Final Evaluation of the First National Development Plan (NDP I) (2010/2011 - 2014/2015)

Economic Management Thematic Report

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Prepared by

In Association with

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All errors and omissions remain the responsibility of authors.

Acronyms and Abbreviations

BoU	Bank of Uganda
CNDPF	Comprehensive National Development Planning Framework
DDPs	District Development Plans
DPs	Development Partners
EPRC	Economic Policy Research Centre
FY	Financial Year
GDP	Gross Domestic Product
HDI	Human Development Index
IBP	Integrated Bank of Projects
IG	Inspectorate of Government
JAF	Joint Assistance Framework
JLOS	Justice Law and Order Sector
LGs	Local Governments
MoFPED	Ministry of Finance Planning and Economic Development
MoWT	Ministry of Works and Transport
MPs	Members of Parliament
MTEF	Medium Term Expenditure Framework
MW	Megawatts
NDP	National Development Plan
NDP 1	National Development Plan for period FY2010/11 to FY2014/15
NDP 11	National Development Plan for period FY2015/16 to FY2019/20
NPA	National Planning Authority
OBT	Output Based Budgeting
OPM	Office of the Prime Minister

PEAP	Poverty Eradication Action Plan
PFMA	Public Financial Management Act 2015
PSFU	Private Sector Foundation of Uganda
REEV	Research and Evaluation Consult Limited
SDGs	Sustainable Development Goals
UShs.	Uganda Shillings
SIPs	Sector Development Plans
TWG	Technical Working Group
UBOS	Uganda Bureau of Standards
UMA	Uganda Manufacturers Association
UN	United Nations
UNBS	Uganda National Bureau of Standards
UNFPA	United Nations Population Fund
UNGOF	Uganda Non-Governmental Organizations Forum
UNRA	Uganda National Roads Authority
UPE	Universal Primary Education
URA	Uganda Revenue Authority
US$	United States Dollar
WDI	World Development Indicators

Executive Summary

This report captures the final evaluation of the National Development Plan I (NDP1) Economic Management thematic area over the period Financial Year (FY) 2009/10 to FY2014/15. It takes stock of the performance, generates lessons learned and comes up with recommendations for on-ward implementation of NDPII and design of NDPIII. Specifically the evaluation sought to achieve the following objectives: 1) assess the extent of the progress made towards achievement of the NDP1 goals, objectives, national strategies, priorities and sector and local government service targets and results; 2) identify and examine the factors that have proved critical in helping or hindering the achievement of targeted outcomes; 3) assess progress towards unlocking the country's most binding constraints and implementation of reforms; 4) assess the role of the NDP1 in influencing policy and its overall contribution to the realization of Vision 2040; 5) assess the extent to which the NDP1 implementation has addressed vulnerability and other cross-cutting issues, including assessment of respective effects and impacts; and 6) identify lessons for the design and implementation of future Plans, while ensuring sustainable development.

The evaluation was undertaken through desk review of the government reports, face to face interviews with purposively chosen government officials with the central and local government and also the political leadership. The evaluation also made use of statistics from Bank of Uganda, Uganda Bureau of Statistics and International Monetary Fund Article IV reports. The evaluation was guided by five key principals: relevance, efficiency, efficiency, effectiveness, impact and sustainability of any government intervention in the economy through for example a conducive economic policy environment ought to extend beyond inducing growth, investment and regional integration to enabling citizen participation in the economy hence leading to economy-wide welfare enhancement.

Overall economic growth averaged 5.4 percent, which was 1.7 percent lower than the target average economic growth of 7.1 percent. The lower than expected economic growth was on account of 1) a weak global growth that undermined growth in demand for Uganda's exports; 2) low and southbound international commodities prices which worsen the effects of declining exports; 3) reduced capital flows; and 5) slow implementation of NDP1 projects which undermined the ability of fiscal policy to spur economic growth. Even then, there was a 28 percent increase in GDP per capita (in current US$) from US$ 558 in 2009 to US$ 714 in 2014 albeit lower than US$ 850 target for 2014.

In terms of sectoral performance, in spite of government interventions through National Agricultural Advisory Services (NAADS), National Agricultural Research Organisation (NARO) and Development Strategy and Investment Plan (DSIP) 2010/11 - 2014/15, the agriculture sector grew at an average of 2.4 percent compared to the 5.6 percent target. The lower than expected performance was on account of typical causes within the sector that is: 1) persistent reliance of food crop production on nature; 2) climate change and its related unpredictable weather patterns; 3) largely subsistence production as opposed to commercial production which undermines scaling up potential and thus agriculture credit utilisation; 4) failure of extension services to farmers; and 5) absence of quality controls on firm input supplies such as seedling, herbicides and pesticides.

The dominance of the service sector further increased as a percentage of GDP from 49.5 percent in FY2010/11 to 50.2 percent in FY2015/16. The increased dominance of the service sector was partly attributed to growth in ICT, financial services, accommodation and food service activities, real estate and education. Even then, the average growth was 6 percent, 1.7 percent lower than the NDP1 target. The inability of the service sector to however fulfil its NDP1 growth target could however be attributed to the sluggish growth in the trade sector.

Given the relatively challenging macroeconomic environment, the industrial sector signaled resilience experiencing a 6.1 percent average economic growth over the NDP1 cycle missing the target by a paltry 0.4 percent. The poor performance of the manufacturing is largely responsible for the inability of the industrial sector to outperform. For example, the manufacturing sector grew by an average of 0.8 percent in the period FY2011/12 to FY13/14 yet it was expected to have grown by 6 percent. Indeed, the share of manufacturing as proportion of GDP reduced from 8.4 percent to 8 percent. The poor performance of the manufacturing sector is closely linked to the uncompetitive business environment especially unreliable power supply and costly electricity, financing constraints resulting from tighter liquidity and lower demand from global markets.

With regard to the monetary policy framework, success was achieved in maintaining core inflation to single digit. However, this was at the expense of the cost of credit especially as policy rate was adjusted upwards from 13 percent in July 2011 to 23 percent in December 2011 implying a tightened monetary policy over the period. Monetary policy loosened a bit albeit gradually only reaching 13 percent in October 2012. Post October 2012, the CBR was largely

dormant averaging 11.55 percent. Overall, monetary policy was successful in managing inflation.

Fiscal policy was largely expansionary with government expenditure as a share of GDP increasing from 17 percent in FY2010/11 to 20 percent in FY2014/13. The increase in the budget was partly to finance government's ambition to relieve infrastructural constraints to business in addition to expenditure on social sectors (education, health, agriculture and social development) which were priority spending sectors before NDP 1. Specifically roads and energy spending gained most over the NDP 1 cycle as a fraction of budget rising from 18.2 percent in FY2010/11 to 30.9 percent in FY2013/14. On the other hand budgetary allocations to poverty alleviation sectors as a percentage of the budget reduced from 31 percent in FY2010/11 to 26 percent in FY2013/14. Unfortunately, the expansionary spending was undermined by weak execution of public projects compromising the speed at which the binding constraints to production are abated.

In terms of revenue mobilisation, NDP1 targeted growth of 0.5 percent of GDP every FY. However, post FY2010/11 domestic revenue underperformed the NDP1 revenue mobilisation target averaging 11.8 percent of GDP, 2.6 percent of GDP less than the NP1 average for the period FY2011/12 to FY2014/15. The lower than expected tax effort was on account of sluggish economic growth and weaknesses within tax administration. As such overall the fiscal deficit averaged 5.1 percent of GDP, 0.4 percent of GDP less than the NDP 1 target. On average, domestic revenue financed 70 percent of government spending during NDP 1. As proportion of GDP, government spending was on average higher than the revenue collected by 5.1 percent over the NDP 1 cycle. 50.6 percent and 45.4 of the fiscal deficit was financed through domestic and external borrowing respectively.

As a proportion of GDP, NDP1 targeted debt stock of 14.8 percent in FY2010/11 and 18.2 percent in FY2014/15; however, this was not the case public debt increased from 25.7 percent in FY2010/11 to 31.8 percent in FY2014/15. On average 42.4 percent of public debt was from the domestic credit market with the other being external. Even then Uganda's debt distress is rather low although inability to increase domestic revenue mobilization, robust economic growth and increase forex earnings pause inherently induce risk.

For external sector, there was an improvement with the current account deficit as a percent of GDP reducing from 9.8 percent in FY2010/11 to 7.2 percent in FY2014/15. More improvements in the current account were undermined by a weak global economy which dampened commodity prices, net income and net transfers. The aforementioned reasons also accounted for the weakening of the Uganda Shilling which lost 42 percent of its value against the US Dollar over the NDP 1 period. Gross international reserves averaged US$ 2,778 million, equivalent to 4.4 months of imports, during NDP 1 which was however lower than NDP 1 target of 5.4 months. Overall traditional exports recovered especially coffee, tea and tobacco while the informal exports reduced.

The budgeting process did not exhaustively support NDP1 implementation. For example, sectoral allocations were on average 14 percent higher than the NDP1 sectoral allocations. However a sectoral disaggregation highlights existence of under and over funded sectors. For example, Agriculture, Health, Education, Works & Transport, Energy & Mineral Development, Tourism, Trade & Industry and Water & Environment were under funded across the NDP1 cycle by the magnitude 23.3 percent, 28.7 percent, 13.5 percent, 9.2 percent, 4.7 percent, 37.8 percent and 12.2 percent. This could suggest a misalignment between NDP1 and the budgeting process. Furthermore, low budgetary allocations were combined with the fact that only 79 percent of the budgetary allocations was released on average across the NDP1 cycle undermined the execution of NDP1 key priority objectives thereby delaying their contribution to Uganda's structural transformation, productivity growth and economic development.

With regard to recommendations, to boost the real sector, government should among others ensure that: the industrial policy cascades from agro-processing to organisation of agricultural production; all agriculture production authorities have results frameworks that go to smallest unit of government possible for example sub-county or parish; and it invests in the primary sectors of the economy directly. In terms of boosting domestic revenue mobilization government could ensure that: mechanism are in policy to minimise the compliance gap; rationalize tax exemptions with utmost clarity and transparency; tax morale is improved; the audit function of the URA is further strengthen especially among the medium and large tax payers; and more businesses are brought into the tax net by delivering quality public services while minimizing congestion. To improve the coordination of MTEF, NDP, and budgeting government ought to ensure: better forecasting model for the MTEF to better align budgets to

NDP; timeliness of the Mid-term review of the NDP; eenhancement of public investment management.

1.0 Introduction

1.1 Contextual Background to the Assignment

1. Post Independent Uganda has experienced a highly variable development trajectory: from the 1968 Common Man's Charter; to the 1972 expropriation of assets and businesses of the Indian community; to the Washington Consensus of mid-1980s and the wave of privatisation and liberalisation that followed. Since 1986, however, sustained socio-political stability has underpinned economic growth (that has averaged 5-7% per annum) and a reduction in poverty levels from 56% in 1992/93 to the current 21%. With poverty as a core constraint to Uganda's development, Government implemented two phases of the Poverty Eradication Action Plan (PEAP) between 1997 and 2008. An independent evaluation of the PEAP concluded that five fundamental challenges still caused Uganda to lag in its quest to make the transition from a least developed country to a middle income one, namely:

   (i) The dominance of primary commodities in export trade, and limited value addition;
   (ii) Slow growth in agriculture, overtaken by services as the dominant sector of the economy;
   (iii) New sectors that were not absorbing the rapidly growing labour force, leading to high unemployment;
   (iv) Slow capital formation and low domestic savings and investment, leaving the country with limited resources to develop core production infrastructure.
   (v) A weak public sector in a post-conflict bureaucracy needing far-reaching reforms.

2. Looking at these challenges, among others, it was imperative for Uganda to implement a long-term strategy that looked at addressing the immediate, intermediate and long term challenges of the time. The first attempt was the Vision 2025, then Vision 2030, and these attempts led to the formulation of the Comprehensive National Development Planning Framework that looked at Uganda within the global development spectrum. Political guidance at the time concluded that having a 30-year Vision 2040, implemented through six successive five-year National Development Plans (NDPs) would be imperative. The first was for 2010/11-2014/15 and was succeeded by the second plan for the period 2015/16-2019/20. The theme of the first NDP (NDP I) was 'Growth, Employment and

Socio-economic Transformation'. Half way through its implementation, a mid-term evaluation was conducted in 2013. This is now a final evaluation of the Plan.

1.2 Assignment Objectives and Rationale

1.2.1 The overall objective

3. The overall objective of the assignment is to conduct the final evaluation of the NDP 1 Economic Management (EM) thematic area and to take stock of performance, generate lessons learned and come up with recommendations for onward implementation of NDP II and the design of NDP III.

1.2.2 Specific Objectives

4. The specific objectives of the assignment are to:
   - (i) Assess the extent of the progress made towards achievement of the NDP 1 goals, objectives, national strategies, priorities and sector and local government service targets and results;
   - (ii) Identify and examine the factors that have proved critical in helping or hindering the achievement of targeted outcomes;
   - (iii) Assess progress towards unlocking the country's most binding constraints and implementation of reforms;
   - (iv) Assess the role of the NDP 1 in influencing policy and its overall contribution to the realization of Vision 2040;
   - (v) Assess the extent to which the NDP 1 implementation has addressed vulnerability and other cross-cutting issues, including assessment of respective effects and impacts; and
   - (vi) Identify lessons for the design and implementation of future Plans, while ensuring sustainable development.

1.2.3 The Scope of Work

5. **Review existing materials:** The team of consultants reviewed and analysed materials that are relevant to the NDP 1 evaluation, as applicable to their appointment. These include the NDP and sector/Ministry, local government, and civil society and private sector reports and plans and others as elaborated in Appendix A1

6. **Undertake fieldwork to collect information relevant to the review:** The Consulting team conducted an extensive fact-finding mission in Kampala and in selected LGs within

the country for purposes of collecting data to inform the EM thematic assessment; carried out data analysis; and conducted meeting with stakeholders at various levels to obtain accurate information, as will be found necessary.

7. **Conducted workshops and conferences:** The Consultants conducted consultation, validation and information gathering workshops and conferences to inform the reports preparation process. They will also participate and take lead in the national government dissemination conferences of the reports; and

8. **Preparation of the reports:** At the end of consultations the team produced the Thematic Report on EM showing findings, lessons learned and recommendations from the implementation of NDP 1.

1.2.4 Disclaimer

9. The outputs of this evaluation are based on findings of independent consultants and are for technical use of Government. Citation and quotation before public launch shall require authorization of the National Planning Authority.

1.3 Method of analysis

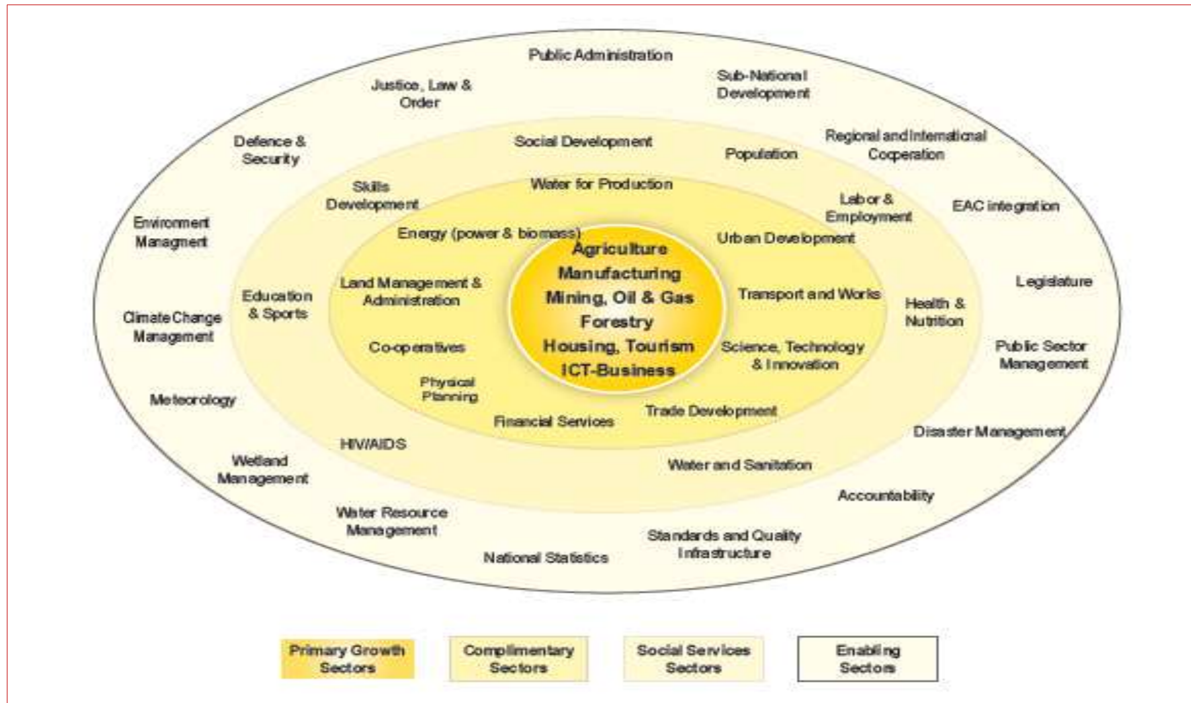
1.3.1 NDP 1 conceptual framework, contextualization and focus

10. NDP 1 was a departure from the Poverty Eradication Action Plan (PEAP) and on its launch in 2010, was focused on three fundamentals: creation of jobs, sustaining economic growth and putting Uganda on a trajectory of general development as opposed to a sole focus on reducing poverty. The ambition of the plan was to develop flagship public reforms and infrastructural projects that would reduce binding constraints, while providing the bedrock for a sustainable path for Uganda's long-term development.

11. Prioritisation was of essence. The main sources of economic growth were expected to come from the 8 'primary growth sectors' which were stated as **agricultural development, forestry, tourism, mining, oil and gas, manufacturing, information and communications technology and housing development**. NDP 1 identified the required improvement in complementary sectors of the economy, notably **energy, water, transport and financial services**. NDP 1 acknowledged and arguably identified the key constraint to further economic development as the enabling sector and outlined a number

of improvements required in **public sector administration and management** to as in the display below:

Figure 1: The Egg Analogy - Conceptual Framework for NDP I



Source: NDP I National Planning Authority (2010)

12. The ‘theory of change’ approach is a technique increasingly used to set out the ‘story’ of how a development initiative will make a real change in the world. It combines the use of a ‘results chain’ approach with a narrative of how the move up the results chain can be made to happen. The assumptions often require direct interventions to ensure that they hold. The theory of change allows a concise presentation of NDP 1 themes, objectives and key result areas in a single hierarchical results chain diagram, highlighting the assumptions that must hold for the chain to hold together. The benefits of producing a theory of change for the NDP included:

(i) Demonstrating in a succinct manner how various elements of the NDP 1 fit together and can contribute to the attainment of higher-level aspirations and goal;

(ii) Highlighting some of the key dependencies and providing a focus for some of the more detailed Review questions;

(iii) Showing the various themes, objectives and key result areas in a results chain format which can be reviewed and built on for a stronger results framework moving forward;

(iv) Indicating the possible feasible stages of change for which clear evidence of attainment might be desirable in order to inform phasing and sequencing of NDP 1 implementation.

13. The task now at hand, is to build on the analysis from the MTR conducted in 2013 and assess the extent to which the NDP 1 achieved its goals, objectives, and targets under the various strategies as guided by its implementation framework. The next section shows the approach used.

1.3.2 Using the OECD Evaluation Criteria for the Final Evaluation

14. The Consortium adopted the OECD evaluation criteria as espoused in the ToR in which we determined the extent to which the NDP I was relevant to the development context of the time; the efficiency of utilization of resources at hand; the effectiveness in in delivery of its intended purpose and results; the impact felt after its implementation and the extent to which this impact was sustained under NDP II. These criteria are summarised in Table 1:

Table 1: OECD Criteria

Key aspect of the OECD Criterion	Overall Evaluation Questions
Relevance	– Was the NDP 1 well-conceived given the social, economic and political situation? At its expiry was it still relevant to the original problem it was intended to address? To what extent did it contribute to the strategic direction of the Government and its partners? Was the national planning paradigm shift to comprehensive national development planning appropriate in the context of the political economy and other factors in the environment?
Efficiency	- Was the first Plan delivered in a timely and cost-effective manner? Have resources been used cost effectively? Do the results (quantitatively and qualitatively) justify the resources expended?
Effectiveness	– To what extent were the planned results achieved. What are the reasons for the state of achievement? What support and barriers have affected achievement of results?
Impact	- To what extent did the Plan contribute to the National Vision 2040 outcome targets and goals? Are there unanticipated positive and negative consequences? Why did they arise?
Sustainability	– Is there an enabling environment that supports on-going positive impacts? Can the positive outcomes and impacts be sustained for achievement of middle-income status and Vision 2040?

15. While the above are the overarching evaluation questions, the evaluation was equally based on the questions in Table 1.

Table 2: Evaluation Questions

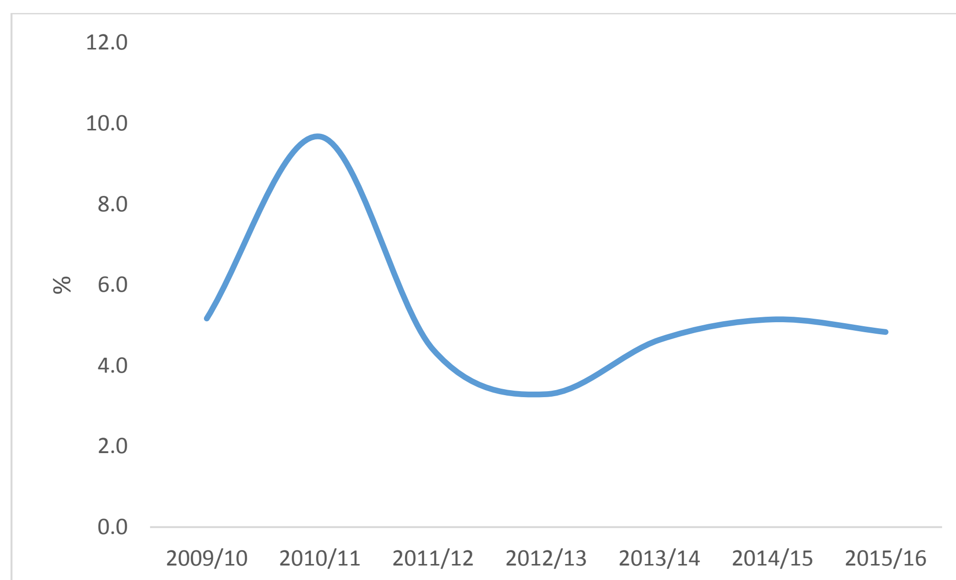
EM1	Are we on track to achieve the macro-economic objectives / targets articulated in the NDP?
EM2	-The extent to which the NDP2 macroeconomic framework has strengthened the country's competitiveness for sustainable wealth creation, employment and inclusive growth -How has the NDP influenced macro-economic strategy and related reforms in Uganda?
EM3	Extent of pursuance of macro-economic stability with fiscal expansion for frontloading infrastructure investments and industrialization;
EM4	To what extent have reforms in economic management been guided by the NDP2
EM5	To what extent have NDP2 priorities been effectively budgeted for and financed
EM6	To what extent has the NDP2 focus areas been adopted as priorities for implementation.
EM7	How well have macro policy instruments been used to achieve economic stability and growth?
EM 8	To what extent have public expenditure and related accountability systems changed to ensure alignment of budgets, spending and financial reporting with the NDP objectives
EM 9	What progress has there been on unlocking the key economic constraints to growth?
EM10	How has NDP implementation so far contributed to improvements in productivity, private sector development and competitiveness?
EM11	To what extent is deregulation taking place and how well is this facilitating private sector growth and competitiveness?
EM11	To what extent and how have additional private sector funds been harness to finance NDP priorities?
EM12	How environmentally sustainable has been Uganda's economic growth?
EM13	From an EM perspective, what can be done to improve the next version of the NDP?

2.0 Macroeconomic performance and NDP 1 implementation

2.1 Real sector

16. ***Sluggish economic growth over the period FY2010/11 to FY2014/15***. Over the decade before FY2011/12, Uganda experienced robust economic growth averaging over 7 percent a year. However, the period after FY2011/12 saw Uganda's worst economic growth since 1990; between FY2012/13 and FY2014/15, economic growth averaged 4.4 percent (see figure 2). The low economic growth was partly on account of monetary policy tightening after the 2011 general elections, droughts and external shocks that spilled over from the global economic crisis. Monetary policy tightening was aimed at mopping up election-induced fiscal spending that risked propagating inflationary pressures. Consequently, the Central Bank Rate (CBR) policy rate increased by 10 percentage points, from 13 percent in July 2011 to 23 percent in January 2012. This induced credit institutions to adjust lending rates, which increased to 28 percent in May 2012. The high cost of lending undermined private sector credit growth, thereby contributing to low economic growth. The sluggish growth was further compounded by reduced investor confidence following election related spending before and after the 2011 general elections.

Figure 2: Real GDP Growth (y-o-y percent change)



17. ***Overall economic growth was below the NDP 1 target average growth rate of 7.1 percent*.** Over the NDP 1 period, economic growth was targeted to average 7.1 percent, however the actual average growth was 5.4 percent. This average was boosted by very high growth in 2010/11, and the average growth rate detriorated for the period FY2011/12 to FY2014/15, when it was 4.4 percent. The inability of real GDP growth to achieve the 7.1 percent target for the NDP 1 period was partly attributed to: 1) excessive government recurrent spending which induced monetary policy tightening, which in turn dampened domestic demand through reducing private sector credit growth; 2) weak global growth that undermined demand for Uganda's exports; 3) low and declining international commodities prices, which worsened the effects of declining export volumes; 4) reduced capital inflows; and 5) slow implementation of NDP 1 projects which undermined the ability of fiscal policy to spur economic growth.

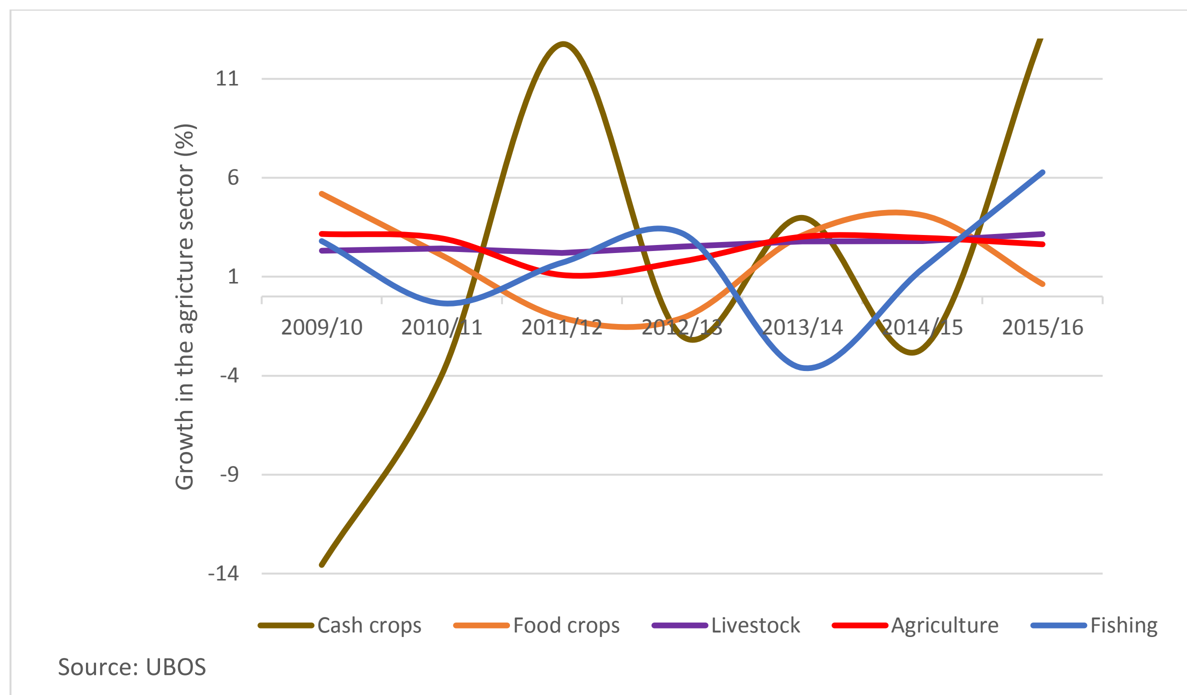
18. Furthermore, while NDP 1 sought to increase per capita income to US$ 850, as of 2014 Uganda's GDP per capita (current US$) was only US$ 714, 16 percent less than the NDP 1 target. Nevertheless, there was a 28 percent increase in Uganda's GDP per capita (in current US$) from US$ 558 in 2009 to US$ 714 in 2014.

