NDP II amongst key stakeholders (Executive, Parliament and Civil Society);
PE2	The flexibility of the NDP II to cater for emerging integration issues
PE3	The comprehensiveness of the Plan in addressing its overall target of attaining middle income status by 2020, through strengthening the country's competitiveness for sustainable wealth creation, employment and inclusive growth;
PE4	How have international and regional political and economic trends had an impact on the implementation of the NDP II and the ability of GoU to meet the targets in the NDP II?
PE5	What political economy factors have contributed to exceeding / missing NDP II objectives/targets?
PE6	How has political economy affected the priorities within and between sectors?
PE7	To what extent has the private sector, civil society and DPs played the role envisaged for them in the NDP II and why?
PE8	To what extent has the NDP II so far addressed regional disparities in development, particularly in Northern Uganda?
PE9	How have political economy factors influenced the effectiveness of institutional arrangements surrounding implementation and monitoring of the NDP II?
PE10	What is the emerging evidence as to what extent the focus on economic growth had an impact on poverty reduction and socio-economic transformation?
PE11	From a political economy perspective, what needs to be done to influence more effective implementation of the NDP II?
PE12	How can the potential benefits of regional integration be enhanced under NDP II?
PE13	What can be done to strengthen political ownership, leadership and mind-set change for achievement of the NDP II objectives?

Annex 3: Tracking the Progress of the East African Integration

Stage of Integration	Comments on Progress
East African Community Protocol (1999)	(i) Treaty for the establishment of the East African Community signed on November 30, 1999 by the original members, Kenya, Uganda and Tanzania and comes into force on July 7, 2000.
East African Market (2009)	(ii) Protocol for the establishment of the EAC Common Market signed November 20, 2009. It provided for the abolition of import duties among partner states, common external tariffs, and free movement of factors of production within the partner states. (iii) National identity cards required for the free movement of labour stipulation. At the time only Rwanda, Burundi and Kenya had national identity cards. Tanzania was working on issuing cards, while Uganda's process was embroiled in a procurement controversy. (iv) The economic power of Kenya and its huge supply of professionals was a concern in other member countries. (v) Uganda has a high cost of doing business compared to its neighbours, owing to inadequate infrastructure, but also high level of corruption.
East African Customs Union Protocol 2014	(vi) Protocol for the Establishment of the EAC Customs Union is signed March 2, 2004 and become operational January 1, 2005. (vii) Provisions include abolition of import duties among partner states and a common external tariff. (viii) Its implementation led to disagreements since Kenya was well positioned to take over a sizeable share of the import market, for Uganda for example. There were also concerns over rules of origin and tax waivers (holidays) used by some partner states. In other words, sovereignty issues loomed large.
East African Common Currency (2014)	(ix) It was envisaged that all East African Partner States would have one currency with one East African Central Bank by 2014. These targets were not met. Given the varying strengths of the economies, there are fears that the harmonization of the currency may result in a Euro-zone like crisis hence the need to take a cautious approach.
East African Political Union (No Specified Time Frame)	(x) The time frame for the political union has not been specified. The concerns range from the type of state structure to adopt to how define a robust economic, governance and security regime. National interests have prevented the heads of state to go beyond exploratory talks.

Source: Ministry of East African Community Affairs (2014)

Annex 4: NDP II Targets

NDPII Goal and Objective	Development Indicators		Baseline	MTR status	Targets	
			2012/13		2019/20	2040
Overall Goal: To achieve middle income status by 2020 through strengthening the country's competitiveness for sustainable wealth creation, employment and inclusive growth	1. Income per Capita (USD) 743		743	642	1,039	9,500
	2. Average economic growth rate*		5.2	5	6.3	8.2
	3. Percentage of people living on less than USD 1 a day		19.7	27	14.2	5.0
	4. Percentage of national labour force employed		75.4	60	79	94
	5. The number of young people not in education, employment or training		Census baseline 2014	21	By 20 percent	By 90 percent
Objective 1: Increase sustainable production, productivity and value addition in key growth opportunities	1. Manufactured exports as a percentage of total exports		5.8		19.0	50
Objective 2: Increase sustainable production, productivity and value addition in key growth opportunities	2. Labour Productivity (GDP per Worker - USD)	Agriculture	581	598	997.77	6,790
		Industry	5,106		7,871.35	24,820
		Services	2,441		5,217.65	25,513
	3. Nominal GDP (UGX Billions)		55, 602	96,516.2	132,249	1,451,250
	4. Real GDP (UGX Billions)		25,203		40,760-	128,200
	5. Forest Cover (percent Land Area)		14	15	18	24
Objective 3: Increase the stock and quality of strategic infrastructure to accelerate the country's competitiveness	1. Gross capital formation as a percentage of GDP		25.5	24.4	27.7	30
	2. Total national paved road network (Km)		3,795	5100	6,000	119,840
	3. Percentage of cargo freight on rail to total freight		12		25.5	80
	4. Percentage of the population with access to electricity		14	22	30	80
	5. Consumption of electricity (Kwh Per capita)		80	90	578	3,668
Objective 4: Enhance human capital development	1. Life Expectancy at birth		54.5	60.18	60	85
	2. Infant mortality rate per 1,000live births		54	43	44	4
	3. Under five mortality rate per 1,000 live births		90	55	51	8
	4. Maternal mortality rate per100,000 live births		438	336	320	15
	5. Child Stunting as percent of under-5s		31		25	0
	6. Total Fertility Rate		6.2	6	4.5	3.0
	7. Primary to secondary school transition rate		73		80	
	8. Net Secondary completion rates		35.5		50	

	9. Average years of schooling	4.7			11	
	10. Safe water coverage	Rural	65	66.6	79	100
		Urban	77	85	100	100
Objective 5: Strengthen mechanisms for quality, effective and efficient service delivery	1. Government Effectiveness Index (2.5 weak; 2.5 strong)	-0.57		-0.57	0.01	
	2. Public Resources Allocated to Local Governments Level (percent)	19		21	30	
	3. Corruption Perception Index (CPI)	2.9		2.6	3.7	7.1