2.2 Agriculture sector

19. ***The agriculture sector grew by an average of 3.3 percent less than the target average growth rate***. Over the NDP 1 cycle, agriculture was targeted to grow at an average of 5.6 percent; however the actual average growth rate was 2.4 percent. A sub-sectoral disaggregation shows how the poor performance of food crop sub-sector undermined the performance of the agriculture sector (see figure 3). Over the period FY2010/11 to FY2014/15 the food crops sub-sector grew at an average of 1.4 percent. Since food crops contribute at least 52 percent of agriculture sector GDP, whatever happens to the food crops sub-sector significantly affects the agriculture sector. The poor performance of food crops sub-sector was on account of: 1) persistent reliance of food crop production on nature; 2) climate change and its related unpredictable weather patterns; 3) largely subsistence production as opposed to commercial production which undermines scaling up potential and thus agriculture credit utilisation; 4) failure of extension services to farmers; 5) absence of quality controls on firm input supplies such as seedling, herbicides and pesticides. Over the

entire NDP 1 cycle, the cash crops, livestock and fishing sub-sectors equally performed dismally growing at an average of 1.6 percent, 2.5 percent and 0.5 percent respectively.

Figure 3: Agriculture sector growth performance



Source: UBOS

20. ***The poor performance of the agriculture sector is in spite of existence of government programs such as National Agricultural Advisory Services (NAADS), National Agricultural Research Organisation (NARO) and Development Strategy and Investment Plan (DSIP) 2010/11 - 2014/15***. NAADS was mandated to: 1) address constraints of access to agricultural information, knowledge and improved technology among rural poor farmers; manage the Agricultural Input Distribution Chains involving procurement and distribution of inputs to district local governments; 3) identify strategic interventions involving procurement and distribution of agricultural inputs for priority commodities under commodity approach, supporting multiplication of planting and stocking materials; 4) support agribusiness business development; and 5) support value chain development focusing on the upper end of commodity chains. NARO is mandated promote and coordinate research for crops, livestock, fish and forestry and to ensure the dissemination and

application of research results[1]. Furthermore, following the failure of the Plan for Modernisation of Agriculture (PMA), government adopted DSIP 2010/11 - 2014/15 to consolidate and harmonise all policy frameworks in the agricultural sector. DSIP was implemented with the ultimate goal of improving rural household incomes while improving food and nutritional security of all Ugandans (Ministry of Agriculture, Animal Industry and Fisheries (MAAIF), 2010). Furthermore, during NDP 1, government maintained initiatives such as the Cotton Development Organisation (CDO) and Uganda Coffee Development Authority (UCDA) for cotton and coffee respectively. Even then, in spite of these initiatives, the agriculture sector's performance is unsatisfactory. This implies that efforts to improve livelihoods among the over 60 percent of Uganda's population that live off agriculture are equally weak.

21. Overall, the inability of the agriculture sector to fulfil its potential was attributed to:

(i) Inadequate availability of appropriate financial institutions, limiting the ability of farmer groups to open bank accounts to facilitate their financial transactions;
(ii) Preference of farmers for technology/material inputs (often received at individual level) compared to advisory services and related joint learning activities;
(iii) Inadequate number of sub county NAADS coordinators and frontline agricultural advisory service providers (AASPs) as well as uncertainty about the future type of extension system; as well as inadequate budget for facilitating their operations;
(iv) There is lack of efficient early warning systems. Disease outbreaks are reported long after they have occurred and spread to wider geographical areas. In addition, although disease surveillance is a prerequisite for effective animal disease control, it is not routinely and effectively done;
(v) Climate change has resulted in unfavourable weather conditions during the production period, leading to loss of planted acreage and a drop in yields. For example, farmers experienced drought at time of planting (May – June 2011) and excessive rains from end of August to October 2011, which resulted into flooding in parts of Busoga, Butaleja, Pallisa, Teso, Bugisu and parts of Lango sub-region. The excess rain also

[1] http://www.agriculture.go.ug/Agencies/42

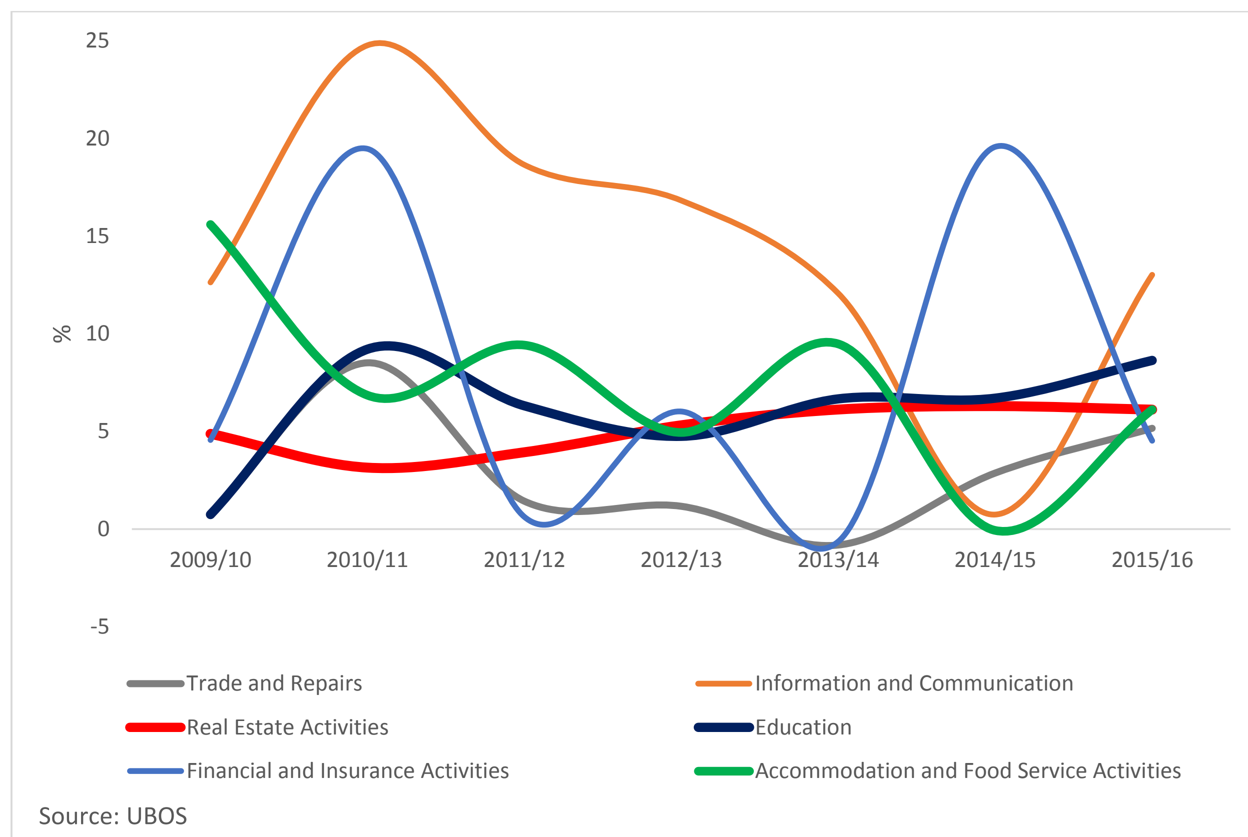
made weeding and pest control difficult and costly to the farmers since activities had to be repeated at very short intervals;

(vi) Inputs steadily increased in cost due to the weakening of the shilling. To exacerbate this problem a drop in cotton prices from an average of UGX 2,300 per kg of seed cotton received by farmers in 2010/11 to an average of UGX 1,100 per kg in 2011/12 demoralised farmers and made them reluctant to buy pesticides and implement the recommended agronomic practices especially for the late planted crop.

2.3 Service sector performance

22. ***At 6 percent average growth over the NDP 1 cycle, growth in the services sector was 1.7 percent lower than the expected average growth rate***. Over the period FY2010/11 to FY2015/16 the service sector's contribution to Uganda's GDP increased marginally, from 49.7 percent to 50.2 percent, reflecting that Uganda's economy is increasingly services-driven in terms of production. The continued dominance of the service sector reflected growth in ICT, financial services, accommodation and food service activities, real estate and education which grew at 14.6 percent, 9 percent, 6.1 percent, 5 percent and 6.7 percent respectively (see figure 4). However, the inability of the services sector to fulfil its NDP 1 growth target could be attributed to sluggish growth in the trade sector. Indeed, over NDP 1, the trade sector grew by 2.6 percent on average, which was 3.9 percent less than its target growth rate. In fact, from FY2011/12 to FY2014/15, trade grew by a paltry 1.2 percent which was 5.3 percent less than its target growth rate. Since the trade sub-sector contributes 22 percent of the service sector GDP, such underwhelming performance undermined the overall performance of the service sector. Indeed, had it not been for the robust growth in ICT, service sector growth could have been rather dismal. The dominance of the service sector is reflected in its share of private sector credit; over the NDP 1 cycle, the service sector took on average 62.5 percent of private sector credit.

Figure 4: Service sector growth performance

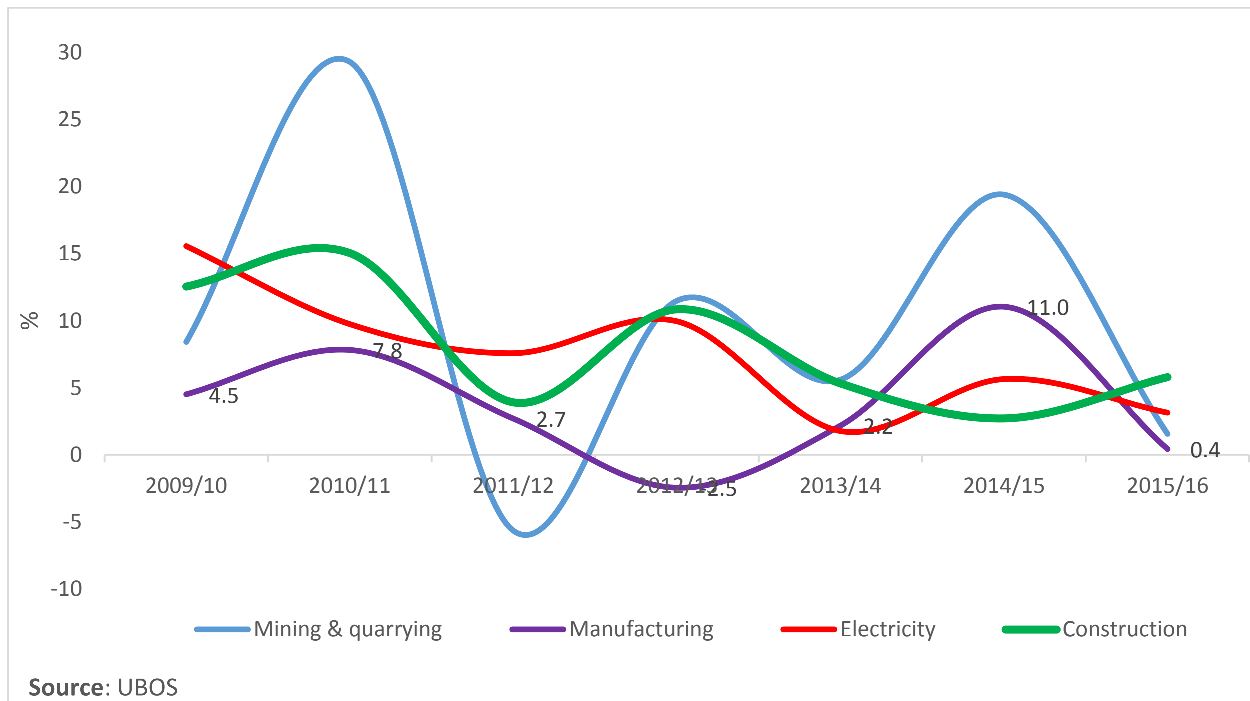


Source: UBOS

2.4 Industrial sector performance

23. ***With the 6.1 percent average economic growth over the NDP 1 cycle, the industrial sector signaled resilience***. Over the period FY2010/11 and FY2014/15, the industrial sector missed its target average growth rate by a mere 0.4 percent. The inability of the industrial sector to outperform its target was on account of the poor performance of the manufacturing sector. For example, the manufacturing sector grew the least, 4.2 percent, but was expected to grow by 5.9 percent over the NDP 1 cycle (see figure 4). Worse still, it grew by an average of 0.8 percent in the period FY2011/12 to FY13/14, yet it was expected to have grown by 6 percent. As a result, the share of manufacturing as proportion of GDP fell from 8.4 percent to 8 percent. The poor performance of the manufacturing sector is closely linked to the uncompetitive business environment. For example in FY2011/12, the manufacturing sector faced various challenges which included electricity outages, high electricity prices, financing constraints resulting from the tight monetary policy regime and lower demand from global markets.

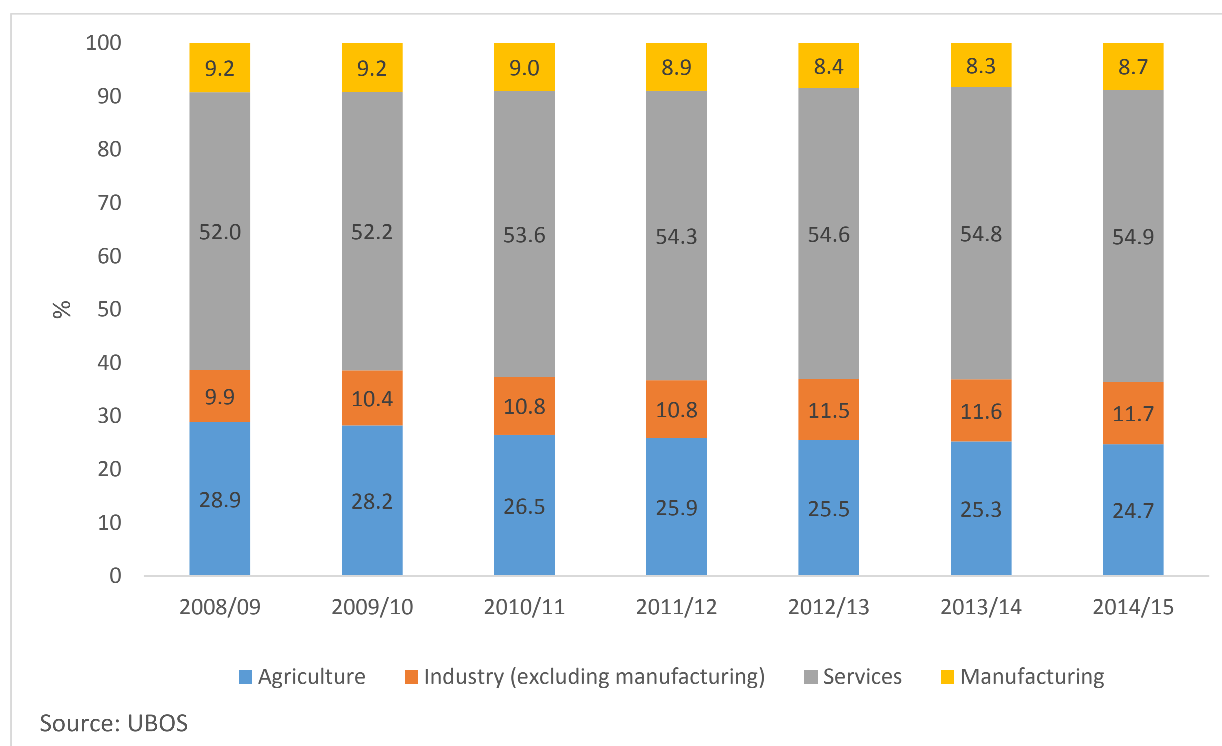
Figure 4: Industrial sector growth performance.



Source: UBOS

24. ***Non-conventional structural transformation***. The poor growth performance of the manufacturing sector continues to undermine Uganda's structural transformation from agriculture to manufacturing. For example the sluggish growth of manufacturing sector meant that the share of manufacturing as a proportion of GDP (excluding taxes and adjustments on products) reduced from 9.2 percent in FY2009/10 to 8.7 percent in FY2014/15 (see figure 5). On the other hand, the share of services as a proportion of GDP (excluding taxes and adjustments on products) increased from 52.2 percent in FY2009/10 to 54.9 percent in FY2014/15. Therefore, the underwhelming contribution of the manufacturing sector to GDP in favour of the service sector, if sustained, suggests that Uganda's economy is likely to miss out on: 1) stronger spillovers associated with the manufacturing sector as opposed to the service and agriculture sectors; 2) higher pace of economic transformation as the manufacturing sector is associated with higher productivity growth potential compared to the service and agriculture sectors; and 3) special opportunities for economies of scale associated with manufacturing sector as opposed to the service and agriculture sectors among others.

Figure 5: Sectoral share of GDP (excluding taxes and adjustments on products)

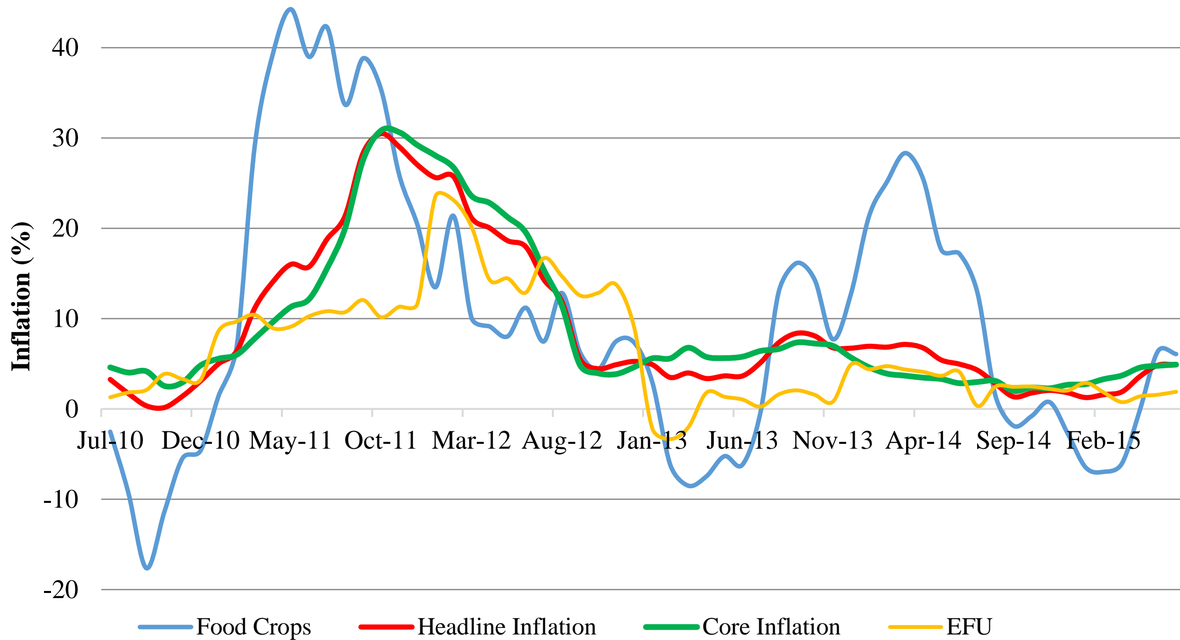


25. ***Mining sector is increasingly coming of age albeit underperforming***. The mining sector's contribution to GDP increased from 1.3 percent in FY2010/11 to 1.5 percent FY2014/15, and on average grew by 12 percent, which is 6 percent higher than its target growth. This excellent performance of the mining sector is in spite of the fact that illegal mining is still persistent and absence of an in-country mining laboratory. Furthermore, overlapping land rights complicate the ease with which investors can start engaging in mining, especially in circumstances where the existing mines are occupied by informal miners.

3.0 Monetary Policy and NDP 1 Implementation

26. ***Other than the period April 2011 to August 2012 where year-on-year core inflation averaged 21 percent, inflation has generally been subdued, averaging 5 percent over the period September 2012 to June 2015***. Following the adoption of inflation targeting (IT) by the Bank of Uganda (BOU) in July 2011 to replace the monetary targeting framework, BOU started to target core inflation of 5 percent with a band of ±3 percent over a 12 months' horizon. However, over the period July 2011 to June 2015 year-on-year core inflation averaged 10 percent, 2 percent higher the 8 percent IT upper bound. However, the average year-on-year core inflation for the period July 2011 to August 2012 was 23 percent. This was on account of supply-side induced inflationary pressures, depreciation pressures in the foreign exchange market and election related fiscal spending. Post August 2012 year-on-year core inflation was generally subdued averaging 5 percent.

Figure 6: Inflation profile (year-on-year, percent)

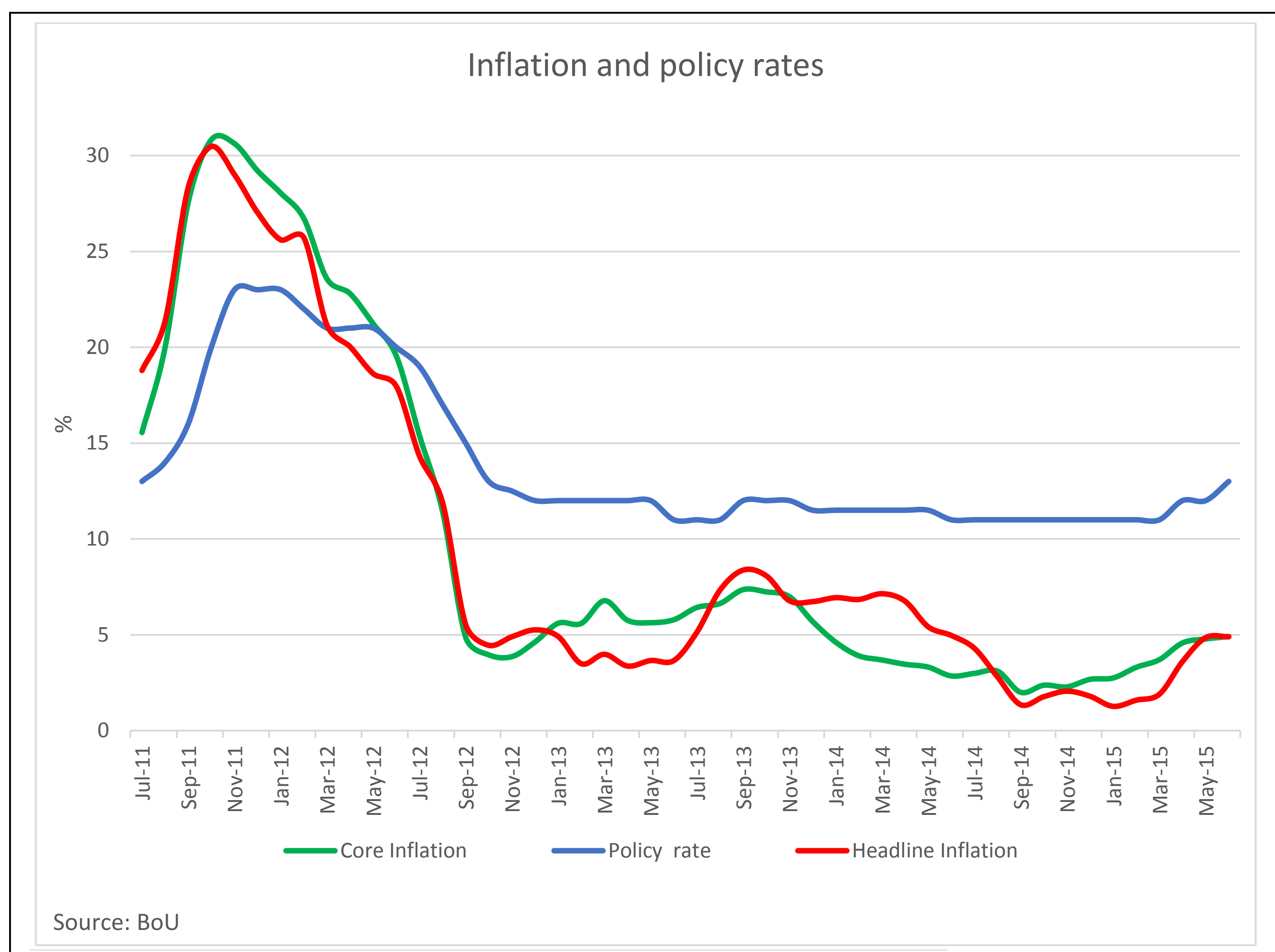


Source: Bank of Uganda

27. ***Monetary policy was used actively to manage inflation***. Under the IT regime, the CBR is instrumental in managing inflation. For as long as inflation is expected to rise beyond the BOU core inflation rate target, then the policy rate is revised upwards, otherwise it is adjusted

downwards. Consequently because of inflationary pressure arising from supply-side induced inflationary pressures, depreciation pressures in the foreign exchange market and election related fiscal spending, the CBR was adjusted upwards from 13 percent in July 2011 to 23 percent in December 2011, resulting in tightened monetary policy over the period. Subsequently monetary policy was loosened with the CBR reaching 13 percent in October 2012. However over the period November 2012 to June 2015, the CBR remained loose compared to the period July 2011 to October 2012 hitting the trough at 10.83 percent in June 2014. Between November 2012 and June 2015 the average monthly change in CBR was -0.01 percent suggesting a sustained period of monetary policy liquidity expansion. Overall, monetary policy partly contributed to successful management of inflation.

Figure 7: Inflation and Policy rate profile



28. ***The CBR also affected the cost of borrowing***. Following monetary policy tightening over the period July 2011 to October 2012, bank lending rates increased from 21.3 percent in July 2011 to as high as 27.6 percent in March 2012. That is the highest lending rates Uganda witnessed since December 1992, when they were 33 percent. The effect of high cost of credit was to dampen annual private sector credit growth from 46 percent in September 2011 to as low as 4 percent in September 2012, which in turn undermined Uganda's economic growth profile through undermining private sector investment. Further to the CBR increasing the cost of private sector borrowing, government appetite for domestic debt equally perpetuated the high cost of borrowing. This is partly because government is a less risky borrower than the private sector. As such the rate at which government borrows acts as the benchmark at which banks lend to the private sector. Hence for as long as the government appetite for domestic debt is still as reflected by the high 91 day TB rate or government bond rates, the private sector borrowing rate will remain high no matter how low the CBR drops. Therefore, the twin effect of the CBR and government appetite for domestic borrowing, as is reflected in the high lending rate, has overall undermined private sector growth over the NDP 1 cycle. Specifically, over the period FY2011/12 to FY2014/15 private sector growth average 15.5 percent compared to the target of 19.8 percent.

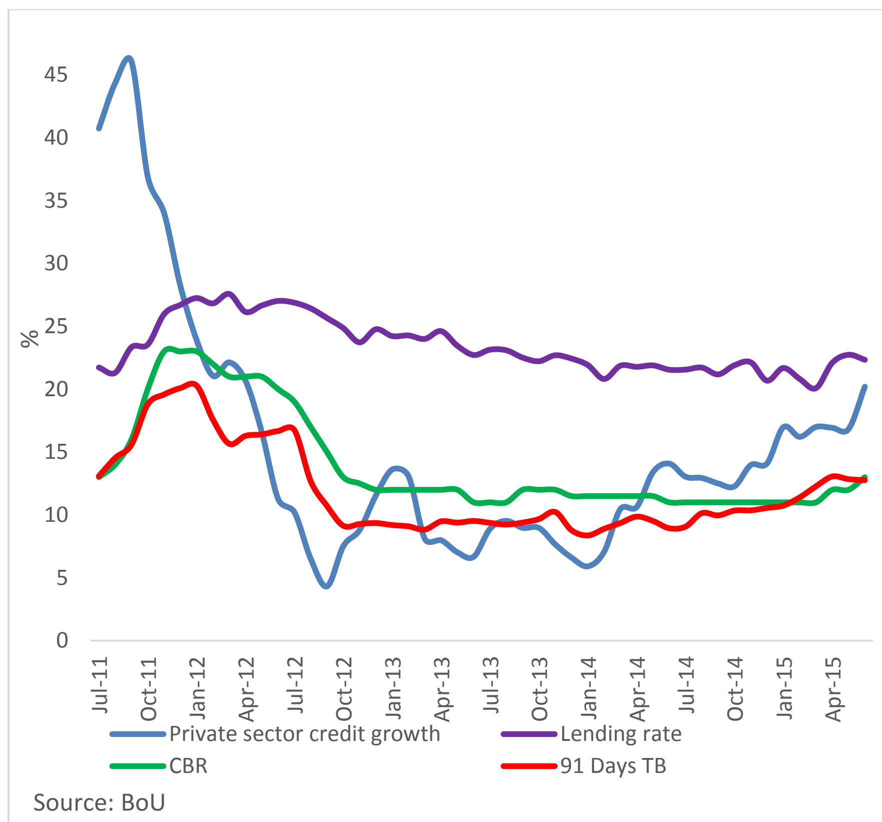
4.0 External position and NDP 1

29. **The external position improved over the NDP 1 cycle although albeit weakly.** The current account deficit improved from 9.8 percent GDP in FY2010/11 to 7.2 percent of GDP in FY2014/15 (see table 3). The weak current account is attributed to a weak global economy, which dampened commodity prices, net income and net transfers. Note that in FY2010/11 net transfers were 7.1 percent of GDP; however, this kept on falling in subsequent FYs. Indeed, over the period FY2011/12 to FY2014/15, net transfers averaged 4.8 percent of GDP, and did not exceed 5.3 percent of GDP in any year. The lowering of net transfers suggests a reduction in remittances and aid from abroad. In addition, the capital and financial accounts showed volatility. This could be partly attributed to highly volatile FDI. The reduction in commodity prices could partly account for the low earnings on coffee as evident in FY2013/14 and FY2014/15. Overall, the BOP position fluctuated between surplus and deficit which partly accounts for the volatility in gross international reserves in months of imports. Gross international reserves averaged US$ 2,778 million, equivalent to 4.4 months of imports, during NDP 1. However this is lower than NDP 1 target of 5.4 months of imports.

30. ***Trade deficit improved during NDP 1.*** During NDP 1, the trade deficit averaged 9.6 percent of GDP, which is 1.6 percent of GDP lower the NDP 1 target (see table 3). For example from Figure 8, the trade deficit with USA, EU and Middle East improved. Also in FY 2013/14 and FY 2014/15 the trade deficit with Asia improved. The improved trade deficit is on account of the reduction in oil prices and delays in implementation of flagship public projects, for example the Karuma Hydro Power dam, which contributed to the lower than expected import bill. Note that the improvement in the trade deficit is in spite of the reduction of exports in FY2013/14 and FY2014/15 (see Table 3). Overall exports of goods averaged 10.8 percent of GDP over NDP 1. The failure of exports to grow could be attributed to persistent reliance on commodities with limited value addition and the failure to diversify into new export products. This has resulted in low export value. The limited value addition is worsened by increasingly unpredictable weather patterns which have introduced volatility in both agricultural production and exports. Note that since coffee and tea contribute at least 30 percent of Uganda's exports, depending on the weather patterns if good (bad) exports are likely to increase (decrease) since agricultural production is largely conditioned on nature.

Also, low export earnings could have been attributed to civil conflict in South Sudan that started in December 2013 and continued until the end of NDP 1 and into NDP 11.

Figure 8: Policy rate and private sector borrowing

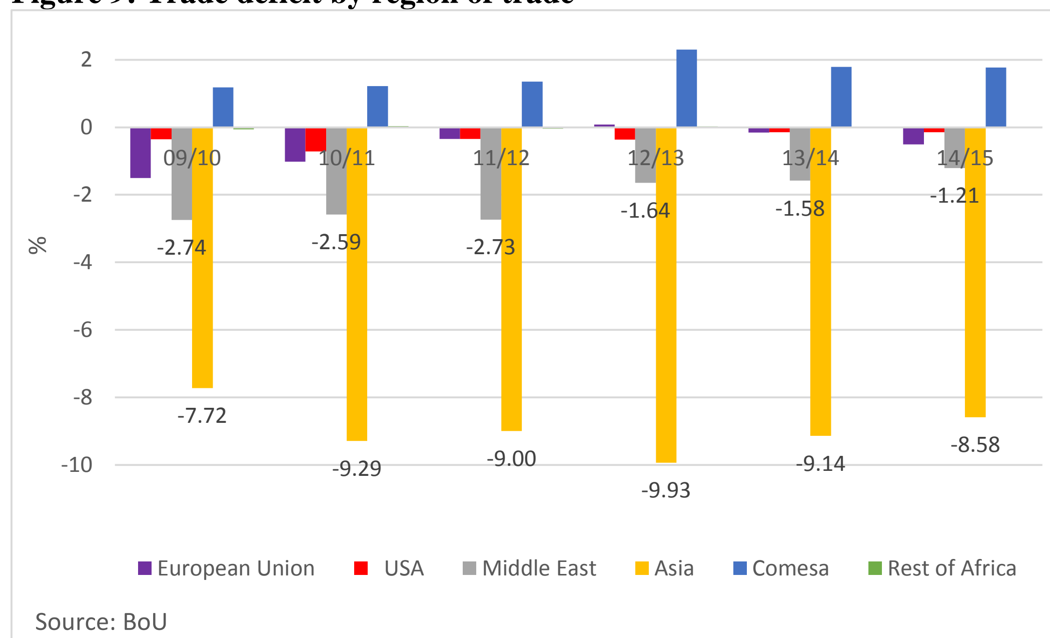


Source: BoU

31. ***The shilling has significantly weakened during NDP 1***. During NDP 1, the shilling depreciated by 42 percent against the dollar. In June 2010 the shilling traded on average at 2,257 per US Dollar, however by June 2015 it was trading at 3,199.9 per US Dollar (see figure 9, panel a). A similar trend is evident among other EAC countries although both Tanzania Shilling and Uganda Shilling depreciated more than the Kenya Shilling and Rwanda Franc against the US Dollar. The depreciation of regional currencies could be accounted to the strengthening of the USA economy to the extent that, with the coming to an end of quantitative easing, investors opted for more secure USA government paper as yields on US securities increased. Even then, the weakening of the UGX against the US Dollar could be accounted for by the impact of elections in Uganda, especially in 2011 and 2015, the effect of which is for investors develop negative sentiment about Uganda as an investment destination, hence holding back investment. Other reasons for the weak Uganda

Shilling include the global collapse of commodity prices in 2014 and government appetite for infrastructure investment, whose inputs are largely imported among others.

Figure 9: Trade deficit by region of trade



Source: BoU

32. ***Uganda has been unable to substantially gains from the weaker shilling to strengthen its external position***. In principle, a weaker shilling should help to strengthen the external position by boosting exports (which become more profitable due to lower UGX value for USD prices) and reducing imports (which become more expensive). However, owing to supply-side rigidities for exports that are largely agricultural commodity based – and characterised by small holder farming, limited commercialization and reliance on nature – the major exports cannot easily respond even with a weaker shilling. This implies that in as much as exports become cheaper (in USD terms) or more profitable due to a weak shilling, Uganda is not in position to scale up supplies quickly. Furthermore, as the shilling becomes weaker, Uganda's reliance on imported intermediate goods implies that even when the quantity of imports remain unchanged, the import bill would still increase. In fact, the inability of the external position to benefit from the cheaper international price of oil was partly attributed to the depreciating shilling. In the end, the weak shilling has not helped Uganda's external position. Indeed, while the trade deficit as a percent of GDP improved from 11.8 percent in FY2010/11 to 8.2 percent in FY2014/15, this could perhaps have been better had for example export of goods been supply elastic (see table 3). Indeed, rather in the

midst of a depreciating shilling, exports of goods as a percent of GDP reduced from 11.3 percent in FY2010/11 to 9.9 percent in FY2014/15. In fact, the improvement in the trade balance is partly because the import bill as fraction of GDP reduced from 23 percent in FY2010/11 to 18.1 percent in FY2014/15 owing to delays in implementation of major projects.

33. ***Exports are largely commodity based, although diversifying slowly***. NDP 1 sought to increase the share of manufactured exports; however, minimal success was achieved. For instance as a fraction of total exports, manufactured goods contributed 16 percent in FY2009/10, peaking at 17 percent in FY2013/14, thereafter falling to 15 percent in FY2014/15. Sugar and cement contribute around half of manufacturing exports. Over the NDP 1 cycle, annual export earnings from sugar and cement averaged US$ 84.34 million and US 94.63 million respectively. This compares to average sugar and cement earnings of US$ 20.07 million and US$ 40.99 million over the period FY05/06 to FY09/10, suggesting that Uganda is making gains from sugar and cement investments. Even then, as is evident from figure 10, Uganda has to venture into the manufacturing sector so as to increase its contribution to forex earnings.

Figure 10: Performance of the Uganda Shilling against the US Dollar

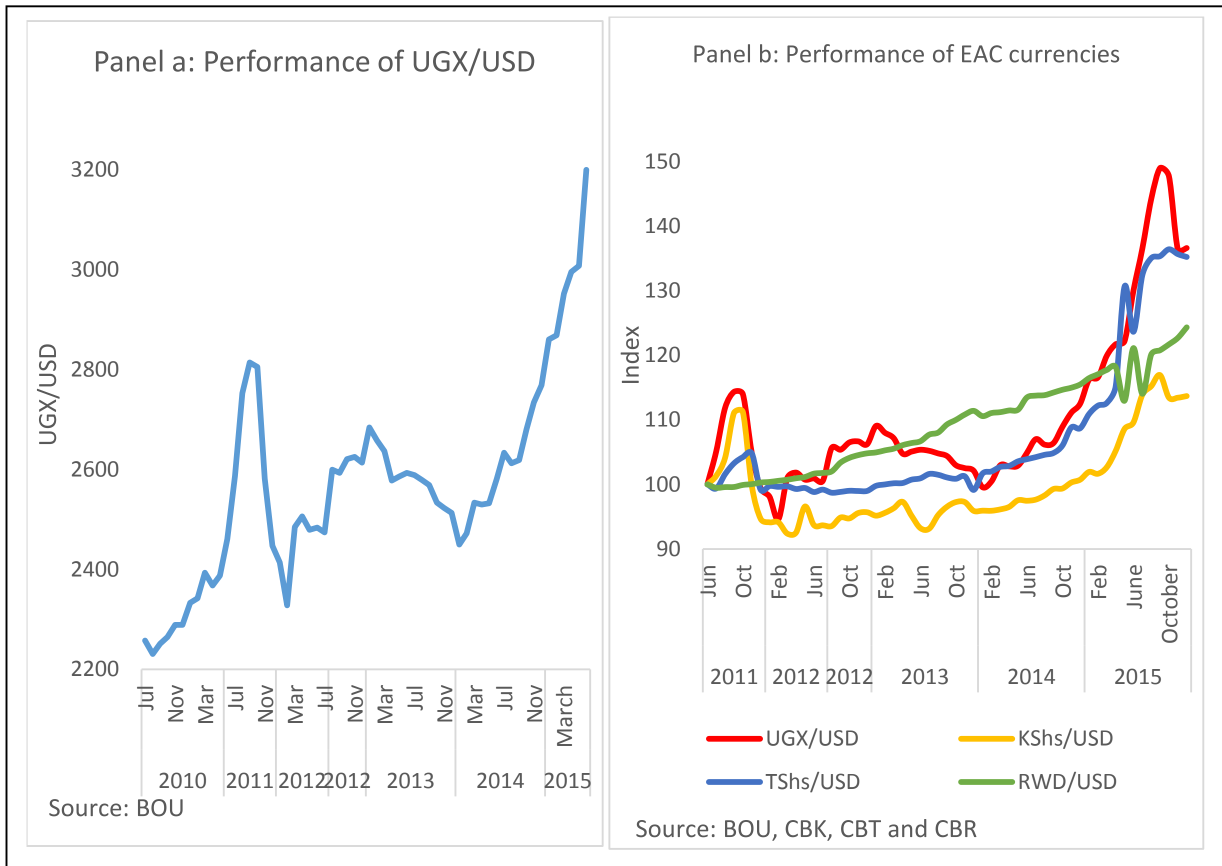
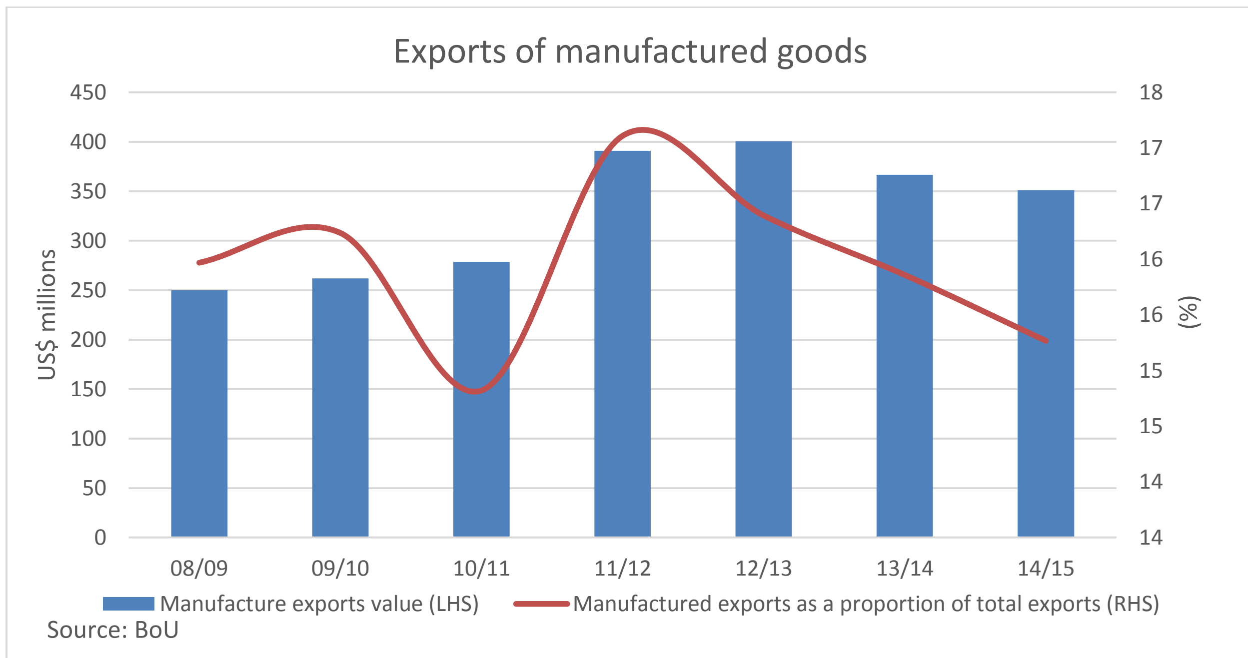


Figure 11: Exports of manufactured goods



34. ***Traditional export earners seemed to have recovered substantially***. For example, tea, coffee and tobacco show evidence of recovery in terms of export earnings during NDP 1 (see figure 12). These commodities performed in spite of unpredictable weather patterns. This could be partly because of renewed government interest to increase, for example, coffee and tea coverage through free seedling distribution across the country.

35. ***Informal trade is on the decline***. Informal exports earnings were 30.43 percent of total export earnings in FY2010/11; however, this significantly came down to 18.21 percent, 14.41 percent, 16.62 percent and 14.62 percent in FY2011/12, FY2012/13, FY2013/14 and FY2014/15 respectively (see figure 13). The reduction in informal exports was partly because of the contraction in informal exports to Sudan. Informal exports to Sudan reduced from 16.19 percent of total export earnings in FY2010/11 to 5.21 percent in FY2011/12 and it kept low since then.

Figure 12: Traditional commodities export profile

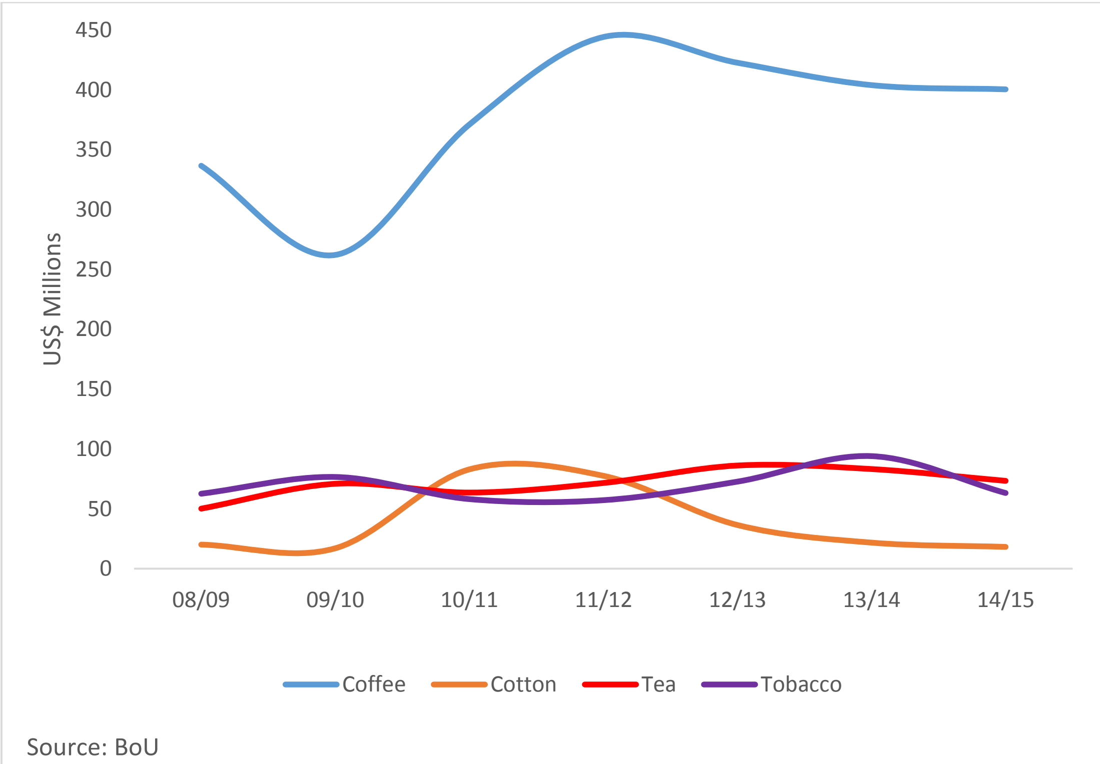
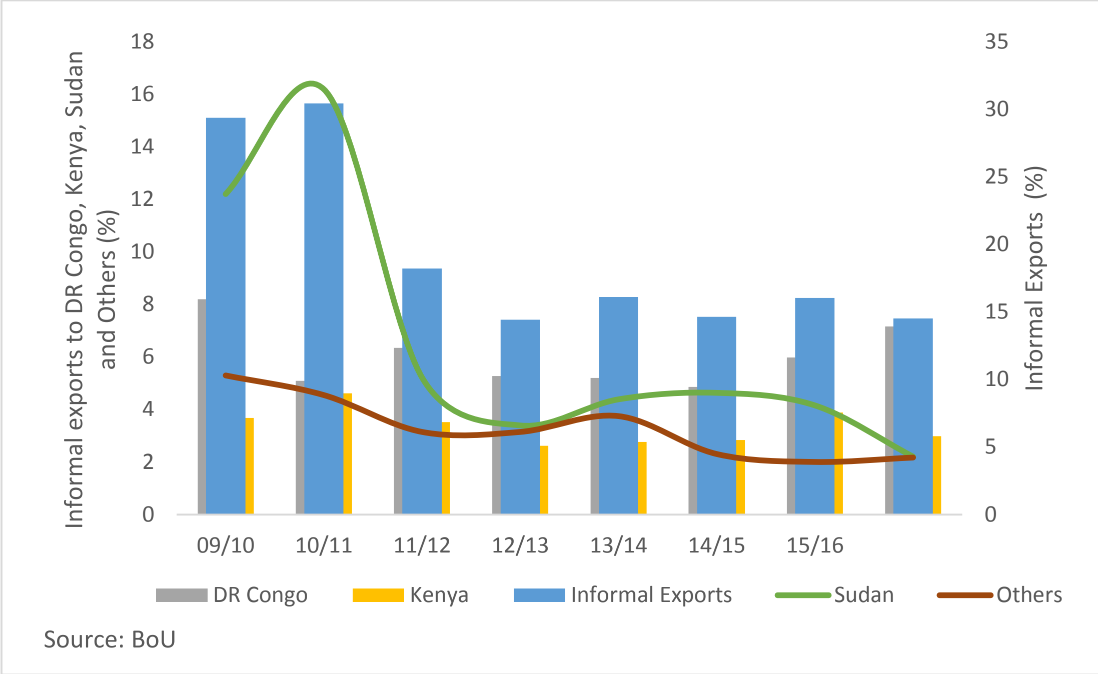


Figure 13: Informal exports as a proportion of total exports



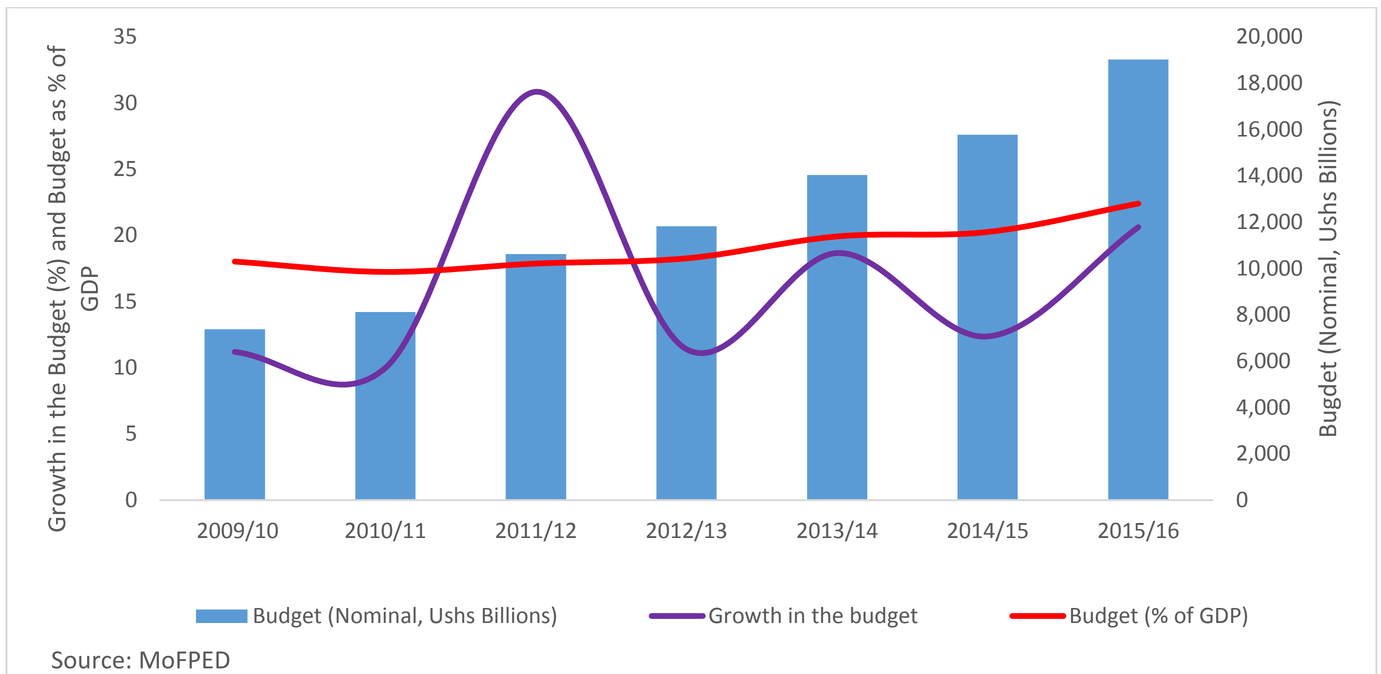
Source: BoU

5.0 Fiscal Policy and NDP 1 implementation

36. **Fiscal policy has been fairly expansionary**. Nominally, the expenditure budget expanded from UGX 8,113.7 billion in FY2010/11 to UGX 15,767.2 in FY2014/15 at an average annual growth rate of 18.3 percent (see figure 13). As a share of GDP, the expenditure increased from 17 percent in FY2010/11 to 20 percent in FY2014/13. The increase in the budget was partly to finance government's ambition to relieve infrastructural constraints to business in addition to expenditure on social sectors (education, health, agriculture and social development) which were priority spending sectors before NDP 1. Budgetary allocations to both roads and energy gained most, rising from 18.2 percent of the budget in FY2010/11 to as high as 30.9 percent of budget in FY2013/14; this included the allocations for financing the Karuma Hydro Power project, the Entebbe Expressway and the Northern bypass among others (see figure 15, panel a). On the other hand budgetary allocations to poverty alleviation sectors as a percentage of the budget reduced from 31 percent in FY2010/11 to 26 percent in FY2013/14. Also, since much of the financing for infrastructural projects was raised through borrowing at commercial rates, the expansion in budget was partly attributed to increased interest payments. As a proportion of the budget, interest payments increased from 6.6 percent in FY2010/11 to 9.3 percent in FY2012/13 before falling to 7.8 percent in FY2014/15 (see figure 15, panel b).

37. ***Budget execution was less than satisfactory, undermining the timely completion of NDP 1 targets***. Other than FY2011/12, when 101 percent of the budget allocation was released, during the FYs 2012/13 to 2014/15 on average 74 percent of the budget was funded. More specifically sectors that were intended to implement government flagship projects such as Energy and Transport had only 50.6 percent and 78.4 percent of their budgetary allocation funded (see figure 17). This partly suggests that the budget is not sufficiently supported by available funds considering that 99 percent of the funds released are absorbed (see figure 16). Besides funding allocations, there wass inherently inadequate capacity to implement projects across the entire project cycle resulting in delays in project execution.

Figure 14: Budget profile



Source: MoFPED

Figure 15: Characterization of the budget by sectors

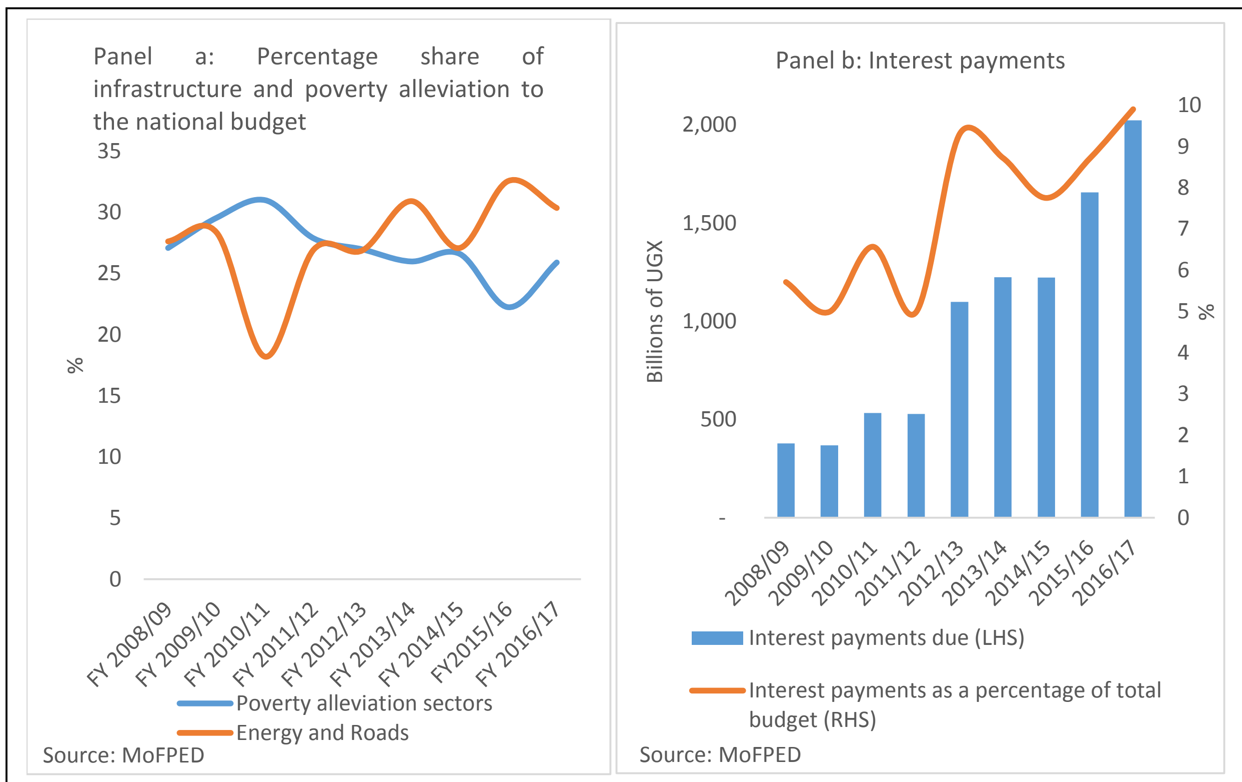


Figure 16: Budget performance

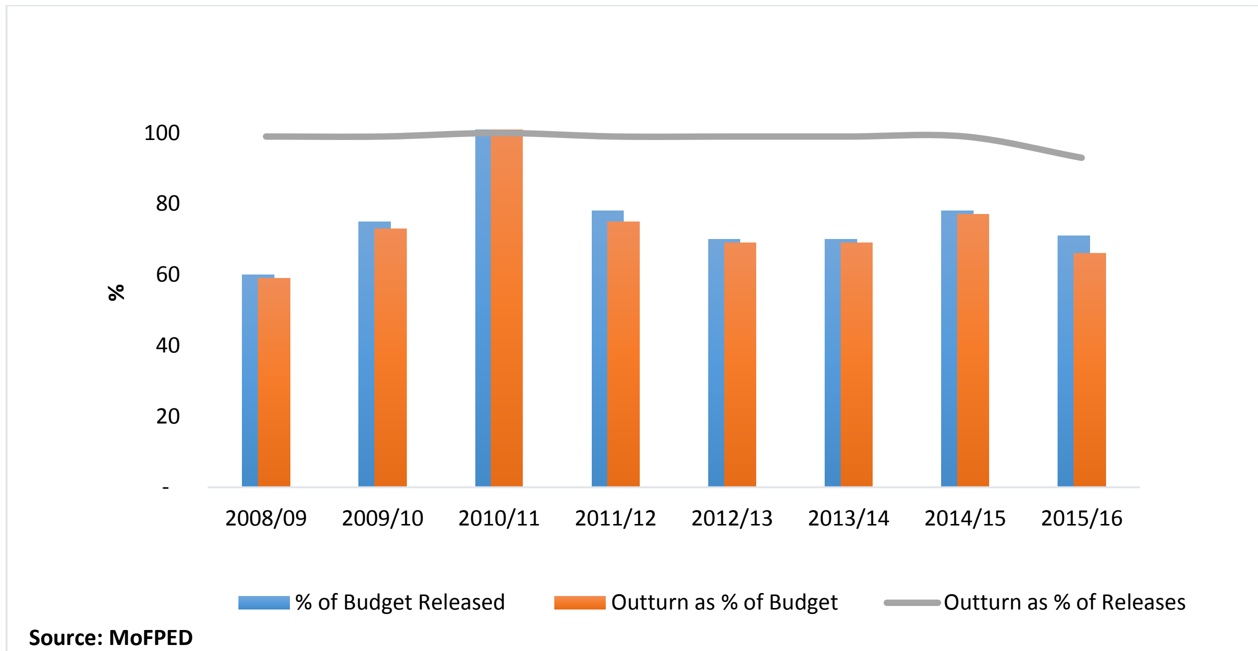
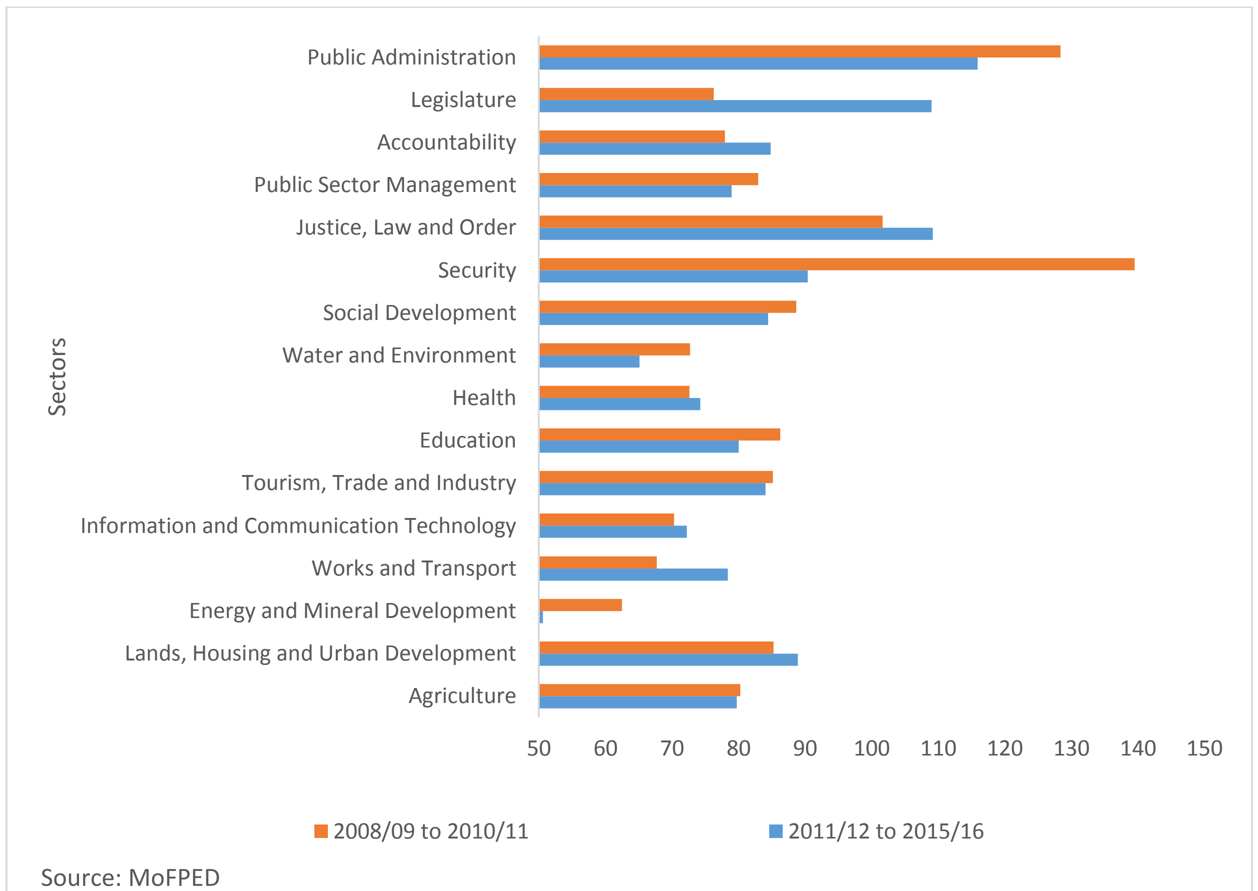
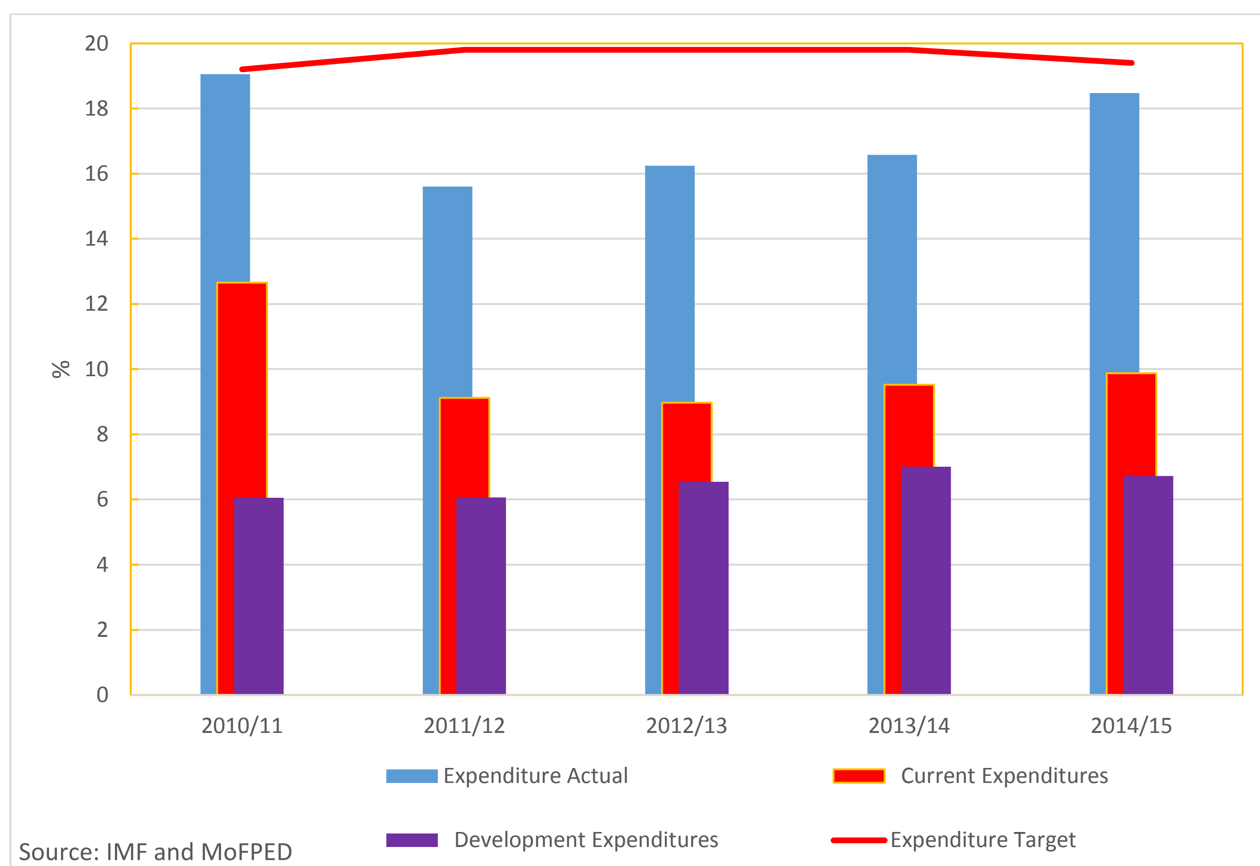


Figure 17: Percentage of the budget released by sector



38. ***Government spending fell short of NDP 1 target***. To address constraints to production, NDP 1 anticipated average spending equivalent to 19.6 percent of GDP. However, actual government spending was 17.2 percent of GDP, implying rigidities in transiting from NDP 1 to budget implementation (see figure 18). Other than FY2010/11, where actual government spending undershot NDP 1 government spending target by 0.1 percent of GDP, during the remaining FYs actual spending was at least 0.9 percent of NDP. The discrepancy between NDP 1 target spending and actual government spending was on account of contraction in recurrent spending and sluggish growth in development spending.

Figure 18: Government expenditure as percentage of GDP

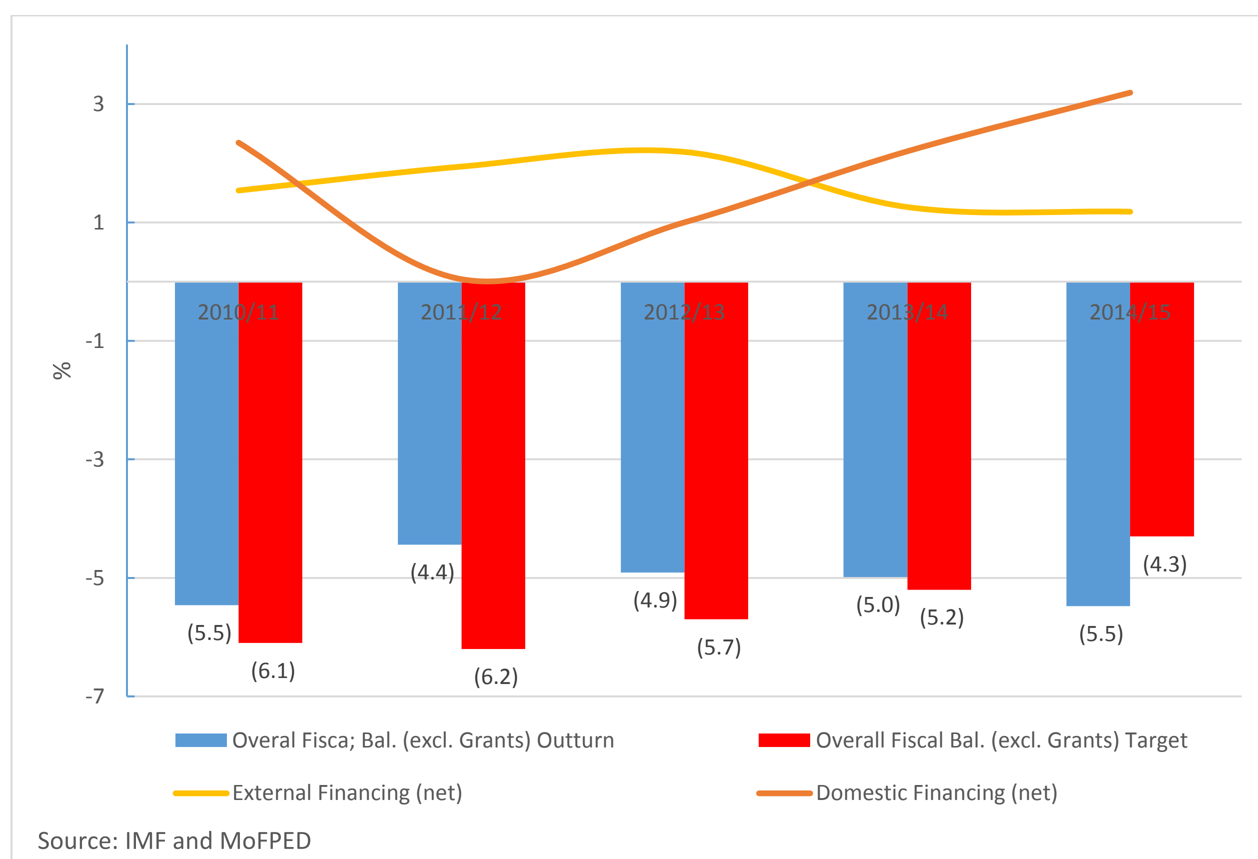


Source: IMF and MoFPED

39. ***The fiscal deficit averaged 5.1 percent of GDP, 0.4 less than the NDP 1 target***. On average, domestic revenue financed 70 percent of government spending during NDP 1. As proportion of GDP, government spending was on average higher than the revenue collected by 5.1 percent over the NDP 1 cycle where 50.6 percent and 45.4 of the fiscal deficit was financed through domestic and external borrowing respectively (see figure 19). While domestic

borrowing is desirable at least for purposes of developing Uganda's capital market, besides being easier to mobilise from commercial banks, it has been associated with crowding out private sector investment. This is because: 1) domestic savings are low; and 2) government debt is deemed more secure than private debt as such, government borrowing rate is deemed as the benchmark for private sector borrowing. Also the deficit financing through grants as a proportion of GDP has been reducing over time from 1.9 percent in FY2010/11 to 1.2 percent in FY2014/15, averaging 1.5 percent over the NDP 1 cycle.

Figure 19: Deficit financing as a percentage of GDP

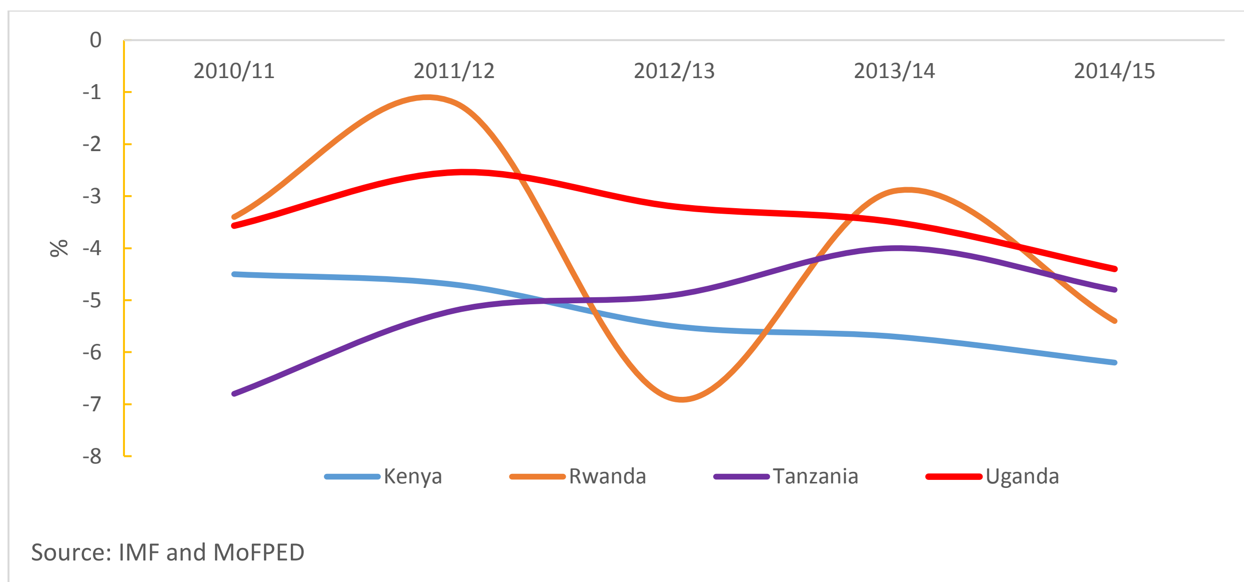


Source: IMF and MoFPED

40. ***Across the EAC, fiscal policy has been generally expansionary***. As proportion of GDP, fiscal deficits averaged 5.3 percent, 4 percent, 5.1 percent and 3.4 percent in Kenya, Rwanda, Tanzania and Uganda respectively over the NDP 1 cycle (see figure 20). Expansionary fiscal regimes in the region are partly accounted for by the ambitious agenda to close the infrastructural deficit that is argued to undermined productivity growth, economic growth and economic development in the region. As such, developments on the northern corridor

infrastructure, such as the Standard Gauge Railway (SGR), are aimed at enhancing regional competitiveness. Fiscal expansion in the region should not necessarily be a concern as it is aimed at increasing capital assets that if effectively installed will result in regional competitiveness which is a prerequisite for robust economic growth and development.

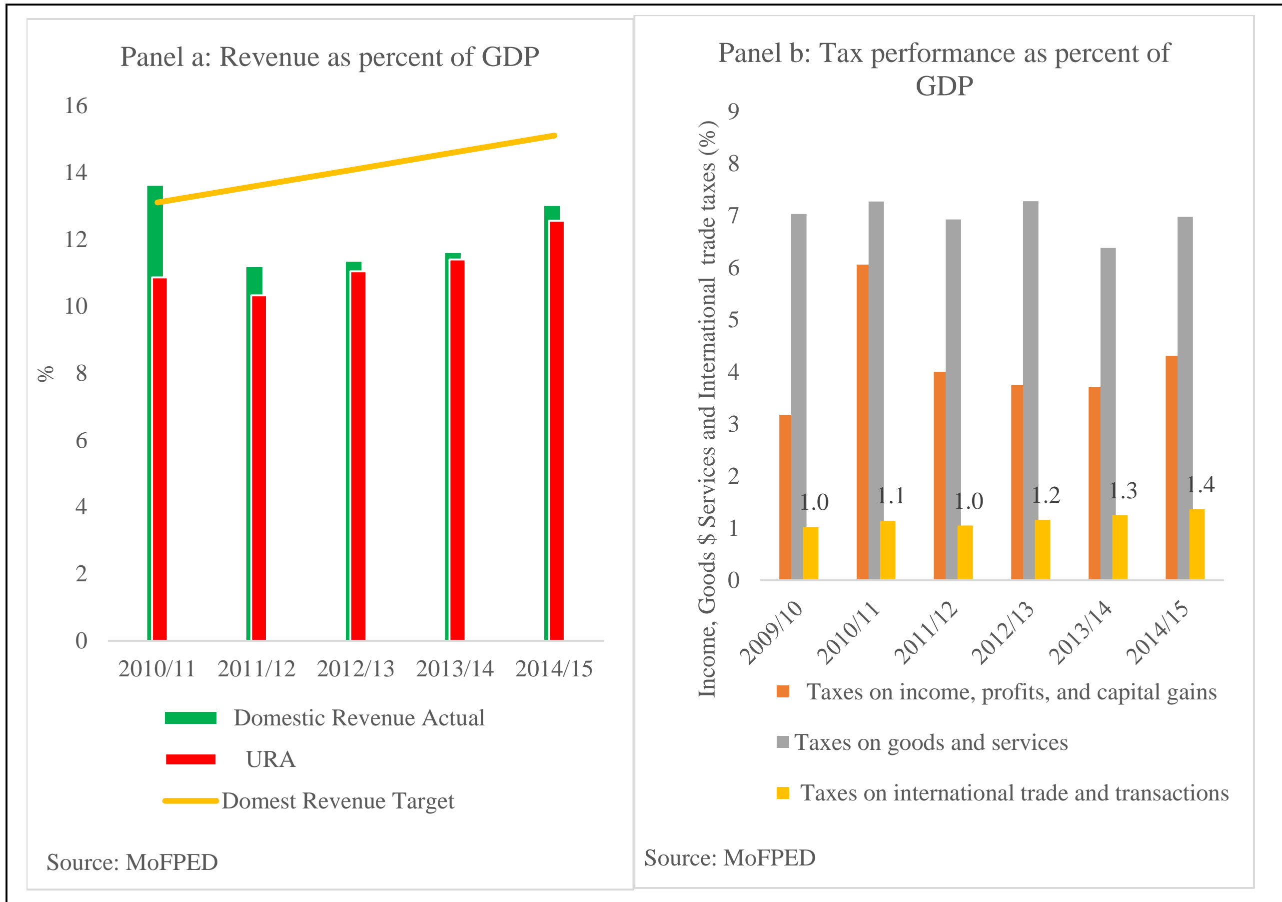
Figure 20: EAC overall fiscal deficit (including grants) as a percentage of GDP



Source: IMF and MoFPED

41. ***Domestic resource mobilisation underperformed, thereby undermining NDP 1 spending aspirations***. Other than in FY2010/11 where domestic revenue mobilisation was 13.6 percent of GDP, overshooting the NDP 1 target by 0.5 percent of GDP, over the remaining period of NDP 1 revenue mobilisation underperformed NDP 1 targets. The over performance IN 2010/11 was attributed to the one-off capital gains tax from the change of ownership by Oil exploration companies in the Albertine region. Note that NDP envisaged domestic revenue to grow by 0.5 percent of GDP every financial year. However, post FY2010/11 domestic underperformed the NDP 1 revenue mobilisation target averaging 11.8 percent of GDP, 2.6 percent of GDP less than the NDP1 average for the period FY2011/12 to FY2014/15 (See figure 21, panel a). The lower than expected tax effort suggests persistent inability of the tax revenue administration to tap into the production sectors.

Figure 21: Tax revenue performance



42. ***Over-reliance on Pay As You Earn (PAYE) income taxes is hurting domestic resource mobilization***. The contribution of PAYE as a proportion of GDP increased from 1.8 percent in FY2010/11 to 2.1 percent in FY2014/15, suggesting increased compliance among employers and perhaps increased formalization of the economy (figure 21, panel b). Consequently, over NDP 1, PAYE contribution to income, profits and capital gains taxes increased from 30 percent in FY2010/11 to 48.1 percent in FY2014/15. However, the contribution of corporation tax to income, profits and capital gains taxes remained in the neighborhood of 20 percent. Suggesting that in as much economic activity was sluggish over the NDP 1 cycle, URA is not doing enough to ensure corporation tax compliance among firms. This could suggest weaknesses in tax audit, collection and penalty mechanism. Also, low corporation tax collections could be associated with tax exemptions, illustrating the danger of granting excessive tax concessions such as tax holidays. Besides much as the construction sector is increasingly taking shape among economic activities in Uganda, rental

income tax has failed to takeoff. The inability to increase rental income tax collections could be explained by absence of full and update register of commercial property owners.

43. ***International tax collections improved, albeit sluggishly, on account of increase in VAT and Import duty***. Post FY2011/12 international tax collection increased by 0.1 percent of GDP till FY2014/15 (see figure 21, panel b). The increase was on account of improvement in VAT on imports and import duty collections (see figure 22, panel b). However, withholding tax on imports contributions remained unchanged over the NDP 1 cycle. The sluggish improvement in international tax collections could signal a contraction in import volumes, since as a proportion of GDP the import bill reduced from 23.1 percent in FY2010/11 to 18.1 percent in FY2014/15; and perhaps the impact of regional trade integration, leading to reduced tariffs on intra-EAC trade.

44. ***Public debt has been on the rise***. As proportion of GDP, public debt increased from 25.7 percent in FY2010/11 to 31.8 percent in FY2014/15 (see figure 23). This is way beyond the NDP 1 debt stock target of 14.8 percent of GDP in FY2010/11 and 18.2 percent in FY2014/15 partly because of lower than expected domestic revenue mobilisation. While the NDP 1 average debt stock target as proportion of GDP was 17.8 percent over the entire cycle, the actual average debt stock was 26.7 percent, a variance of 8.9 percent. On average, 42.4 percent of public debt was from the domestic credit market with the rest being external. The buildup in public debt has been in an effort to see through the government's objective of reducing the infrastructure gap in order to improve Uganda's competitiveness thereby enabling high and sustainable growth over the medium to long term.

Figure 22: Disaggregated tax revenue performance

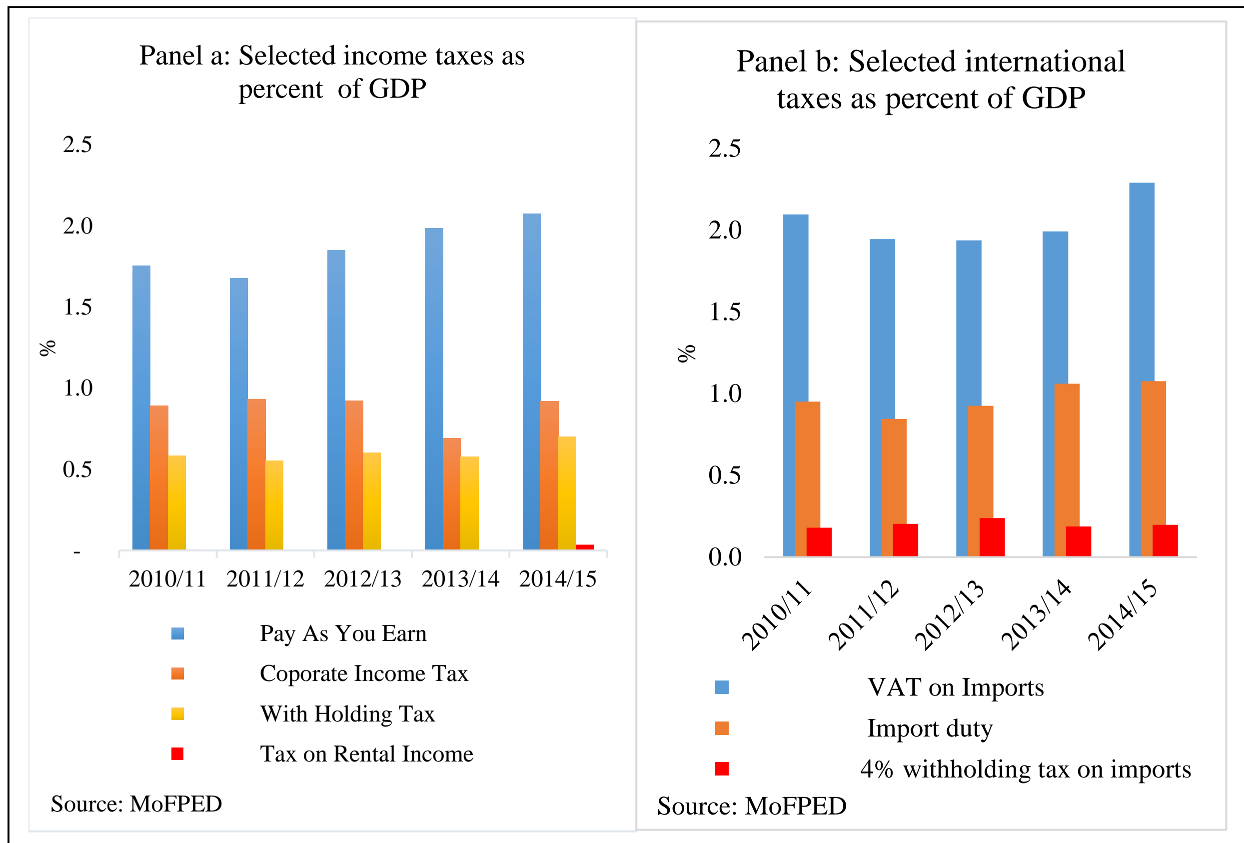
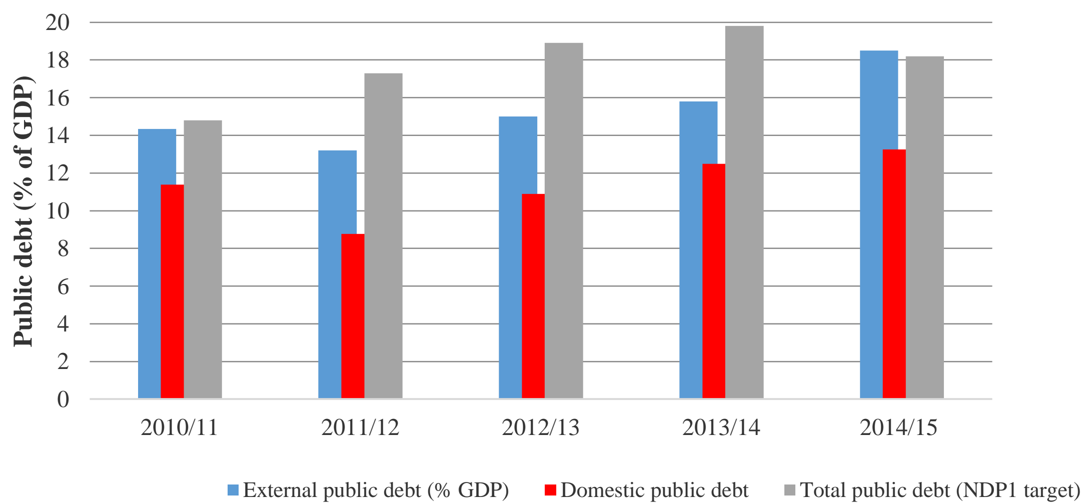


Figure 23: Evolution of Uganda's public debt



Source: IMF and NDP1 Report

45. ***Overall debt distress risk was low*, *despite the increase in debt***. For example the present value of Public and Publicly Guaranteed (PPG) external debt as fraction of GDP is expected to peak at 27 percent in FY2020/21, while nominal PPG external debt remained below 36 percent of GDP, and is expected to remain so in the near to medium term (IMF 2016). All the debt burden indicators remain below Uganda's debt burden thresholds (IMF 2016). Furthermore, the PV of public debt-to-GDP ratio is projected to peak at about 36 percent in FY2021, well below the benchmark level of 56 percent associated with heightened public debt vulnerabilities for medium performers (IMF 2016).

46. ***Relatively low tax revenue and the short-term nature of domestic debt increases the debt stress risks***. Owing to structural market inefficiencies and increased preference for short term financial investments, the average maturity of domestic debt is very short, besides being expensive. While tax revenue collection improved through NDP 1, government still had to borrow to implement its flagship investments. Furthermore, government could only borrow from the domestic market for relatively short terms, even though it was financing medium to long term investments. Such a misalignment of investment and debt payment structure increases the risk of debt stress, due to the relatively short average maturity of domestic debt and hence refinancing risk, combined with a low revenue capacity. Even with a relatively low level of debt, the debt service-to-revenue ratio (including grants) is projected to stay close to 40 percent until FY2022, which is amongst the highest in low income countries. This implies a high likelihood of debt rollover and interest rate risks. These risks need to be mitigated by a combination of stronger revenue mobilization and determined efforts to extend average maturities over the medium term.

47. ***The shilling depreciation and weak export performance also increase debt stress***. During NDP 1, the shilling lost 29 percent of its value. This increases debt stress as Uganda needed more shillings to pay the same quantity of dollar denominated debt. This is further not helped by the weak export sector as a result of inelastic export supply, weak export markets and falling commodity prices, thereby undermining hard currency earnings which are key in external debt repayment.

48. ***Owing to potential increase in debt stress, government opted to postpone externally financed investments to between FY2016/17 and FY2019/20***. Externally financed investments amounting to 0.5 of GDP annually were postponed, although priority and on-going projects - for example hydropower projects - were ring fenced.

6.0 Public Expenditure Management Systems

49. Over the period FY2010/11 to FY2014/15 public expenditure in Uganda was guided by the NDP 1 and the Medium-Term Expenditure Framework (MTEF). NDP 1 lays out the Government strategic five-year plan up for the period FY2010/11 to FY2014/15. The MTEF on the other hand is a five-year strategic instrument prepared by MoFPED that guides government about expenditure and revenue projections. The difference between the MTEF and NDP 1 is that the MTEF is prepared on a rolling annual basis, based on recent economic developments, while NDP 1 is fixed once it is finalised.

50. Before the implementation of NDP 1, the government relied on a number of systems to formulate and execute its budget, including the MTEF, Output Budgeting Tool (OBT), Government Chart of Accounts and Integrated Financial Management Information System (IFMIS). For the budgetary process, this was complemented by Sector Working Groups (SWGs). Planning processes are supported by Sector Investment Plans (SIP), District Development Plans (DDPs), Sub-County and District Sector Work-Plans.

51. Despite the presence of all these instruments and tools, there is a challenge that they are not all fully aligned to the NDP, which undermines implementation. When the NDP was being drafted, it was recognised that modification to (or in the use of) existing systems would be required to support execution of the NDP. In practice progress on modifying these systems has been limited and they often measure different outputs and outcomes than those specified within the NDP.

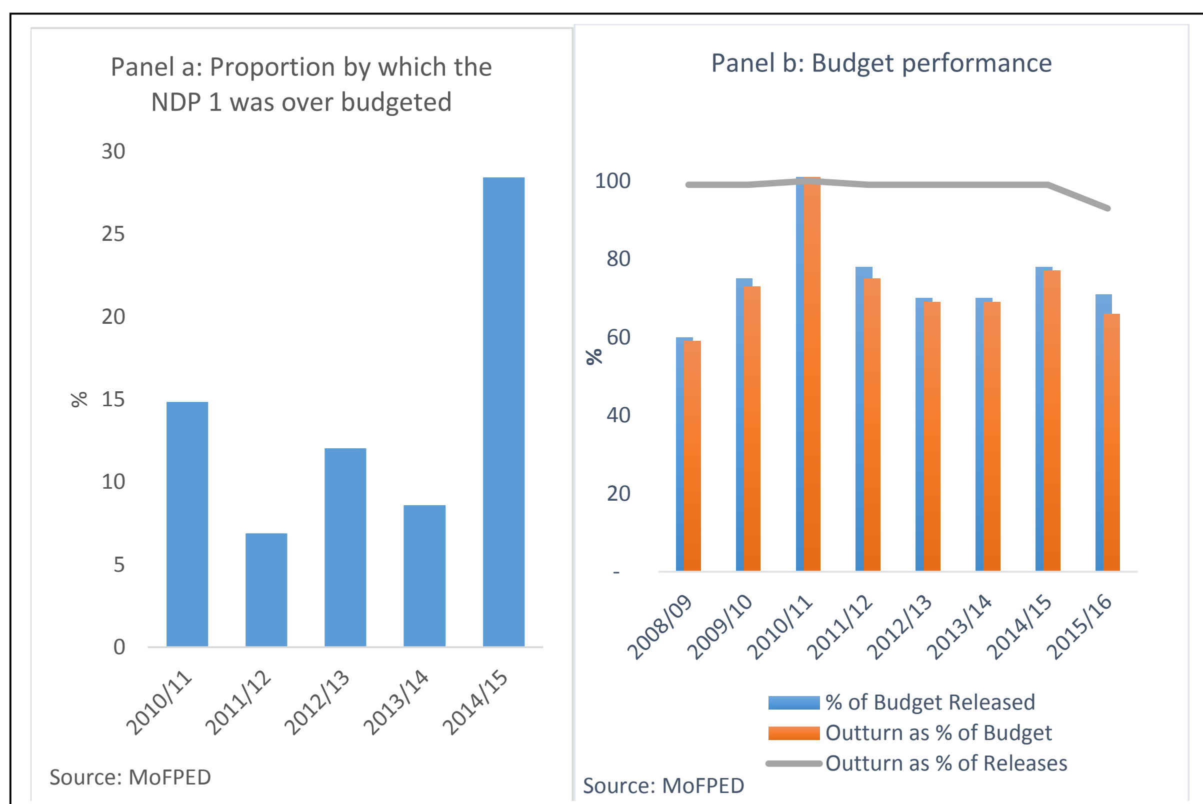
52. This section evaluates the alignment of Public Expenditure Management with NDP 1, including recent and planned reforms. It evaluates how the budgets for FY2010/11, FY2011/12, FY2012/13, FY2013/14 and FY2014/15 were aligned towards achieving the objectives of NDP 1 and MTEF besides discussing the credibility of the budgeting process. It also reports the extent to which public expenditure and related accountability systems changed to ensure alignment of budgets, spending and financial reporting with NDP 1 objectives.

6.1 NDP 1 and Budget alignment

53. ***Misalignment between NDP 1 and Budget (Table)***. The implementation of NDP 1 and attainment of NDP 1 targets is through the annual budgets. The closer the alignment of NDP 1 and the national budget, the higher the likelihood that the NDP 1 targets would be attained. Across the NDP 1 period, the overall budget has more than supported NDP 1 in terms of financing. Specifically, the total sectoral budgetary allocations were, on average, 14 percent higher than the NDP 1 allocations (see figure 24, panel a). However, a sectoral disaggregation highlights existence of under- and over-budgeting among sectors. For example, Agriculture, Health, Education, Works & Transport, Energy & Mineral Development, Tourism, Trade & Industry and Water & Environment were under-budgeted across the NDP 1 cycle by the magnitude 23.3 percent, 28.7 percent, 13.5 percent, 9.2 percent, 4.7 percent, 37.8 percent and 12.2 percent (see figure 25). This could suggest a misalignment between the budgeting process and NDP 1. For example, the key NDP 1 priority investment sectors are: physical infrastructure development mainly in energy, railway, waterways and air transport; human resources development in areas of education, skills development, health, water and sanitation; facilitating availability and access to critical production inputs especially in agriculture and industry; and promotion of science, technology and innovation; however, as noted above, each of them was under-budgeted (see figure 25).

54. Worse still, when low budgetary allocations are combined with the fact that only 79 percent of the budgetary allocations was released on average across the NDP 1 cycle undermined the execution of NDP 1 key priority objectives thereby delaying their contribution to Uganda's structural transformation, productivity growth and economic development (See figure 24, panel b). For example, over the period FY2011/12 to FY2015/16, 50.6 percent and 78.4 percent of the budget allocation to the energy and transport sectors respectively was financed. These being key to NDP 1'a flagship projects undermined their timely completion and thus delaying productivity gains.

Figure 24: Average fraction of NDP 1 that was over budgeted

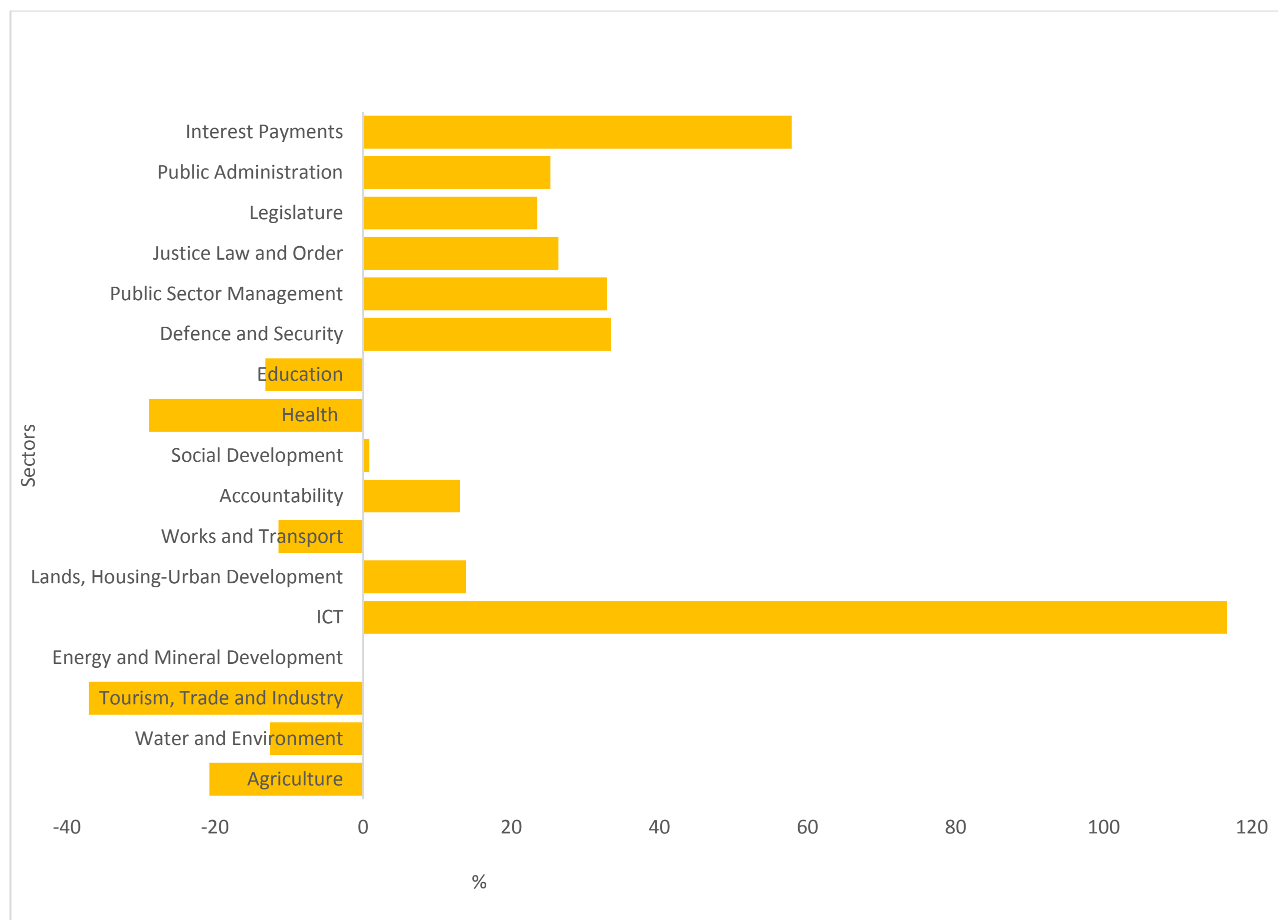


55. ***NDP 1 interest payments were oversubscribed by the budget allocation to the tune of 58 percent over the period FY2010/11 to FY2014/15***. NDP 1 projected interest payments to average 4.66 percent of the entire sectoral allocations. However, interest allocations in the budget across the NDP 1 cycle averaged 7.5 percent of the overall sectoral allocations. This could have been on account of the NDP 1 overestimating the domestic resource mobilisation through taxation and fees to support its expenditure priorities. Indeed, while NDP 1 estimated domestic revenues as a proportion of GDP to average 14.4 percent, the actual mobilisation was 11.8 percent. Such a huge revenue deficit induced reliance on debt, especially short term domestic debt, which is relatively expensive. The effect of increased reliance on public debt has seen a ramp up in interest payments.

56. ***Public sector administration and management spending undermining allocations to social and economic spending***. Over the NDP 1 cycle public sector administration and management were over-budgeted by 68 percent (see figure 25). On the other hand social and economic sectors aggregately were under budgeted by 78 percent. This suggests unplanned public sector and management activities are constraining resource allocation to the social

and economic sectors. Indeed, over the NDP 1 cycle, as a fraction of the total budget, public sector management was allocated 1.7 percent more than the health sector. More specifically in FY 2010/11 and FY 2011/12 as a fraction of the total budget public sector management was allocated 3.6 percent and 2.5 percent respectively more than the health sector.

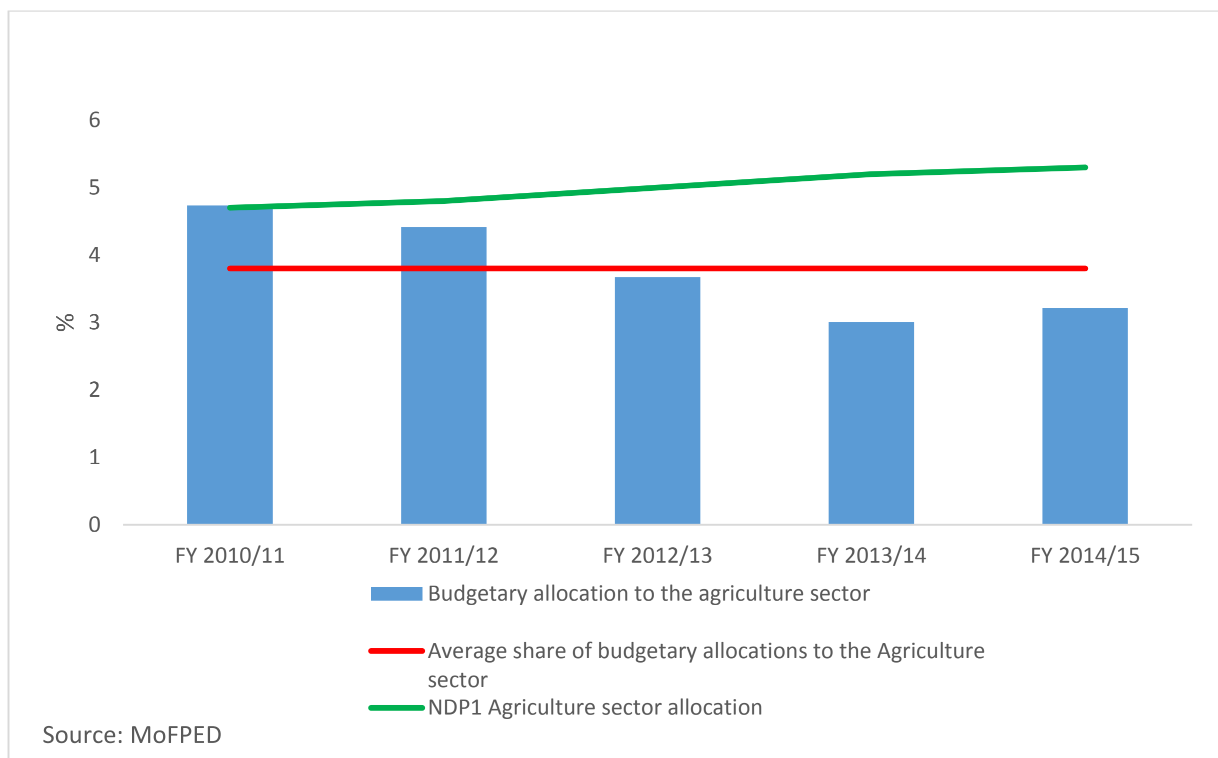
Figure 25: Average misalignment between NDP1 and budget by sector



57. ***Budgeting could have undermined Uganda's potential for real economic development by choking the agriculture sector funding to the tune desirable by the NDP 1***. By employing over 60 percent of Uganda's labour force suggests that improving livelihood quality and household educational outcomes depends to the largest extent on agriculture productivity. Indeed, the NDP 1 identifies inadequate access to critical production inputs to be undermining growth in the agriculture sector. While improving the quality of roads and accessibility to electricity are key to agriculture productivity, agriculture production relies greatly on affordability, accessibility and timely distribution of inputs and appropriate

technologies. However, with limited budgetary allocations this undermines progress in the agriculture sector. For example, over the NDP 1 period agriculture was on averaged allocated 3.8 percent of the total sectoral budget compared to the NDP 1 target of 5 percent, a variance of 23.3 percent. This coupled with the sector receiving 79.8 percent of the budgeted funds undermines the availability of seed, planting, breeding and stocking material at farm level; support to production and value addition of strategic commodities such as oilseeds, oil palm and cocoa; regulation and enforcement of fisheries activities on all major water bodies; control and averting the spread of livestock diseases; especially foot and mouth disease; strategic provision of on-farm water for irrigation and for livestock through supporting on-farm making of valley tanks; and inspection and certification systems at border posts to ensure quality of Uganda's exports which are key in the agriculture sector growth and enhancement of agricultural household livelihoods.

Figure 26: Budgetary allocation to the agriculture sector



Source: MoFPED

6.2 Budget and execution of NDP 1 flagship projects

58. NDP 1 sought to address structural bottlenecks in the economy in order to accelerate socioeconomic transformation for prosperity. This required sustained orientation of Government expenditures and implementation capacity towards removal of the most binding constraints to the faster socio-economic transformation. As such, proposed interventions included investment in physical infrastructure development, mainly in energy, railway, waterways and air transport; human resources development in areas of education, skills development, health, water and sanitation; facilitating availability and access to critical production inputs especially in agriculture and industry; and promotion of science, technology and innovation. This subsection highlights how the budget has facilitated investment in public infrastructure.

59. ***Roads Infrastructure***: NDP 1 set a target of 21 percent of roads being paved with UNRA having a higher target of 24 percent by FY 2016/17. The need to increase investment in roads led to an increase in budgetary allocation towards roads. Indeed, over the period FY 2010/11 to FY2014/15, there was 31 percent increase in paved roads from 3,050 km to 4,000 km. 4,000 km of paved roads is equivalent to 19 percent of the national road network which is less than the NDP 1 target of 21 percent. The increase in the fraction of paved roads coincided with the increase in the overall of quality of paved roads as the fraction of roads in fair to good condition increased by 13 percent from 67 percent to 80 percent over the period FY2010/11 to FY2014/15. The medium term target is to increase the fraction roads in fair to good to 85 percent.

60. Key amongst paved roads under construction, expansion, and upgrade to tarmac is the construction of the Kampala-Entebbe Express Highway and expansion of the Kampala Northern Bypass which are 51km and 21 km projects respectively that are aimed at achieving the objectives of the Greater Kampala Metropolitan Area Master Plan. It is expected that the construction of the Kampala-Entebbe Express Highway will lead to an efficient mass transit route between Kampala and Entebbe which could partly decongest Kampala. Expanding the Northern bypass is expected to facilitate trade along the Northern Corridor. None of these two projects were completed in the NDP 1 lifetime, however, the Kampala-Entebbe Express

Highway was completed in FY2018/19 while the expansion of the Kampala Northern Bypass is still on-going.

61. In as much as Uganda experienced an increase in paved roads over the period 2011/12 and 2014/15, however; district and community access roads which are approximately 32,000 km and 85,000 km respectively experienced large disparities. This could partly be accounted for by: 1) climatic vagaries and geo-physical conditions that make road maintenance expensive; 2) cut back on government budgetary allocation towards road maintenance; 3) capacity constraints at the local government as they have failed to make use of the road construction and maintenance equipment supplied by government; and 4) shifting government policy on road maintenance.

62. Further to construction of roads NDP 1 targeted construction of bridges. Among these was the Second Nile Bridge at Jinja. While the evaluation of technical proposal for the Second Nile Bridge at Jinja was completed in FY2013/14 completion of construction is expected to be FY2018/19.

63. ***Railway Infrastructure***: Within NDP 1, June 2013 the SGR project was conceived during the first infrastructure summit of the Presidents of Kenya, Rwanda and Uganda with the SGR Protocol being effectively signed in May 2014 by Kenya, Rwanda, South Sudan and Uganda. The SGR is basically a commitment by the Governments of Kenya, Uganda, Rwanda and South Sudan within the framework of NCIP regional initiative. The SGR will run from Mombasa in Kenya to Kampala in Uganda and connect to Kigali in Rwanda via Ntungamo District in South Western Uganda. The line will then connect to South Sudan through Nimule in Northern Uganda and equally connect to the DRC via Kasese District in Western Uganda and Arua District in North Western Uganda.

64. The SGR is expected to be a modern, high-capacity railway system that is efficient, reliable, safe and affordable for both freight and passengers. The specific objectives of the line are: 1) expediting economic growth and development of the Parties by reducing the cost of doing business and increase the region's competitiveness; 2) enhancing spatial development along the SGR corridor; 3) enhancing efficient and cost effective movement of freight and

passengers in the region to accelerate trade and services; and 4) sustaining development of other transport infrastructure and adopt new technologies to enhance economic development.

65. The expected economic benefits of the SGR are: 1) reduced cost of transport in the region making it an attractive investment destination; 2) reduced cost of doing business and enhanced regional competitiveness; 3) accelerated industrialisation through easier and cheaper transport to world markets; 4) enhanced environmental protection through reduced carbon emission; 5) reduced wear and tear on the roads leading to reduced maintenance cost; 6) enhanced freight security; 7) development and growth of cities and towns along the SGR route; and 8) harnessed local potential in agriculture, mining, oil and gas, tourism, trade and industry.

66. The expected social benefits include: 1) at least 50,000 direct jobs and 150,000 indirect jobs during the SGR construction phase; 2) increased demand for products from local industries such as steel, cement, lime, aggregates, roofing materials, glass, electric power and electricity transmission materials among others with a potential to create additional 20,000 jobs; 3) 6,000 jobs will be established to provide food, beverages, accommodation and leisure in services and hospitality industry; 4) skills development as 30,000 people will acquire skills suitable for self-employment after construction period (masons, carpenters, mechanics and electricians among others); 6) technology transfer as 600 engineers and technicians will be trained during construction and will be available for subsequent local and regional railway development; and 7) the local community will benefit from construction, operation and maintenance activities.

67. With regard to progress thus far, designs are completed and as is project affected persons are being compensated. For example on the Malaba-Kampala route the compensation has been undertaken up to Iganga district. Note that low funding allocation to the SGR project has partly contributed to the slow pace at which project affected persons are compensated and thus land acquisitions. This is in spite of the fact that SGR construction is slated to start in September 2019. Low funds allocation to the SGR could be partly attributed to the fact that Uganda's side of SGR is conditional on how quick Kenya secures funds for the Naivasha-Kisumu line and commences funds mobilisation for the Kisumu-Malaba line.

68. Economic benefits are yet to take effect as they will yield upon the completion of the SGR project. With regard to social benefits however, this far the following have been undertaken: 1) an assessment of capacity and product availability of local manufacturers of cement and steel products has been undertaken; 2) also an assessment of local materials such as sand, aggregates and petroleum products has been undertaken; 3) bench marking has been carried on other on-going projects in Uganda to establish how local content is being addressed; and 4) the SGR team is working on the human resources requirements under local content in order to draw up Uganda's SGR human resource capacity development plan besides validating its financial and economic viability.

69. Energy Infrastructure Investment: in a bid to curb electricity black outs that sometimes lasted 12 to 24 hours daily, the government of Uganda undertook an ambitious plan to exploit Uganda's hydropower potential. To that end the following projects have or are being undertaken: Isimba Hydropower Project, Karuma Hydropower Project, Ayago Hydropower Project, Muzizi Hydropower Project and Nyagak III Hydro Power project. The Karuma Hydropower Project2 commenced in 2013 and is expected to be completed in December 2018, bringing on board 600 MW of electricity. Isimba Hydropower Project3 is a public project located along the River Nile in Isimba, Kamuli District of Eastern Uganda, commenced in 2013 and was expected to be completed in 2016 bringing on to the national grid 183 MW of electricity. However even as of FY2018/19 Isimba Hydropower Project has not yet been completed. Nyagak III Hydro Power project4is a PPP hydropower project located along River Nyagak in the West Nile region of Uganda which commenced in 2015 and is expected to be commissioned in 2018 bringing onboard 5.5 MW of electricity.

70. It is expected that by 2022, the ongoing hydroelectricity projects all together will bring on board 1,673.2 MW. This may reduce the cost of production generally, as it is hoped that electricity tariffs will go down. This is especially so as Uganda engages in the development of the SGR and oil related investments that are heavy consumers of electricity. Furthermore, as Uganda seeks to become a competitive industrial destination, investment in electricity

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[2]http://uegcl.com/Projects/karuma-hydro-power-project-600mw/
[3]http://uegcl.com/Projects/isimba-hydro-power-project-188mw/
[4]http://uegcl.com/Projects/nyagak-iii-small-hydro-power-plant-4-4mw/

production capacity is timely. Also, the household demand for electricity is likely to increase, as only 18.2 percent of the population[5] (as of 2012) have access to electricity; this implies that the large investments in electricity are a positive development. At 18.2 percent access to electricity by Uganda's population, it is 17.1 percent less the SSA average population access to electricity. The low level of access to electricity in Uganda could be associated with the high cost of electricity, and lower tariffs could lead to a higher level of access. The high cost of electricity could be attributed to high transmission costs especially in rural electrification policy environment. This perhaps suggests a better electricity generation and transmission could be more feasible. For example in rural areas where electricity lines could be set up but with limited connectivity to households because of poverty, under such circumstances solar energy for a particular location could more viable than extending a national grid.

71. ***Information, Communication and Technology*** Uganda conceived the NBI/EGI project in 2006 which was estimated to cost US 106 million. Specifically, NBI project consists of: 1) 1536.39 km of optical fibre cable across Uganda with the aim of building the National Data Transmission Backbone; and 2) optical fibre connections to connect Uganda to Kenya via Busia/Malaba, Uganda to Rwanda via Katuna and Uganda to South Sudan via Nimule. The EGI on the other hand is aimed at providing services such as video conferencing, data and voice communication by connecting MDAs onto an E-Government network. It is expected that NBI/EGI will yield the following benefits: 1) reduce the cost of doing business and public administration in government, improving communications between government agencies, and the delivery of E-Government services within government; 2) electronic document storage, retrieval and processing; 3) government web portal and websites for the various branches of government; 4) public key infrastructure and electronic signatures; 5) online services within government in areas like procurement; 6) electronic forms for passport application, assessment of taxes; 7) create a more accountable Government; 8) increase transparency; and 9) strengthen good governance[6].

[5]http://data.worldbank.org/indicator/EG.ELC.ACCS.ZS/countries/UG-ZF?display=graph
[6]http://www.nita.go.ug/projects/national-backbone-infrastructure-project-nbiegi

72. Under NDP 1, NBI was maintained indeed the implementation of NBI Phase I commenced in 2011[7] and saw Kampala, Mukono, Jinja, Bombo and Entebbe and 27 MDAs connected to the 198 km network of optical fibre. In 2013 the implementation of Phase II commenced[8] bringing the total network of optical fibre to 1400.734 km. The second phase of optical fibre connection brought Busia, Tororo, Mbale, Malaba, Kumi, Soroti, Lira, Gulu, Elegu, Masindi, Kyenjojo, Fort Portal, Kasese, Bushenyi and Mbarara on to the network. Subsequently, NBI/EGI project has resulted in: 1) connectivity being extended to 48 government entities as such they are now making use of internet bandwidth from the NBI; 2) 13 government entities are now running the IFMS through the NBI; 3) data center services have been set up for a number of MDAs and are at the moment being utilized by URA, MFPED, FIA, MOICT, and State House; and 4) under the Computerized Education Management and Accounting System, Makerere University, Busitema University, Gulu University, Uganda Management Institute, Makerere University Business School and Mbarara University of Science and Technology have been connected to NBI. Phase III is expected to commence in FY 2016/17 and it will cover the Districts of Masaka, Mbarara and Kabale in December, 2016. Phase 3 will also so extend connectivity to the border points with Tanzania and Rwanda at Mutukula and Katuna respectively.

73. Overall the communications sector in Uganda has shown persistent growth. For example, the number of mobile phone subscribers increased from 10,375,220 in 2009/10 to 21,910,948 in 2014/15, a 111.2 percent increase. Fixed phone subscriptions increased by 41.3 percent over the period 2009/10 to 2014/15 from 265,890 to 375,689. Similarly, over the same period the national tele-density increased from 33.5 percent to 63.9 percent, a 90.7 percent increase. This implies that for every 100 persons living in an area, the number of persons using a telephone connection has increased by close 100 percent over the period FY 2009/10 to FY2014/15. Similarly, internet usage has increased from 5,700,000 in June 2012 to 8,531,081 in June 2014, approximately a 50 percent increase in internet usage. The robust increase in internet usage is closely associated with the increase in total band width (mbps)

[7] http://www.monitor.co.ug/News/Insight/Govt-walks-halfway-towards--electronic-rule-/-/688338/2710438/-/1qy1w7z/-/index.html
[8] http://www.monitor.co.ug/News/Insight/Govt-walks-halfway-towards--electronic-rule-/-/688338/2710438/-/1qy1w7z/-/index.html

which increased from 22,664 in June 2012 to 26,986.05 in June 2014, a 19 percent increase. Indeed, bandwidth per every 1,000,000 inhabitants increased by 11 percent between June 2012 and June 2014, from 664 to 737.01 respectively. The increased internet usage could equally be associated with the launch of the Lower Indian Ocean Network (LION 2) undersea cable in 2012 with an installed capacity of 1.28Tb/s which led to an increases in internet access and speeds[9].

6.3 Challenges to budget implementation

74. ***Budget credibility***. A credible and consistent budget is vital for enhancing accountability in public revenues and expenditure management. Budget credibility on the expenditure side depends on the variation between budget allocations and actual releases, and between budget requests from MDAs and the ability to spend the requested allocations. On revenue side budget credibility depends on the variance between revenue forecast and actual revenue collected. On the expenditure side, there is a persistent variance between budget allocations and releases. For example, over the whole NDP 1 cycle, 79 percent of the budget allocation was released. The situation is worse for some sectors, for example over the period FY2011/12 to FY2015/16 50.6 percent, 65.1 percent, 74.3 percent 78.4 percent and 72.2 percent of the budget was released to Energy & Mineral Development, Water & Environment, Health, Works & Transport and ICT respectively. Such inadequacies in funds releases undermines the relevance of budgeting and implementation of NDP 1 priorities.

75. For example, inadequacies in funds released were responsible for regular stock outs among health centers and hospitals. Also inadequate funding allocations are responsible for accumulation of arrears and poor maintenance of public infrastructure. Inadequate funding has also resulted in unrest among others university staff and teachers besides undermining research that is consumable by Uganda at universities. Finally, inadequate funds releases incapacitates the implementation of core NDP 1 activities. For example with only 50.6 percent of the energy budget releases for the period FY2011/12 to FY2015/16, how then would flagship projects like Karuma and Isimba hydro power projects be implemented in it? In fact such funding inadequacies induces project frontloading which could constrain smooth

[9] This write-up benefited from using the internet link http://www.ucc.co.ug/data/qmenu/3/Facts-and-Figures.html

financing to other sectors. Inadequate financing is also responsible for accumulation of arrears.

76. Furthermore, budgeting credibility has been undermined by deterioration in control of aggregate expenditure incurred through supplementary expenditures, non-enforcement of sanctions and penalties for MDAs that exceed their budgetary allocations, reallocations among budget lines, poor revenue forecasting resulting into either huge shortfalls or excess revenue outturns and limited coverage of tax (TIN) registration, majority of potential tax payers are not registered.

77. ***MTEF and therefore the budget was not a perfect fit to the strategic objectives of the NDP 1***. While the MTEF is cognisant of the changing macroeconomic environment and consequently being adjusted as the economic aggregates change implying changes in the budget, the NDP 1 was fixed. For example over the period FY2010/11 to FY2014/15, mobilised resources were lower than was projected under the NDP 1. Unfortunately, while the MTEF is adjustable and thus could have been cognizant of the government resource basket realities, the NDP 1 being fixed, this inherently suggests a misalignment between MTEF and NDP 1 thereby undermining attainment of NDP 1 targets. Furthermore, sometimes sectoral ceilings are changed thereby weakening the link between the MTEF and NDP 1. Sectoral ceiling adjustments could imply what the NDP 1 defined as Uganda's development priorities being either not funded at all or underfunded (MoFPED 2014). Fortunately, much as sectoral ceilings might change, ceilings for flagship projects are maintained.

78. ***Risk of project frontloading***. Delays in project execution for example SGR, Karuma Hydropower and the Northern Bypass increase the risk of frontloading. This may induce absorption concerns as the project seeks to absorb the funds thereby undermining quality during execution.

79. ***The Public Investment Plan (PIP) is not closely aligned with the MTEF***. In principle, the PIP shows the recurrent and investment expenditure needs for all sectors in Uganda over the same the time horizon as the MTEF. However, because the PIP provides recurrent and investment needs by project, it is cumbersome reconciling PIP projections with MTEF

revenue and expenditure ceilings. The major problem is that the quality of the PIP data is not sufficient, and does not adequately provide the overall expenditure and the recurrent cost implications future investments. As a result it does not allow for a consolidated sectoral view, thereby minimizing its linkage with the MTEF.

80. ***Furthermore, budgetary adjustments within the financial year are not smoothly communicated to the implementing institutions especially between Sector MDAs and LGs***. Besides the beneficiaries of the associated spending are equally not well informed incapacitating their ability to question the scope of work, attendant costs and duration of the government projects.

81. ***Revenue mobilisation is still challenge for sound public finance management***. The tax to GDP ratio is has failed to pass the 14 percent mark. This is particularly owing to the large informal tax base that the government has persistently failed to tap into and the existence of tax exemptions. Indeed some tax exemptions are argued to compromise budget credibility in the long term.

82. ***Monitoring and Evaluation of the budget is limited to a handful of sectors***. This is partly because the Budget Monitoring and Accountability Unit (BMAU) is lacks sufficient capacity to cover all sectors so to provide an intensive and extensive review of budget performance to inform policy decisions. Besides, implementing agencies are not have capacity to appreciate budget monitoring and evaluation concepts which in turn compromises data collection in a bid to measure the performance of the budget. Furthermore, M&E units do not exist in the public service establishment and in cases where M&E units exist, most of them are constrained by capacity gaps for example in the MoLG the existing number of Inspectors do not match with the task of routine inspection across local governments i.e. For instance, there are 22 Inspectors in MoLG covering 112 LGs. The current levels of staffing and their technical capacities in M&E when compared against the requirements outlined in the draft policy on M&E shows a contrast in technical capacity. This where most of the staff involved in M&E lack technical skills in monitoring and evaluation implies weak capacity for inspection and monitoring institutional work plans. This is mainly affected by inadequate resources; material, financial or human among other reasons.

83. ***Budgets are also executed based on estimates***. Under NDP 1, MDAs executed their budgets based on estimates as they awaited parliamentary budget approval. However, this was not ideal as there was always a risk of an MDA spending on activity which parliament would later not approve. However, with the adoption of the PFA, 2015, the National Budget Framework Paper (NBFP) has to be presented to parliament before end of March and the Budget has to get parliamentary approval by May. As such budget will be ready for execution at the beginning of the financial year.

84. ***Laxity in the implementation of recommendations made by oversight agencies***. The implementation of the budget and therefore NDP 1 to its fullest depends on the cost incurred by a bureaucrat as a result of abuse of office (resulting in projects delays besides projects of low quality and quantity). Unfortunately, many of the Auditor General's reports that are presented to parliament are never discussed, or even when they are discussed they are outdated. The rationale of the Auditor General's report is to identify areas of inefficiency and theft to the extent that the implicated public officials can be brought to book. The essence of these reports is that if the recommendations contained therein are implemented then it would create a deterrent effect. For example PEFA (2012) argues that Parliament had not debated or approved any of the PAC reports on the consolidated Accounts in the last three years although some special audits have been debated. Such sluggishness in penalizing misuse of office undermines effective budget and NDP 1 implementation.

6.4 Innovations to improve the alignment of the budget and NDP 1

85. ***In the near term, there ought to be optimism regarding Uganda's tax collection, considering the tax reforms being undertaken.*** For instance, 1) the presumptive tax regime has been simplified and the amount payable by small businesses clearly specified; 2) all expenses accrued from non-registered entities or persons cannot benefit from income tax deductions; 3) carryover of losses in corporate reorganizations is to be limited; 4) before the renewal of annual licenses, all passenger service vehicles and goods motor vehicles are expected to pay income tax; 5) adoption of a 6 percent withholding tax on income of suppliers of agricultural produce; 6) also a 6 percent withholding tax was adopted on the CIF value of all imports except where an importer is tax compliant.

86. ***In the medium to long term, efforts are directed towards strengthening enforcement and reviewing the management strategy and human resource requirements in tandem with ever evolving economy.*** Government is committed to enhancing staff capacity at Uganda Revenue Authority (URA) in bid to render it able to overcome the challenges associated with international taxation. Resources ought to be committed to enhancing URA's monitoring capacity so as to enable it meet increased revenue collection targets. Continuous assessment and evaluation of existing tax laws would help to mitigate loopholes for tax avoidance. Finally the implementation of the national identification project will enhance efforts to increase revenue collection.

87. ***Uganda Revenue Authority has adopted internationally respectable revenue collection technology to enhance tax administration***. Information and Technology systems such as the Integrated Tax Administration System which is used for on-line registration, filing, payments and account balances; Asycuda, Revenue Authority Digital Data Exchanged for customs regional border coordination besides propagating facilitating the efficient clearance of goods as well as a new cargo tracking system.

88. ***Tax payer clinics and user-friendly information to enhance tax administration***. In enlightening tax payers about developments in tax regulation and administration tax payer clinics. Most importantly though that the clinics have been sensitive to tax payers in different tax brackets that is small, medium and large tax payer brackets. Besides, where need be communication to tax payers has been done in indigenous Ugandan languages to allow folks better understand their tax obligations.

89. ***Adoption of the Output Based Budgeting Tool (OBT) in an effort to align the National and Sector Budgets and work plans with government policies***. OBT was aimed at facilitating annual planning and budgeting and contains modules for Ministerial Policy Statements, Budget Framework Papers, annual and quarterly performance reports and performance contracts for accounting officers. The use of OBT ensures that sector allocations are guided by sector ceilings with respect to institutions, programs, and projects and enables data capturing on resources allocated to inputs and their associated physical

outputs. However, there are two apparent inconsistencies with the use of this tool. The OBT is based on a three-year planning framework while the NDP 1 covered the period FY2010/11 to FY2014/15. Secondly, the outcomes, outputs and key performance indicators in the OBT are not directly derived from the NDP 1 as they link to sector planning processes. This limits the use of this tool for reporting on the performance of interventions being implemented under the NDP 1.

90. **The Public Finance Management Act (PFMA 2015) provides a good framework for improving public financial management.** The overall objective of the PFMA is to improve value for money by strengthening checks and balances and accountability. It also aims to improve public service delivery with a view to sustaining and supporting higher levels of economic growth and development. There are three key positive development arising from the PFMA, including: 1) consolidation of the Public Financial Management Law which was scattered in the PFAA 2003; Budget Act 2001; the 2008 MoU between MFPED and BOU; and other laws like the 2004 Local Governments Act, the 2008 National Audit Act, the Uganda Revenue Authority Act and other acts governing State owned and Public institutions; 2) establishment of the consolidated fund, which is a single framework for management of all government revenues both oil and non-oil; and 3) changing the national budget cycle to rhyme with the financial year i.e. releases are effective July not September was the experience before FY2015/16.

6.5 Other public expenditure management systems

Output Budgeting Tool (OBT)

91. The current output-oriented budget tool needs to be used to more closely align with the NDP to enhance service delivery. The objective of this software is to facilitate annual planning and budgeting and contains modules for Ministerial Policy Statements, BFPs, annual and quarterly performance reports and performance contracts for accounting officers. There are two apparent inconsistencies with the use of this tool. The OBT is based on a three-year planning framework while both the MTEF and NDP cover five year periods. Second, the outcomes, outputs and key performance indicators in the OBT are not directly derived from

the NDP as they link to sector planning processes. This limits the use of this tool for reporting on the performance of interventions being implemented under the NDP.

92. **The IFMS chart of accounts has been deployed to all central government MDAs and local governments.** The IFMS incorporates the Commitment Control System which validates expenditures against approved estimates and quarterly allocations. Despite the wide coverage of the IFMS system of budgetary central government transactions, there are still many irregularities in implementation of the budget. Reports by internal and external auditors show that irregularities like advances not accounted for, goods accepted not meeting required specifications, commitments made without local purchase orders and utility arrears are still a common occurrence in MDAs and local governments (PFM report, 2012). The Chart of Accounts was designed before the NDP (during PEAP) and has been reviewed before, but some items in it are not consistent with accountability and monitoring requirements of the NDP. There is a need to address these inconsistencies to enhance accountability and improve alignment with the NDP.

Ministerial statements

93. The main instrument used by sectors and MDAs to report their annual performance and plans for the following year for assessment and approval by Parliament are Ministerial Policy Statements. These policy statements are currently well integrated with the OBT. However, given that OBT outcomes are not derived from the NDP, these statements are not always well aligned to the NDP. This means that the Policy Statements are not fully able to serve the original purpose of synthesised reporting on planning and implementation of planning by sectors and MDAs. Closer alignment of the OBT with the NDP would enable government to use Ministerial Statements more effectively to track progress on NDP implementation.

Budget performance contracts

94. The review also found that the Budget Performance Contracts for Accounting Officers are generated from the OBT. These Contracts relate to the Accounting Officers' requirement to effectively and prudently produce outputs for which resources in the OBT have been provided. Again, the lack of full alignment of OBT and the NDP means that these contracts do not necessarily bind senior officers to deliver on NDP priorities. In addition, the coverage

of performance contracts is limited to a few senior accounting officers rather than being extended to all civil servants with collective responsibility of outcomes.

Sector Investment Plans (SIPs)

95. When the NDP 1 was being developed, some MDAs did not have SIPs to guide annual planning and budgeting over the medium-term period (5 years). SIPs are a critical input to guide the use of the OBT. In the absence of some SIPs, MDAs were guided by the NPA to prepare background papers as inputs to the NDP. The absence of SIPs complicates planning processes and creates a vacuum for other tools such as the OBT. All sectors should have SIPs in place as a basis for informing planning for the subsequent NDPs and to enhance links between planning and budgeting including tools such as the OBT. Ideally, all SIPs should cover the same 5 year period at the NDP.

96. ***Adoption of a Treasury Single Account (TSA) framework in FY2013/14, aimed at eliminating loopholes that facilitated theft of public funds***. The TSA is a unified structure of government bank accounts through which all government payments and receipts will be transacted to the extent that it will be possible to have a consolidated of Government cash resources. The TSA is expected to lead to efficient management of government cash balances though: ensuring efficient control and monitoring of funds released to government agencies; minimize transaction costs associated with budget execution; and better coordination of fiscal and monetary policies. Most importantly, the TSA adopted quarterly disbursements in place of monthly releases; this led to the closure of government accounts at commercial banks, thereby making theft of government funds more difficult.

Security strengthened on the Integrated Financial Management System (IFMS) in FY2013/14.

97. The IFMS was enhanced with camera and voice recording features to ease monitoring of transactions undertaken by accounting officers while using the system. Equally, unlike before daily cash withdrawal could be as high as 900 million shillings, the limit was set at Uganda Shillings 50,000,000. Furthermore, accounting officers no longer have room to accumulate arrears. Such security innovations are aimed to curtailing theft of public funds.

98. ***Decentralized payroll system was adopted in FY2013/14 in a bid rid the public sector payroll of ghost workers***. The innovation transferred the responsibility of payroll management from the Ministry of Public Service to local governments and ministries. Furthermore, the innovation mandates accounting officers to display the payroll on public notice boards as way of perpetuating transparency. The decentralization of government payroll is expected to save government approximately 70 billion shillings in would have been payments to ghost workers

99. ***The MTEF, NDP 11, OBT system and related sector planning processes need to converge on a set of strategic outcomes and outputs that should be derived from priority objectives in NDP 11***. These could cut across sectors. Good enough the NDP 11 provides an opportunity to establish NDP results framework which can be cascaded more readily to outputs in the OBT and sector plans.

Box 1: Project No. 0104 Support for Tea Cocoa Seedlings

Total Expenditure (UGX bn): 24.000

Implementing Agency: MAAIF

Responsible Officer: Mr. Muwanga Musisi

Funds Secured (UGX bn): 2.470

Funding Gap (UGX bn): 0.000

Start Date: 07/01/2004

Completion Date: 30/06/2018

Background:

The project was started by Uganda government, to increase Tea and Cocoa production in Uganda, in order to increase household incomes of the farmers and hence foreign earnings on exports.

Objective:

1. To increase Tea and Cocoa production in the traditional and new growing areas.
2. To increase household incomes of Tea and Cocoa farmers.
3. To increase foreign exchange earnings of Uganda, through exports of made Tea and Cocoa.
4. Cocoa to be distributed to beneficiary farmers.

Link with the NDP:

1. Section 258 of NDP; objective 1; strategy 7: Improve access to high quality inputs; planting and stocking materials.

2. Section 260 of NDP; Objective 3; Strategy 1: Improve the capacity for quality assurance, regulation, food and safety standards for outputs and products across crops, livestock and fisheries sub sector.

7.0 Public Investment Planning and the NDP 1

100. ***For the first two years of implementing NDP 1, there was a disconnection between the Public Investment Plan (PIP) and the NDP.*** The PIP includes the projects that are authorized to receive funding, either from the National Budget or from Development Partners in the current fiscal year. Note, however, that the projects that were identified in the NDP 1 are not fully reflected in the first two annual PIP documents. The process and criteria used to include projects in the PIP has not been very transparent. While the PIP is interested in the linkage between specific project and interventions, NDP 1 mainly focussed on the interventions. On a positive note, the PIP for the period FY2013/14– 2015/16 was categorical in aligning various PIP projects with NDP 1 objectives for example:

Box 2: Project No. 1281 Tirinyi-Pallisa-Kumi/Kamonkoli Road

Implementing Agency: Uganda National Roads Authority

Responsible Officer: Director Planning

Total Expenditure (UGX bn): 200.000

Funds Secured (UGX bn): 1.000

Funding Gap (UGX bn): 199.000

Start Date: 31/01/2014

Completion Date: 29/12/2017

Background:

This project is intended to open up the rich agricultural areas in Pallisa, Kumi and Budaka districts through linking them to the markets in Mbale, Soroti and Kampala.

Objective:

To facilitate marketing of agricultural produce through provision of all weather paved road.

Expected Outcome:

111 km of gravel road upgraded to bitumen standard

Link with NDP 1:

This project is linked to objective 1 of improving the stock and quality of the roads infrastructure under the Transport Sector.

101. ***Much as an attempt was made to align the PIP with NDP 1, issues of weak public investment management are still apparent***. The delays in project execution may not necessarily be associated with slow resource allocation, rather more to do with the timely technical and financial feasibility studies. Minimising or avoiding delays implies having a bank of "ready to go" projects under the proposed Integrated Bank of Projects, such that by the time finances are available, the project is can be implemented without further delay. This would eliminate one of the reasons for projects running behind schedule, thereby undermining the timely accrual of their intended benefits as well as causing budget underspending. This would also allow the country to sequence projects through a scientific criteria. For example, projects could be sequenced through ranking them depending on their social and economic impact on Uganda.

102. ***Procurement procedures are also undermining timely project implementation***. As detailed in the box 3 below, a critical factor slowing project design and implementation is the procurement process. Some of the concerns raised in the course of this evaluation include the complexity of the legal framework and procedures governing public procurement, weak technical capacity in MDAs, and weak governance/oversight of procurement, which can open the door to corruption. Besides, lobbying has equally worked its way in delaying the procurement process as different public official attempt to outmuscle each other on which company should win the tender to undertake a given project. As such project implementation is delayed not because of technicalities but private interests of the public officials.

Box 3: Design and approval stages for investment projects[10]

Design phase 11-26 months (depending on where final approval takes place)

Pre-feasibility procurement, assessment and decision to move ahead. Done by lead MDA. Can take up to 2 months.

Feasibility Study requires international procurement (costly and takes time). Appraisal and financing options need to be developed. This can take up to 8 months.

Decision by MOFPED and Cabinet to move ahead with project. Can take 3-6 months.

Parliament may also be involved in project approval if a loan is needed. This can add 1 month to one year to the decision making process. Only at this point could a project be conceived to be "investment ready".

The procurement complaints procedure can slow implementation. If there are concerns about how procurement was carried out then this can stall implementation of a project.

The process for Public Private Partnerships can take even longer. A pre-qualification phase is required to identity private sector partners (2 months). Preparation of documentation for full tender and approval of tender documents can take up to 6 weeks. When a tender is issued it will take at least 4 months for companies to prepare proposals. Following evaluation (minimum one month) negotiation can take anything from 1-6 months.

This suggests that the lead time on preparing a project could be anything from 1 to 2 years depending on the complexity of the project and sources of finance.

Issues and Challenges

Could more be done to build technical capacity in MDAs to speed up design of projects? According to the IMF 2013 Country Report Uganda lags behind the Sub Saharan Africa (SSA) and EAC average on public investment efficiency. This covers appraisal, selection, implementation and evaluation. Uganda scores 1.4 (0 is worst and 4 the best) compared with 1.5 for the EAC and SSA. Capacity building in this area is clearly essential. Government could also explore ways of speeding up contracting of external experts to support project appraisal. Key partners such as IFC can help with sourcing experts. A pool of qualified experts could be identified through a pre-qualification process and then used on a call down basis.

It is also essential to have sufficient budgeted resources to finance pre-feasibility and feasibility studies for critical projects to ensure they are robustly designed and planned. It is perhaps feasible to seek some external funding to support design of feasibility studies for priority projects. Funding is likely to be available from the World Bank and potentially other donors – particularly for Public Private Partnership projects.

Importance of good governance and transparent procurement. If procurement does not run smoothly then it can delay implementation of projects. Is the new procurement legislation fit for purpose? What could be done to improve speed, transparency and independence of the procurement process? Is there an effective strategy in place to improve procurement capacity in MDAs?

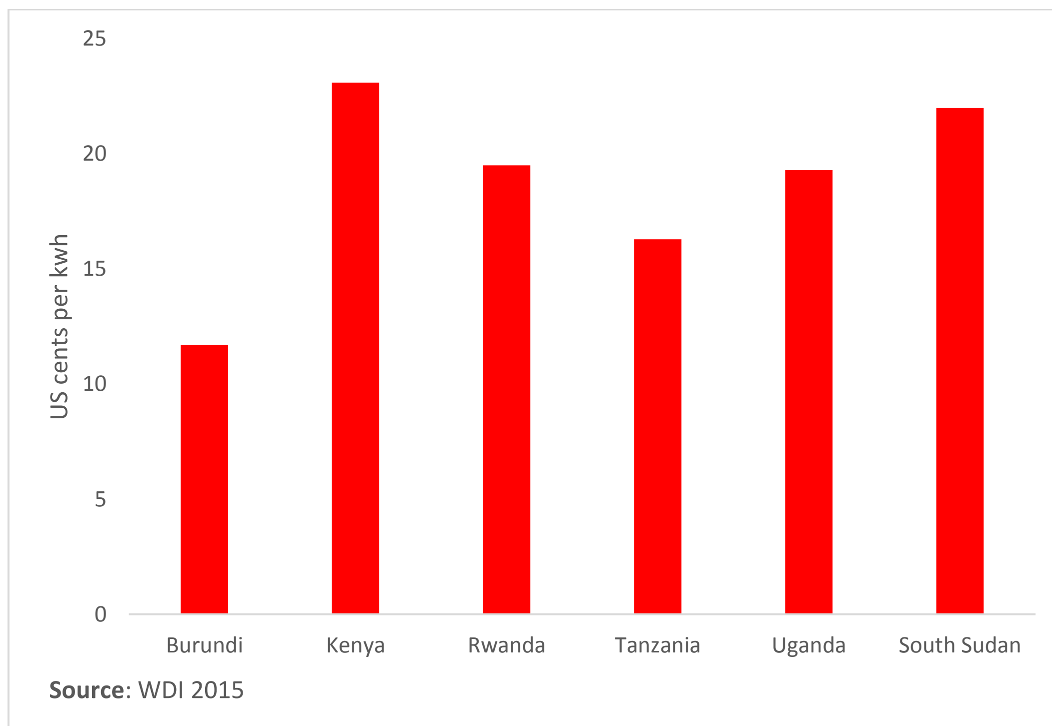
[10] This includes projects that have been budgeted for.

8.0 Private sector and the Business environment

103. Uganda's growth agenda post 1990 has been based around private sector led growth. Amongst other things, this led to privatisation of parastatals, with the view that government was an inefficient manager as compared to the private sector. For the private sector to flourish, however, the business environment must be such that it makes Uganda an attractive investment destination. Indeed, government's recent initiative to close the infrastructure gap through allocating the largest portion of the budget to energy and transport sector is partly aimed at abating rigidities in the business environment. This section is therefore an assessment of Uganda' business environment in comparison to its neighbours.

104. ***Much as significant investment has been directed towards energy, the cost of electricity is still rather high***. At a cost of US cents 19.3 per kilowatt hour (kwh), electricity in Uganda was still expensive in comparison to, for example, US cents 11.7 per kwh and US cents 16.7 per kwh in Burundi and Tanzania respectively (see figure 27). Besides having a higher cost of electricity compared to, say, Tanzania, being landlocked undermines Uganda's investment attractiveness. Overall, however, the price of electricit in Uganda is around the average for the EAC and lower than in Kenya, Rwanda and South Sudan. Nevertheless, while efforts are under way to bring Karuma and Isimba hydro power plants on board, which should solve load shedding risks, investors are equally sensitive to the cost of electricity. It is hoped that the new hydro power plants will help to reduce average generation costs, and hence enable a reduction in electricity prices, to support private sector investment in heavy manufacturing sectors such as steel.

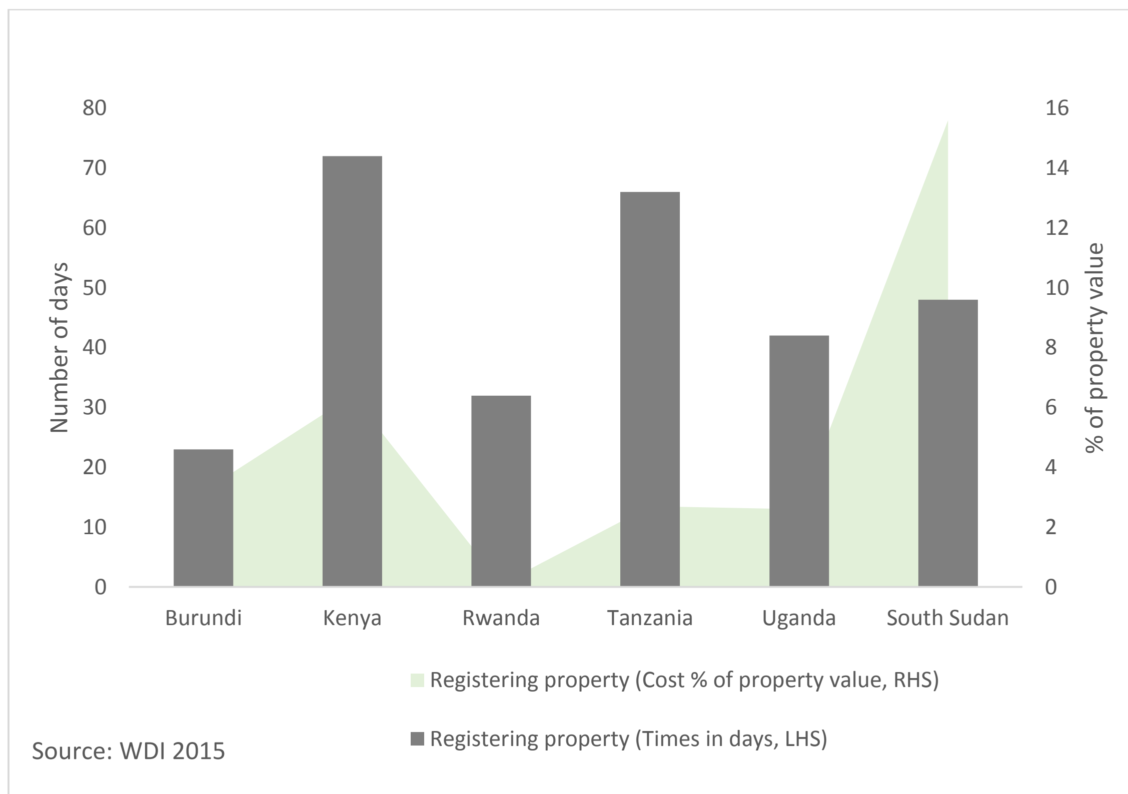
Figure 27: Cost of electricity



Source: WDI 2015

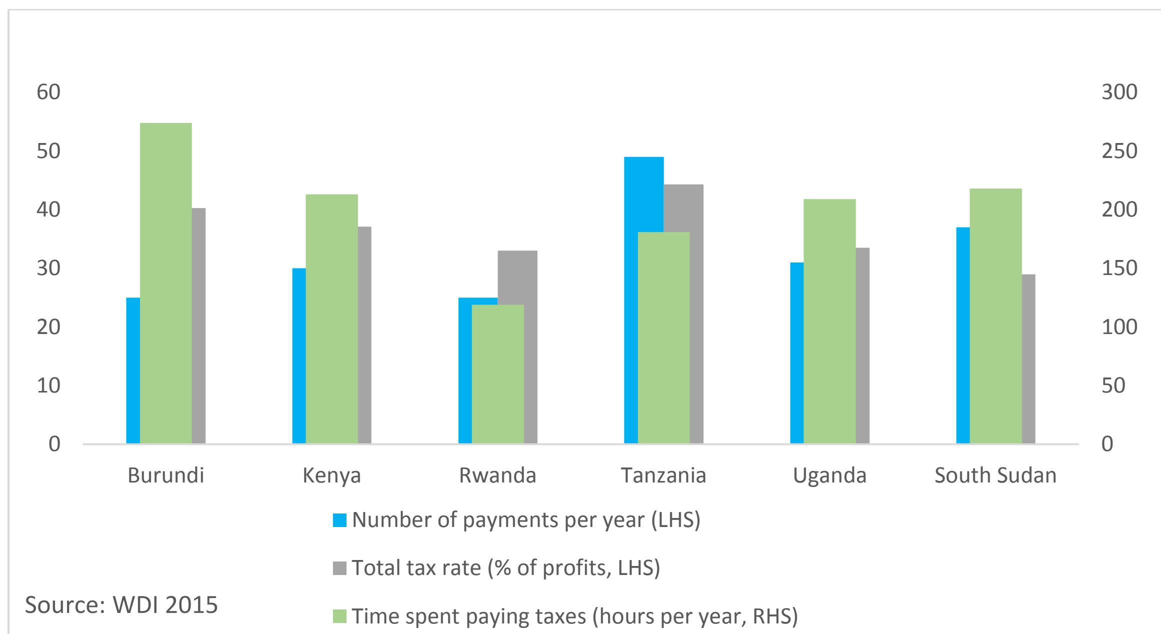
105. ***In addition the cost of registering a property is not regionally competitive***. It costs 42 days and 2.6 percent of the property value to register a property as of 2015 (see figure 28). This is an improved from the 67 days and 4.5 percent of the property value that it took to register a property in 2010. Even, regionally, as an investment destination there is scope for improvement especially as it costs 0.1 percent of the property value and 23 days to register a property in Rwanda and Burundi respectively. The easier it is to register a property the quicker a property can be used collateral in a lending institution thereby enabling productivity gains which translates into higher economic growth.

Figure 28: Cost of registering a property



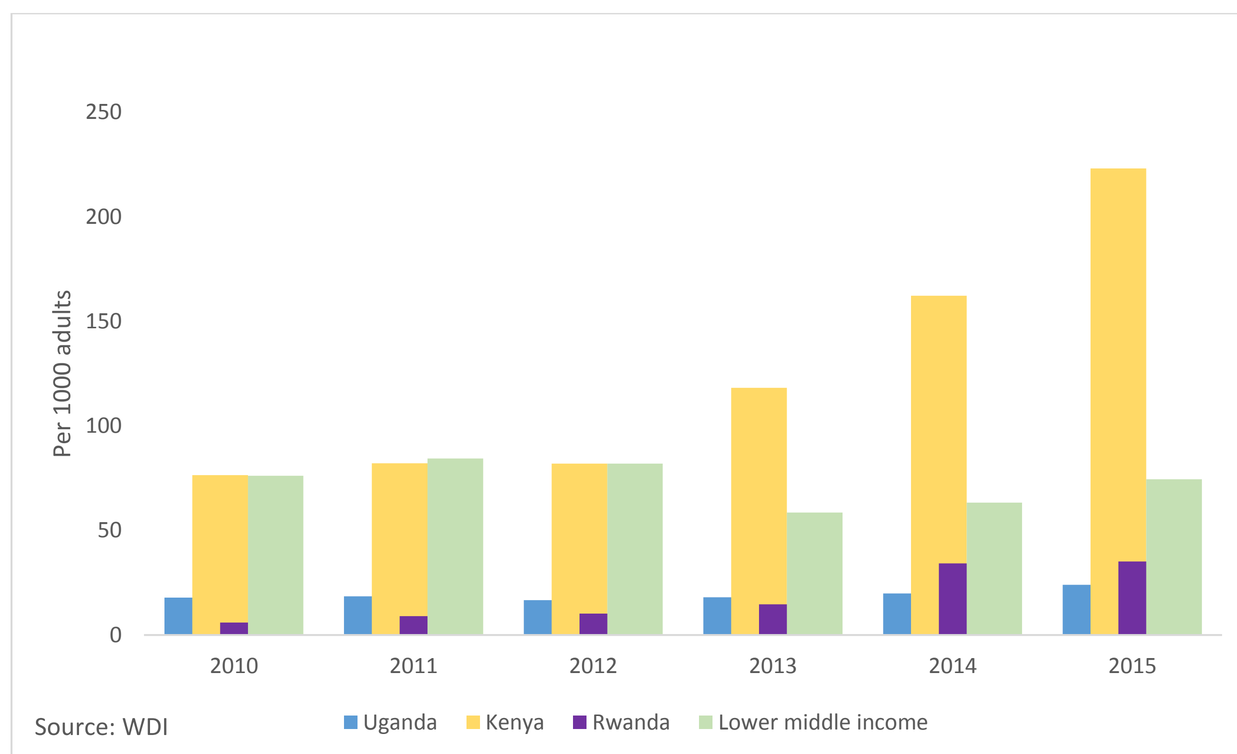
106. **Cost involved in making tax payments remains rather high regionally**. As of 2015, 209 hours were spent by firms in Uganda to engage in tax preparation and payment (see figure 29). This implies that 2.34 percent of the total available hours in a year are spent by firms engaging in tax payment. The situation worsened from that in 2010 where firms spent 161 hours (1.8 percent of the total available hours in a year) engaging in tax payment matters. This could suggest an increase in the number tax payments per year (number of different taxes or contributions multiplied by the frequency of payment) from 2010 to 2015. However, the number tax payments remained 31 over the period. To suggest that may be they could be increased ambiguities in tax legislation resulting in extended negotiations between firms and tax officials. Or tax officials could be interested in negotiating for bribes increasing the negotiation time with firms.

Figure 29: Cost of paying taxes



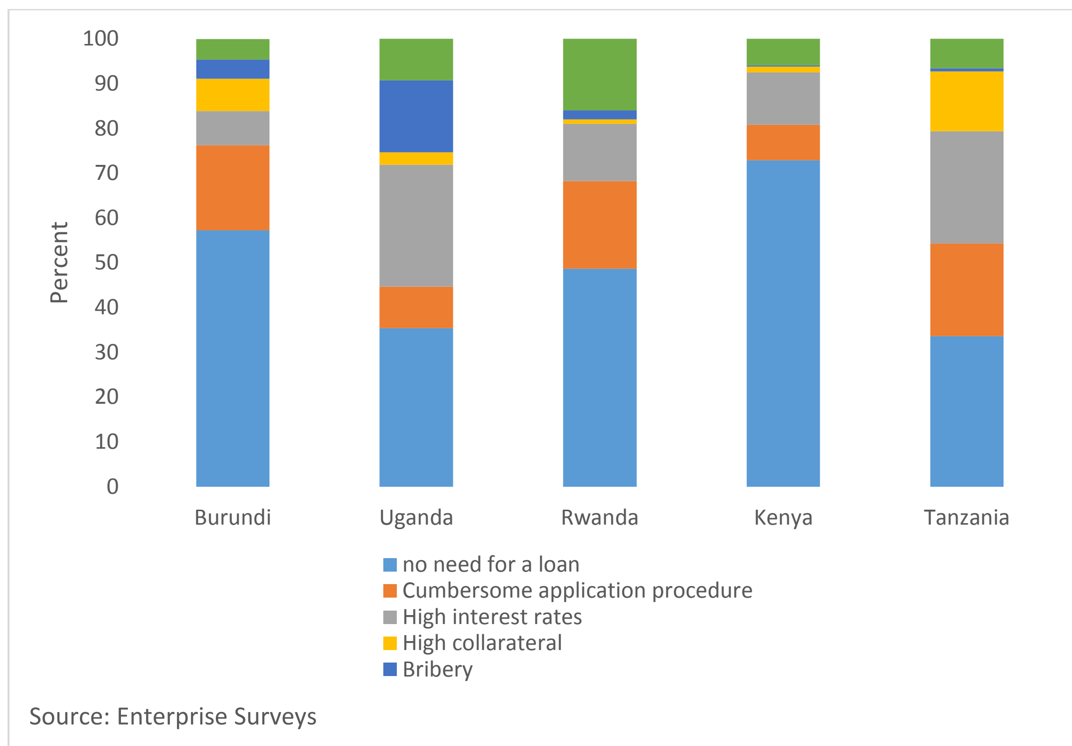
107. ***Credit uptake grew rather sluggishly over the NDP 1 period***. The number of borrowers per 1000 adults increased from 18 in 2010 to 24 in 2015, a 33 percent increase (see figure 30). By contrast, in Rwanda the number of borrowers per 1000 adults increased from 6 to 35, over the same period, a 483.3 percent increase. Similarly, the number of borrowers per 1000 adults in Kenya increased from 76 to 223, a 205.1 percent increase. This suggests that the number of adult borrowers from banks in Uganda is relatively low, and increasing relatively slowly. This raises the question of whether there are structural bottlenecks undermining credit utilisation in Uganda. One of which could be ease of access to commercial banks. Indeed, the commercial bank branch density is higher in both Kenya and Rwanda than Uganda. There are 6 commercial bank branches per 100,000 adults in Kenya and Rwanda compared to Uganda's 3 commercial bank branches per 100,000 adults.

Figure 30: Borrowers from commercial banks



108. ***The interest rate spread is highest in Uganda within the region suggesting high operational costs of credit supply***. Over the period 2010 to 2015, the interest rate spread averaged 10.4 percent in Uganda compared to 7.9 percent, 8.5 percent, 8.8 percent, 7 percent and 6.8 percent in Fragile and Conflict affected situations, Kenya, Rwanda, Sub-Saharan Africa (excluding high income) and Tanzania respectively. Since the interest spread is the difference between deposit and lending rates, this suggests that the cost of extending credit could potentially be higher in Ugandan than her regional partners. For example monthly lending rates in Uganda over the period FY2010/11 to FY2014/15 averaged 22.71 percent (BoU, 2018). Such high lending rate is high compared to 16.7 percent in Kenya over the same period. The effect of high lending rates has been to undermine credit utilisation and hence private sector credit growth thereby dampening Uganda's economic growth potential over the NDP 1 cycle. Indeed, figure 31 shows that among firms that did not apply for credit in Uganda the second most important reason for being credit constrained is high interest rates. Across the entire region, Uganda has the highest fraction of firms that are credit constrained as a result of high interest rates.

Figure 31: Reasons for not applying for new loans

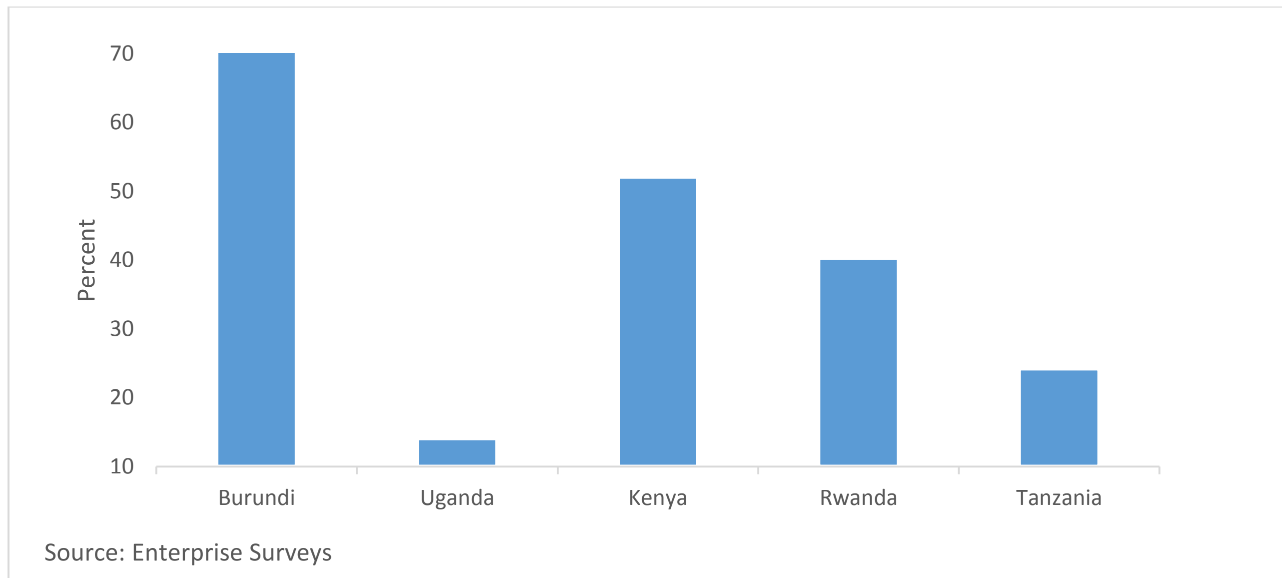


109. ***Further to high lending rates, another rather perturbing cause to firms being credit constrained is bribery***. According to the World Bank Enterprise Survey 16 percent of firms that are credit constrained in Uganda attribute it to having to pay bribes in order to access credit (see figure 31). This is rather unfortunate as bribe is a fixed cost to a firm that yields no return! On the contrary, absence of funds to bribe credit officers is a barrier to credit access in Uganda. This when compared to 4.29 percent, 1.97 percent, 0.23 percent and 0.69 percent of firms credit constrained because of bribery in Burundi, Rwanda, Kenya and Tanzania suggests that corruption in loan assessment is rather significant and an unfortunate deterrent to effective credit access in Uganda. This is especially so given that only 35.4 of firms are not interest in credit in Uganda.

110. ***Overall, 43.27 percent of firms do not use credit as a result of bribery and high interest rates the effect of which has been low credit uptake in Uganda***. Out of the firms that do not use credit, 35.4 prefer own financing, of the 64.6 percent that are credit constrained the greatest share is attributed to high interest rates and bribery (43.3 percent). The effect of which has been low credit uptake. Indeed from figure, firms in Uganda have least credit

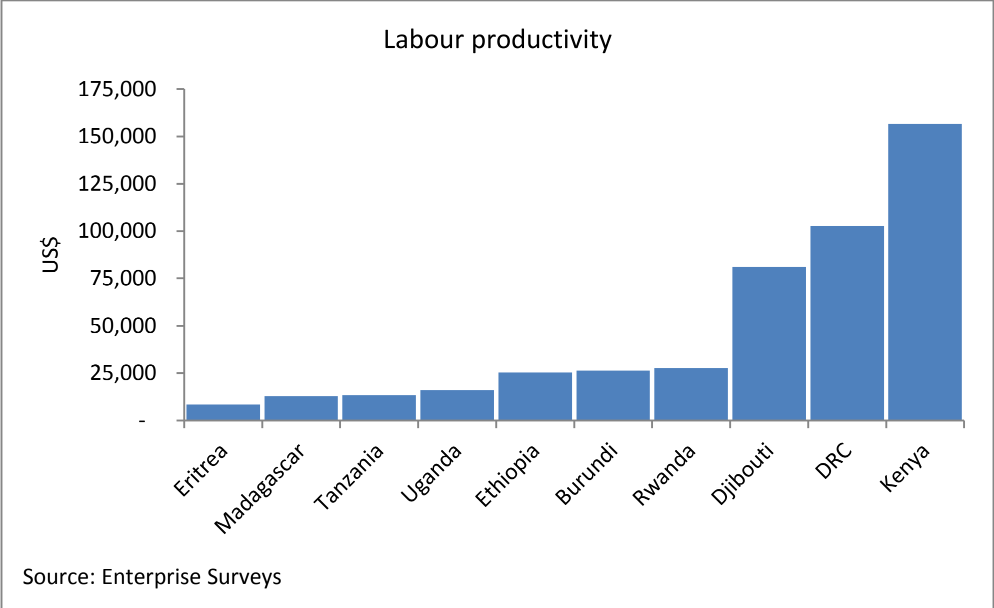
uptake (14 percent) compared to 24 percent, 40 percent, 52 percent and 72 percent in Tanzania, Rwanda, Kenya and Burundi respectively. Suggesting that high lending rates and bribery which reported most by firms in Uganda could be significantly undermining credit uptake.

Figure 32: Percentage of firms with a credit line



111. ***Overall, the business environment in Uganda has not been that competitive compared to its regional peers the effect of which is low firm productivity and their private sector growth***. Uganda has a labour productivity (proxied as sales per worker) US$ 16,064 per worker compared to US$ 156,511 and US$ 81,120 in Kenya and Djibouti respectively. This suggests that the business environment features of Uganda's economy undermined labour productivity over the NDP 1 cycle.

Figure 33: Labour Productivity



Source: Enterprise Surveys

9.0 Financing of the NDP 1

112. This section reviews the financing assumptions that underpinned NDP 1. It also looks at opportunities and constraints to enhancing Public Private Partnerships and other innovative financing mechanisms. The section also focuses on the extent to which additional private sector and public investment funds were harnessed to finance NDP 1 priorities.

9.1 NDP 1 financing strategy

113. The NDP 1 when conceived was based on an ambitious but quite clear financing strategy. It assumed that funding would be provided through the following sources:

114. **Efficiency gains in spending**: reallocating resources to priority sectors and achieving efficiency gains through strengthening the link between public spending and output/results, strengthening regulations and compliance, increasing public sector productivity, reducing corruption and red tape, reducing duplication of functions.

115. **Domestic revenue mobilisation** would increase through:

(i) Expansion of the tax base by bringing the informal sector into the tax bracket;
(ii) Reform of the structure of taxation and extensive re-organisation of the institutions that administer taxes to improve tax collection efficiency and compliance with a focus on enhancing VAT returns;
(iii) Expansion of non-tax revenues including a review of all its rates; and
(iv) Streamlining existing exemptions and tax incentive policies.

116. **Public Private Partnerships (PPPs)**: promoting and encouraging PPPs in various forms. Analysis was expected to be undertaken in order to guide on what form of PPPs has the highest economic benefit to the country and is most suitable for the public and private sector before any form of PPP is recommended.

117. **Grants and loans**: in the long run the government aims to fund its budget purely from domestic revenues, which should be more achievable once oil and gas revenues come on stream. However, in the short to medium term government was expected to continue seeking foreign assistance to support budget implementation. This strategy was guided by the

Government Aid Policy. Government would also continue to seek for concessional loans and explore the scope for enhancing private sector investment in priority areas working with UIA.

118. **Borrowing from capital markets**: a new innovation in the NDP 1 was the proposal to seek financing through capital markets. As well as promoting and developing capital markets through sound regulation, NDP 1 proposed to develop an appropriate framework to facilitate issuance of sovereign bonds to raise the necessary funds for investment in priority sectors – particularly infrastructure and energy. NDP 1 also anticipated that liberalisation of the pension sector could open it up as a source of finance. This would focus on ensuring adequate protection of savings whilst leveraging domestic private savings in the form of pension and related to funds to provide long term finance for investments in the domestic economy.

9.2 Implementation of NDP 1 financing strategy

119. Earlier sections of this report and other thematic reports address different elements of this financing strategy. Progress on harnessing additional foreign assistance is covered in the Development Partnerships Thematic Report. This section therefore focuses on domestic revenue mobilisation, the potential to expand borrowing and progress on innovative financing mechanisms such as PPPs and instruments that can draw in funding from capital markets.

120. **The structure of government financing is changing**. It is clear from Table 3 that Uganda is going through a period of fiscal adjustment. NDP 1 was characterised by an increased use of own resources to finance core investments and this likely to continue into NDP 11. This trend is being felt across East Africa as donors are both reducing levels of funding and changing the instruments they are using to support countries such as Uganda. In FY2009/10 budget and project support constituted 2.4 per cent GDP, this gradually reduced as percent of GDP from 1.9 in FY2010/11 to 1.2 in FY2014/15 as was anticipated by NDP 1. In addition a higher proportion of funding ended up in project support as opposed to budget support as anticipated by NDP 1. Specifically, 40 percent of grants were towards project support in FY2010/11; however, by the end of NDP 1 cycle 75 percent of the grants were towards project support at the expense of budget support.

121. **Domestic revenue mobilisation averaged 11.8 percent of GDP over the NDP 1 cycle, falling short of the NDP 1 target by 2.6 percent of GDP.** The fiscal section explored tax performance in details across the NDP 1 cycle. Most importantly the lower than expected domestic revenue performance undermined government reliance on taxes to finance its core investment rather inducing increased use of commercial debt. More so over the NDP 1 cycle domestic debt became integral in complementing external debt to finance government expenditure.

122. ***The less than desirable performance of domestic revenue collection can be attributed to the wide spread use of tax incentives on intermediate goods targeted to attract investors.*** Exemptions cover a range of areas and link to supply of specialist products linking to power generation, ICT, inputs to agriculture and agro-processing and most recently oil sector related developments[11]. In addition, there are tax holidays on corporation income tax for export businesses and agro-processing firms. Such tax incentives and exemptions are partly responsible for Uganda's tax revenue as a percentage of GDP being unable to reach 16[12]. Some effort was made to streamline tax incentives in FY2012/13 and FY2013/14 budget announcements. For example, VAT exemptions were eliminated on hotel accommodation, supply of water, wheat and flour.

123. ***The government took a number of other measures to improve tax compliance.*** URA introduced efforts to improve tax collection efficiency through exploiting the potential in IT. To that end e-registration, e-filing and e-payment were for example introduced. The establishment of a national identification system was step in the right direction this will

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[11] Exemptions include: (i) supply of petroleum fuels subject to excise duty, except for kerosene (motor spirit, gas oil, spirit type jet fuel, kerosene type jet fuel, as well as residual oils for use in thermal power generation to the national grid); (ii) Supply of any goods and services to the contractor and subcontractors of hydro-electric power projects; (iii) Supply of specialized vehicles, plant and machinery, feasibility studies, engineering designs, consultancy services and civil works related to hydro-electric power, roads and bridges construction, public water works, agriculture, education and health sectors; (iv) Supply of computers, computer parts and accessories, computer software and software licenses, printers and accessories; (v) supply of machinery used for the processing of agricultural or dairy products; (vi) supply of packaging material exclusively used by the milling industry for packing milled products or used by the dairy industry for packing milk; and (vii) supply of feeds for poultry and livestock.

[12] *AfDB. (2010). Domestic Resource Mobilization for Poverty Reduction in East Africa: Uganda Case. African Development Bank (AfDB).*

increase the ability to curb tax evasion at least in NDP 11 as more synchronisation of government citizenry databases is done.

124. **There is still scope to finance the priorities of the NDP through borrowing especially at concessional terms externally and the domestic market**. The fiscal policy section explored the challenges around increasing levels of borrowing to support NDP 1 implementation. However, in terms of financing opportunities there is good evidence to suggest that Uganda could potentially increase borrowing and remain viable in terms of debt sustainability. The November 2015 a joint IMF/World Bank DSA[13] indicates that overall the risk of debt stress is low. However, the report indicated that large loss of shilling value and the downgrade in the Country Policy and Institutional Assessment rating raised the external debt burden and lowered its sustainability thresholds.

125. Furthermore, to mitigate the crowding out effect of domestic borrowing it is paramount that GoU avoids going to the domestic credit market as if the activities that funds are required for could not be anticipated. The effect of such behaviour has been borrowing at colossus interest rates. Unfortunately such behavior has come to hurt domestic private borrowing as it has set a high floor upon which credit institutions lend to the private sector. In that regard government borrowing ought to relatively more organised with a domestic borrowing schedule carefully thought through with signals sent to the credit market early in time.

9.3 Innovative Financing Mechanisms

126. **Public Private Partnerships (PPPs) were expected to be an important source of private sector financing for the NDP 1**. The financing envelope for NDP1 core projects anticipated that nearly 62 per cent of funding would come from the private sector including public private partnerships. These investments would be focused in particular on development of regional projects linked to development of the energy sector, construction of hydro power plants and projects linked to industrial development. As the discussions under the fiscal section indicated, implementation of the core projects proceeded slowly partly because of

[13] https://www.imf.org/external/pubs/ft/scr/2015/cr15321.pdf

financing constraints. Unfortunately, private sector financing was hampered by slow progress on establishing the legal framework for public private partnerships.

127. **Other countries, including Kenya and Malaysia have used PPPs to support financing of their National Development Plans**. PPPSs require good planning and evaluation capacity for feasibility studies, availability of the necessary technical skills at sector and government level, strong oversight and leadership both centrally and in sectors to drive development and implementation of PPPs, competitive and transparent procurement, well organised public agencies and strong M&E capacity. In addition, there needs to be a conductive macroeconomic environment, an appropriate regulatory framework in place, predictability in the policy environment and adequate protection of investors.

Box 4: Public Private Partnerships in Malaysia

PPPs have existed in various guises in Malaysia since the 1980s but it was under the 9th National Plan (2006-2010) that the Government officially announced the implementation of public projects using the PPP or Private Finance Initiative (PFI) scheme. PPPs have proven integral to the socio-economic development of Malaysia and have resulted in the completion of numerous large-scale infrastructure projects such as the series of PLUS expressways 9973km), the privatisation of Penang Port, and the high speed KLIA express and transit rail lines. In 2012 there were 52 projects, totalling RM62.7b ($20bn), in the planning or implementation stage.

The importance of trade in the Malaysian economy has made it imperative for the Government to provide an environment that is conducive to doing business. Recognising that the traders' ability to move goods across borders rapidly, reliably and cost effectively leads to enhanced export competitiveness, Malaysia has taken concrete steps, over the last three decades, to evolve and implement various trade facilitation initiatives.

The Government is encouraging the private sector to invest in development projects whether through PPP or through direct investment by the private sector in the country's development programme. Public-private sector collaborative mechanisms have contributed to making it easier to do business in Malaysia. There have been continued improvements on many fronts, specifically in enhancing transparency and streamlining procedures and practices. Public-private sector consultations have also provided useful inputs during the review of the existing policies such as the Distributive Trade Guidelines, Competition Policy, Government Procurement and Foreign Investment Committee Guidelines.

128. ***A pipeline of PPP projects was developed with the World Bank support over the NDP 1 cycle*.** The projects that look most likely to move forward as PPPs include development of Kampala-Jinja Road, construction of an oil refinery, Kigo Prison, Office accommodation for the Ministry of Lands, Housing and Urban Development and development of Entebbe Airport. Some of the pipeline projects are now likely to be funded through bilateral arrangements including the hydro-power projects in Ayago and Isimba. Some mini-hydro projects are moving forward and the design of these projects and a number of roads projects

has been facilitated by IFC. The World Bank has signalled that they stand ready to support financing of PPPs once the appropriate framework is in place.

129. ***Strong leadership and commitment is needed at the top of government to ensure that PPPs become a key source of finance for the next NDP***. Following the establishment of the PPP Policy Framework (in 2010), and the PPP Act (approved in 2015) some of the key challenges to be addressed include strengthening the PPPs department within MoFPED which expected to lead, drive and support development and delivery of PPPs. MDAs need training on how to manage and regulate PPPs and project and financial management skills need to be upgraded across government. This capacity development work would need to begin now for more PPPs to be investment ready for the next NDP.

Box 5: Challenges to extending the scope of PPPs in Uganda

Unpredictable investment environment. This was also reflected in Uganda's ranking in the Doing Business Report.

Lack of a clear legislative framework. A policy was approved and a law has been developed but progress through Parliament needs to be accelerated.

Limitations on foreign ownership and restrictive regulatory conditions on project rates of return.

Excessive bureaucracy and poor coordination between government departments. Lack of technical skills and awareness of PPPs in government. This needs to be addressed strategically to ensure all necessary departments are equipped with the skills they need to help design and manage PPPs.

Lack of long term financing. It remains challenging to access long term finance through Capital Markets and local finance institutions. This leads to a heavy reliance on foreign capital which introduces exchange rate risk.

Source: State of Uganda Population Report 2012

130. ***However, there are examples of success stories that Uganda can learn from***. For example, Health is often held up as a PPP success story. The Uganda Health Care Federation (UHCF) has been established and this acts as an umbrella organisation which brings together private sector organisations in the health sector. It helps to coordinate, lobby and represent private sector associations. So far 27 associations have enrolled into UHCF. Some innovative PPP pilots are now being scaled up (see Box 6). These innovative projects are leading to improvements in service delivery efficiency and value for money.

131. ***What is clear is that there is potential to extend PPP models across government to improve access and quality of services, efficiency and value for money*** and to energise private sector provision of goods and services in support of NDP 11 goals and priorities. Government needs

to have strong oversight of new service delivery arrangements and must robustly monitor and audit service provision. However, there is scope for the private sector to deliver more and better services in support of key NDP 11 priorities. In addition the PPP framework provides a basis for engaging donors, NGOs and civil society organisations that support or deliver services in areas such as health, education, water. This approach is also being used to support delivery of vocational training and could be extended to areas such as business development support and agricultural extension services. The NDP 11 could potentially make PPPs a centre piece of both its financing and delivery strategy.

Box 6: Good Practice on PPPs in Uganda

Health

PPP-H policy launched in 2012 by the Minister of Health. Many Ugandans access services through private providers, NGOs and faith based organisations. NGOs account for 41 per cent of hospitals, 22 per cent of lower health facilities and with government financial support the NGO sector operates 70 per cent of health training institutions.

A Uganda Reproductive Health Vouchers Programme was run in 20 districts in Western Uganda between 2006 and 2012. This was a joint initiative financed by KfW and the Global Partnership on Output-Based Aid (GPOBA) with the close involvement of the Ministry of Health and the World Bank. Marie Stopes were involved in management of the scheme. Vouchers were financed through the project and distributed to mothers who contributed a small fee and used them to purchase maternal health care services from a range of local private sector providers. As a result more women received timely effective support and the scheme created a new market for services. This meant that private sector providers could increase pay of health workers and upgrade equipment. Higher quality services were provided at a low cost. The success of this project has been widely acknowledged and the Ministry of Health is exploring with development partners how to scale up the scheme. A similar Family Planning voucher scheme is being rolled out countrywide with funding from DFID and USAID. USAID is also implementing a safe delivery voucher scheme in four districts.

Another example is the use of mobile technology to improve awareness and preventative health measures. The Dutch organisation involved, Text to Change (TTC) sends messages about Malaria, HIV and other medical topics for international NGOs and private companies. It brings together small and international NGOs, major African mobile telephony providers, the Ministry of Foreign Affairs, the Dutch Embassy in Kampala and the pharmaceutical company Merck and Company.

Education

The Ministry of Education has integrated public private partnerships into its education policy framework. The private sector now actively participates in sector planning and review processes. One example of a PPP in this sector is the Business Technical and Vocational Education and Training (BTVET). As part of the government's wider strategy to enhance skills development BTVET is going through a series of reforms to revive and revitalise BTVET (add in figures from NDR on growth in BTVET). Progress in this area will be critical to expand the reach of vocational training across Uganda.

Water

The National Water and Sewerage Company (NWSC) has gone through various iterations of PPP frameworks. The most recent management contract applies private sector principles to enhance efficiency and accountability. Sharp financial incentives have been introduced where the operating teams either gain or lose financially depending on how they perform. Each privately incorporated business partner has a deed of partnership detailing the duties, rights and obligations. Remuneration depends on performance based on a set of key indicators including cash operating margin, bill collection and percentage of inactive connections.

Electricity

A potential growth area for PPPs is the energy sector. Bujagali Hydropower dam in Jinja is one example of where a high level strategic PPP is delivering results. This was done in partnership with IFC. It is a 30 year project where the consortium will receive profits for 17 years whereas government will realise profits for 13 years. This project took many years to reach fruition but the impact on enhancing the supply of electricity has been considerable.

Telecommunications

Following the Uganda Communications Act in 1997 new entities were formed – Uganda Telecom Limited (UTL), Uganda Posts Limited (UPL) and the Uganda Post Bank. UTL rapidly attracted investment and tapped into the growing mobile phone industry. Services are now widely available across Uganda and mobile phone technology is increasingly being used to share information, build awareness (health and agriculture tips, weather info, news etc.) and to advance access to financial services. The potential for this sector to improve connectivity and enhance inclusive development should not be underestimated.

Source: The State of Uganda Population Report 2012: Uganda at 50 years: Challenges, Opportunities and Prospects – Population Secretariat and UNFPA and Uganda Healthcare Federation (various documents).

132. ***There was limited coordination and investment promotion to align private investment in NDP 1 priorities through PPPs***. UIA provided general advice and support to all investors with a focus on NDP 1 priority sectors including tourism, agriculture, oil and gas and mineral development. UIA promotes Uganda as an investment destination. It also established a one stop centre to support investors. UIA also led on action required to improve the environment for investors in Uganda. UIA is increasingly focused on SME development and is exploring reducing the threshold requirement for domestic investors below US$50,000 so that more SMEs can benefit from obtaining investment licences. This provides a good foundation to improve the environment for investors in Uganda. However, at present the link between UIA's investment promotion activity and the NDP investment planning is weak.

133. There was very limited strategic coordination between the NDP planning, the PIP and private sector investment promotion. This is likely to change as the use of PPPS to finance investments becomes more widespread. However, it is worth planning ahead and considering how UIA can support and leverage private sector investment towards NDP 11 priority projects with a focus on PPPs. For example, once a project has been identified as a potential PPP then UIA could help to seek out financing partners and provide support to help these investments proceed quickly and smoothly. This comes back to the urgent need to improve coordination across government on investment planning.

134. **There are new opportunities to harness savings and finance through capital markets.** As earlier set out, there has been significant progress on pension reform and establishing the regulatory framework governing pension funds. This provides a potential source of finance that can be harnessed through capital markets to support NDP 11 implementation. The advantage of exploring capital markets is because they are associated with long term financing at lower cost compared to commercial rate borrowing.

135. The NDP 1 envisaged that sovereign bonds would be developed that would finance infrastructure investments in the energy and roads sector in particular. These would be traded on capital markets. This has been done in other countries such as Kenya. Efforts over the NDP 1 cycle yielded nothing tangible. Even then, BoU, the MoFPED and CMA have set up communication channels to look more closely and how this might be developed. It would be useful to learn from other countries experiences in this area and design of this new instrument could potentially focus in particular on raising additional finance for PPPs towards implementing NDP 11.

10.0 Recommendations

10.1 Real sector

136. ***Government needs a paradigm shift in its industrialisation policy***. Industrialisation is a national conspiracy to suggest that it cannot singlehandedly be private sector driven. For example the success of the milk industry today to the extent that Uganda is the second leading exporter in Africa next to South Africa is because government intervened directly. First, the president was concerned as to why a litre of milk was cheaper than that of water? To this end, interventions including among others increasing the density of milk coolants in the cattle corridors enabled the growth of the milk industry. The same can be done for other agriculture produce where Uganda has the comparative. For example, why shouldn't be a requirement that all: public schools, army, prisons and police clothing be supplied by cotton spinning factories in Uganda? This has the advantage that with time, the quality of products from Ugandan cotton improves resulting in better quality clothing for residents as well to buy. In doing so, we as nation save on foreign exchange. Most importantly though is that it could induce the demand for more cotton as a crop resulting in more farm income thereby improving rural livelihoods.

137. ***Industrial policy should cascade from agro-processing to organisation of agricultural production***. Uganda's comparative advantage being in agricultural commodities suggests that its industrial development in the nascent stages is singularly tied to agro-processing. However, to grow agro-processing, government has to support the growth and development of cooperatives. This is because agricultural production is largely small-scale, and cooperatives can be used to disseminate appropriate production technologies down to the smallest farmers, while ensuring adequate supplies to support agro-processing. Government can learn from the experiences of Uganda Breweries Limited and Nile Breweries Limited in how the two entities have managed to organise smallholder farmers into becoming reliable suppliers of raw materials.

138. ***Government should consider investing in the primary industrial sector***. Uganda is endowed with high quality iron ore in South Western; however, this could be a very expensive venture for the private sector to engage in iron ore beneficiation, due to the high

capital investment required and the risks involved. Currently, it is cheaper to import steel billets which are then melted down and turned into different products. To assist with meeting the high capital erquirements and mitigate risks, there may be a case for government to invest in the steel industry, although the issue of the sources of such government funding would need to be addressed. For a country whose construction is sector is its nascent stage its only prudent that it engages in the production of steel, as long as it can do so competitively.

139. ***Government through the Uganda Free Zones Authority (UFZA) should prioritise the operationalization of 109 acres Kasanje Free Zone***. The Kansanje Free Zone in Entebbe expected to set up warehousing facilities, industrial units and utilities on site in order to attract investment. By putting in place such facilities government would have further reduced constraints to Uganda's industrialization agenda. This is expected to be a flagship project under UFZA to cost UShs. 500 billion. As such government ought to devise a financing structure to ensure that it takes off given its intended benefits.

140. ***Government ought to push through amendments in the Free Zones Act 2014 in preference for Special Economic Zones***. This is because the requirement that at least 80 percent of a firm's output must be exported is deemed as an incumberance to attract investment in the Free Zones. On the other hand Special Economic Zones (SEZ) encompasses Free Zones, most importantly though SPZ has the potential to attract investments for both domestic and foreign markets.

141. ***In the interim to ensure that Free Zones support industrialization among Small and Medium Scale Enterprises (SMEs), UFZA should set up an Export Business Acceleration framework***. Under this framework, SMEs at the early stage of export should be given space and access to Free Zones facilities at no cost.

142. ***All agriculture production authorities should have results frameworks that go to smallest unit of government possible for example sub-county***. For example, if the country's interest is grow more cotton? What interventions should the CDA undertake? How can the intervention be felt at sub-county, parish or even village level? What efforts are being made to link farmers to suppliers of quality of inputs and buyers of cotton? How much cotton has been planted at sub-county, village or parish level? How much cotton yield is expected at

sub-county, village or parish level? That kind of framework ensures that interventions by say CDA are sensitive to the respective cotton growing zones and better still have a clear perspective on how much cotton to expect at harvest. Any discrepancy ought to induce a study to establish the causes for the variance and consequently identify solutions. Such macro and micro results framework could perhaps be key in ensuring that government authorities especially those in the agriculture sector boost its potential.

10.2 Fiscal policy

143. ***Government could exploit policy measures to enable URA minimise the compliance gap***. Much as there is less scope among policy options to improve revenue collections, one option could be to remove discretionary exemptions and zero-rates for supplies to final consumers. Furthermore, reducing complexity in the VAT law - in particular removing exemptions that apply to intermediate consumption – would reduce compliance and administration costs and help close the compliance gap.

144. ***The rationale underpinning exemptions should be clear and transparent***. In the near term the government should focus on developing a more structured approach to reducing exemptions, extending VAT coverage and firming up key principles that would govern use of tax incentives.

145. ***Improving tax morale***. Improve tax morale is two-way. On tax administration side, the quest for revenues should ensure that at all times the tax payer is comforted by the fact that their tax obligation is fairly determined. On the expenditure side, tax payers ought to see that their contribution to the national resource envelope results in improved quality and stock of public services. This would result in an increase in the social cost of evading tax payment.

146. ***The audit function of the URA may require further strengthening to enhance collection of revenues from especially the medium and large tax payers***. To strengthen the audit function of the URA, the Authority will need to intensify its efforts to enforce compliance on the different types of taxpayers (large, medium and small), to continue expansion of the audit coverage to include the bulk of the largest traders and to conduct joint audits in the domestic tax and customs departments to detect and sanction non-compliance and fraud in a number of taxes.

147. ***In order to bring more businesses into the tax net the government needs to take an all of government approach.*** They need to ensure that the benefits of formalisation outweigh the costs of compliance. This links to reforms required to make it easier to do business in Uganda for example simplifying registration, licensing, ensuring appropriate, efficient enforcement and compliance, ensuring the private sector is treated as a client and demonstrating the benefits of compliance in terms of new business opportunities. ICT is a valuable tool to help modernise government systems and services and there are many examples of how this is being used innovatively to good effect. Expansion of the tax base is not just a matter of tax policy and administration it is about taking an "all of government approach" to incentivising formalisation.

148. ***Government ought to be seen in the lives of firms and households to enhance incentives to pay tax***. The existence of government in an economy is premised on the assumption that households and firms individually cannot supply certain services efficiently for example education, health care, roads, power generation & extension, railways and security. As such tax payers are incentivised to pay taxes in return for a certain quality and quantity of public services. Shortfalls in the government fulfilling expectations of tax papers induces informality and tax evasion. Indeed, it is the case that Ugandans are increasingly seeking for would be public services such as education, security and health care from the private sector. Why then wouldn't incentives to avoid and evade tax be high? As the private seeking services as opposed to consuming congested and low grade public services is inevitable to therefore pay taxes under such circumstances would imply double taxation. As such the onus is on all government departments and agencies to appreciate the fact that incentives to enhance tax payments starts with them.

149. ***Another potential source of revenue going forward is non-tax revenues.*** Fees and licenses are currently the major source of NTR and whilst these constitute a small proportion of total revenues there is potential for them to grow as the private sector expands. There have been efforts to strengthen NTR to ensure that rates charged by MDAs are commensurate to the services rendered, and to provide for efficient collection systems and accountability.

Fortunately efforts have been made to ensure that all fees that were originally payable to MDAs are now payable to URA. To however to increase NTR collections, more awareness about the services rendered by MDAs is pertinent. Besides MDAs ought to focus on improving the quality and quality of their services.

150. ***Local government taxation is a potential future source of revenue to enhance service provision at the local level***. At present the tax system is highly centralised whereas many services and functions are handled at the district level. Lack of funding to support NDP 1 priorities and service delivery have been flagged as problems in districts and local governments are currently dependent on receiving necessary transfers from central government as they have no authority to raise revenue locally. One potential source of local revenue would be property taxes. However, land management systems and institutions would need to be much more effective and regionalised for this to be implemented effectively outside of urban areas. It is beyond the scope of the EM theme to explore the pros and cons of local taxation as this is a complex issue. It also links to wider more fundamental questions around whether the current structure of government is fit for purpose in terms of delivering high quality services in support of NDP priorities. However, this may be an issue to return to over the medium term.

10.3 Monetary policy

151. **Monetary policy should look beyond inflation rate targeting**. While the BoU objective of price stabilisation has been achieved; however, there is a need to look beyond price stability to include unemployment rate targeting. In doing so, we shall in position to track the number of jobs lost or created given a CBR. It should be in the interest of BoU to establish how much its CBR is impacting jobs beyond price stability.

10.4 Potential ways of improving Investment Planning and links to next NDP

152. As the next NDP is developed it is worth exploring how to improve investment planning and links between critical NDP projects, SIPs and the PIP. This could draw on other countries experiences in driving forward flagship projects as part of their national planning process.

153. One possible model would be to split projects into three categories:

- **Tier 1: On-going priority projects** (brought across from earlier NDPs).
- **Tier 2: Investment ready** projects that have been fully appraised and will start up during the early years of the NDP. This would imply that no project would get into the NDP without an evaluation of its viability technically, financially, socially and economically.
- **Tier 3: Priority pipeline projects**. These would have gone through the pre-feasibility assessment stage. They would have been assessed as high impact and high priority. In the course of the NDP these projects would be fully appraised and then allocated funding as appropriate through the PIP process.

154. **Criteria for funding priority projects** would need to be agreed during the design of the NDP and should be updated periodically. These criteria should also be mainstreamed into PIP and sector planning processes. Economic rate of return is clearly important for all projects but the expected returns may vary according to whether projects are focused on economic or social transformation. For example roads projects would be scored highly if they enhance connectivity to new regional markets or link lagging and leading regions. Social sector projects might be scored more highly where they enhance access to education in lagging regions (e.g. Northern Uganda)[14].

155. **To qualify for Tier 1 or Tier 2 status projects would require sequenced time bound implementation plans that are fully costed and include annual milestones**. Tier 3 projects would require costed plans and milestones for appraisal. These would need to be finalised and scrutinised as part of the PIP process before they can be incorporated into the new NDP. The NPA would need to be closely involved in this process.

156. **All projects falling in Tier 1, 2 or 3 would be accorded the highest priority in SIPs and the annual PIP**. These would be regarded as Uganda's flagship projects. They would be rigorously tracked at the highest level. Sector MDAs would be held fully to account for ensuring they are accorded priority for implementation. The MOFPED would be held to

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[14] See World Bank Inclusive Growth Study, 2012 for more in depth discussion of the importance of prioritising investments in line with their socio-economic impact.

account for ensuring funding is available to support design and implementation of these projects.

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

158. ***The PFMA 2015 could be amended to the role and importance of the NPA in the planning paradigm***. The NPA should guide medium term resource and expenditure plan through the NDP process which should be the basis for MTEF and budget. Since the NDP is static while the MTEF elastic, therefore the MTR timing of the NDP should be specific. This would ensure that the NDP consistently speaks to the MTEF and therefore budget. Furthermore, the MDAs / LGs should use the NDP as the basis for their SIPs, SDPs and budgets.

10.5 Improving the coordination of MTEF, NDP, OBT and Budgeting

159. ***Need for a better forecasting model for the MTEF to better align budgets to NDP***. The success of multi-sectoral, multi-year macroeconomic economic planning and the alignment of MTEF to the subsequent NDP hugely depends on the quality of forecasts of revenue, expenditures, economic growth, exchange rate and inflation rate among others. The frequent adjustments in the MTEF estimates both within the year and from year to year without necessarily ring-fencing poverty-related expenditures signals efficiency of macroeconomic variable forecasts is not good enough. As such investing in capacity to forecast will not only improve the alignment of the evidence-based budgeting to MTEF but also enhance the alignment of MTEF to the NDP. As with the quality forecasts, the likelihood of attaining NDP targets will be enhanced.

160. ***Timeliness of the Mid-term review of the NDP***. While the MTEF is responsive to the change macroeconomic environment while the NDP is static. This is partly responsible for the apparent misalignment between the MTEF and NDP 1. Going forward, to increase the likelihood of smooth transition from NDP to MTEF, it pertinent that NDP Mid Term

Reviews (MTR) are timely. Timeliness of the MTR ensures that the NDP targets are adjusted to accommodate the changing macroeconomic conditions.

161. ***Enhancing public investment management***. While infrastructural investments are key to enhancing Uganda's competitiveness and therefore transition to a middle income economy, project selection ought to be good enough to guarantee commercial viability and efficient implementation in a bid to circumvent the likelihood of cost overruns and overheating. This will require capacity development in project identification and implementation. To avoid introducing new projects that might not be financed the MTEF, it is imperative that: information on the existing multi-year project commitments is well captured and up to date for purposes of better budgeting; and identification of basic information structure for each project and subsequently collect a data baseline, providing a foundation for more robust project monitoring.

10.6 Financing NDP using PPPs

162. ***Much as government established the appropriate legal and policy framework to support the growth of PPPs a financing option; however, there to limited capacity to operationalize it***. There is need to building the capacity of the central PPP unit and other contracting authorities to enable them to prepare, appraise, and provide better oversight. Secondly there is a need to set up Project Development Facilitation Fund would help fund project preparation and a robust PPP pipeline, as well as act as a liquidity reserve to serve as a backstop for liabilities. Finally, for accountability and transparency purposes pertinent information related to both operational and pipeline projects, including the PPP database, should be publicly disclosed in a timely manner.

163. **Further deepening of the pension sector to allow investment in public infrastructure**. Pension funds are one of the sources of long-term financing. This is associated with lower costs of financing. Therefore, as opposed to borrowing on commercial terms to finance infrastructural investments, government could seek to further deepen pension reforms to the extent to which pension funds could be invested in for example hydro power stations and railways and roads. This has the advantage of abating government's participation in short term credit markets at high rates on projects the break even in the long term.

Appendices

Tables

Table 3: Economic Structure and growth performance

Economic Activity		2010/11	2011/12	2012/13	2013/14	2014/15
Real GDP Growth Rates (%)	**Outturn**	**9.7**	**4.4**	**3.3**	**4.6**	**5.1**
	Target	**6.6**	**7.0**	**7.2**	**7.4**	**7.5**
Agriculture	Outturn	2.9	1.1	1.8	3.0	3.0
	Target	5.7	5.8	5.4	5.6	5.7
Industry	Outturn	11.4	3.0	4.4	3.9	7.9
	Target	6	6.2	6.9	6.7	7
o/w manufacturing		7.8	2.7	-2.5	2.2	11.0
o/w construction		15.0	3.9	10.8	5.3	2.7
Services	Outturn	12.4	3.9	4.1	4.3	5.3
	Target	7.6	7.8	7.5	7.7	7.8
GDP Shares (% of constant GDP)						
Agriculture		24.6	23.8	23.5	23.1	22.6
Industry		18.4	18.2	18.4	18.2	18.7
o/w manufacturing		8.4	8.2	7.8	7.6	8.0
o/w construction		6.0	6.0	6.5	6.5	6.3
Services		49.7	49.9	50.3	50.2	50.2
FISM and net taxes		7.3	8.1	7.9	8.1	8.1
GDP Shares by expenditure type (% of nominal GDP)						
Final Consumption Expenditure		84.2	86.6	82.2	83.0	86.7
Households		74.6	73.9	74.4	74.8	77.8
Government		9.6	12.7	7.9	8.2	8.9
Gross Capital Formation		27	28	27	26	23.9
Gross fixed capital formation		26.5	28.1	27.1	25.9	23.5
Charges in inventories		0.3	0.3	0.4	0.4	0.4

Net exports	-11.0	-15.1	-10.1	-9.8	-11.1
Gross domestic saving (% of GDP)	12.3	17.7	21.7	19.9	21.9
Public	3.3	2.4	3.1	1.4	1.5
Private	9.0	15.3	18.6	18.5	20.4

Table 4: Key macroeconomic indicators

Indicator	Unit measure	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Population	Millions	31.0	31.9	35.1	37.6	38.7	39.9
GDP	USD millions	20181.4	20262.5	23237.0	24993.0	27761.0	27531.0
Per capita GDP	USD	651	635	662	665	717	690
GDP growth	%	5.2	9.7	4.4	3.3	4.5	5.1
Gross Domestic Savings	as % of GDP	19.7	19.5	17..7	21.7	19.9	21.9
Gross Investments	as % of GDP	12.5	12.3	28.2	29.5	29.0	31.5
Inflation (period average)	%	9.4	6.5	23.4	5.8	6.9	2.7
Exchange Rate (end-year)	UGX/USD	2283.3	2623.2	2472.0	2593.0	2600.0	3302.0
External Sector							
Exports, f.o.b.	Million USD	2,317.0	2,298.0	2,660.0	2,912.0	2,706.0	2,738.0
Imports - f.o.b.	Million USD	-4,117.0	-4,680.0	-5,241.0	-5,035.0	-5,074.0	-4,988.0
Current Account Balance	Million USD	-1631.0	-1984.0	-2219.0	-1582.0	-2105.0	-1971.0
Balance of Payments (overall balance)	Million USD	235.0	-597.0	759.0	337.0	378.0	-353.0
Gross Foreign Reserves	Million USD	2384.7	2044.0	2643.8	2912.3	3394.0	2895.0
External Debt	Million USD	2343.4	2904.9	3067.3	3742.9	4339.5	5103.1
Foreign Direct Investment	Million USD	693.0	719.0	1244.0	940.0	1096.0	870.0
Monetary Sector							
Average Deposit Rate	%	2.0	2.1	3.2	3.0	3.1	3.3
Average Lending Rate	%	20.7	19.8	24.6	24.8	22.1	25.2
Growth in Money Supply (M3)	%	23.6	25.7	26.1	6.6	17.4	15.9
Government Finance							
Total Domestic Revenue	as % of GDP	10.5	13.6	11.2	11.3	11.6	13.0
Tax Revenue	as % of GDP	10.3	10.9	10.3	11.0	11.4	12.6
Non Tax Revenue	as % of GDP	0.3	0.2	0.2	0.3	0.2	0.3
Grants	as % of GDP	2.1	1.9	1.9	1.4	1.0	1.2
Total Expenditure and net lending	as % of GDP	16.7	19.1	15.6	16.2	16.6	18.5
Recurrent Expenditure	as % of GDP	10.5	12.7	9.1	9.0	9.5	9.9
Development Expenditure	as % of GDP	6.1	6.1	6.1	6.5	7.0	6.7
Fiscal Balance (overall)	as % of GDP	-4.0	-3.6	-2.5	-3.5	-4.0	-4.3

Table 5: Balance of Payments Position (percent of GDP unless otherwise stated)

Variable	2010/11	2011/12	2012/13	2013/14	2014/15
Current Account (% of GDP)	**-9.8**	**-9.5**	**-7.5**	**-8.5**	**-7.2**
Exports of goods, f.o.b	**11.3**	**11.4**	**11.7**	**9.8**	**9.9**
o/w coffee	**1.8**	**1.9**	**1.7**	**1.5**	**1.5**
Imports of goods, f.o.b	**-23.1**	**-22.6**	**-20.1**	**-18.3**	**-18.1**
of which: oil imports	**-3.4**	**-4.1**	**-4.1**	**-3.9**	**-3.4**
of which: government infrastructure related	**-0.9**	**-1.3**	**-1.4**	**-1.1**	**-0.8**
Services (net)	**-3.4**	**-1.7**	**-1.7**	**-1.2**	**-2.5**
Trade balance	**-11.8**	**-11.1**	**-8.5**	**-8.5**	**-8.2**
Income (net)	**-1.7**	**-2.0**	**-2.2**	**-2.8**	**-1.6**
Current transfers (net)	**7.1**	**5.3**	**4.8**	**3.9**	**5.1**
Capital and Financial Account	**5.3**	**10.1**	**7.2**	**8.1**	**4.2**
Capital account	**0.8**	**0.8**	**1.2**	**0.7**	**0.4**
Financial account	**4.5**	**9.3**	**6.0**	**7.4**	**3.9**
Direct investment	**3.5**	**5.4**	**3.8**	**4.4**	**3.2**
Errors and Omissions	**1.5**	**2.7**	**1.7**	**2.2**	**1.8**
Overall Balance	**-2.9**	**3.3**	**1.3**	**1.8**	**-1.3**
Gross International Reserves (US$ millions)	**2,044**	**2,644**	**2,912**	**3,394**	**2,895**
Gross international reserves in months of imports	**3.2**	**4.2**	**4.5**	**5.1**	**4.9**

Table 4: Balance of Payments

Variable	2010/11	2011/12	2012/13	2013/14	2014/15
Current Account (US$ millions)	**-1,984**	**-2,218**	**-1,879**	**-2,364**	**-1,972**
Exports of goods, f.o.b	2,298	2,660	2,912	2,725	2,738
o/w coffee	371	444	423	404	400
Imports of goods, f.o.b	-4,680	-5,241	-5,035	-5,074	-4,988
of which: oil imports	-679	-947	-1,028	-1,090	-933
of which: government infrastructure related	-173	-304	-359	-301	-224
Services (net)	-691	-404	-416	-330	-685
Trade balance	-2,382	-2,581	-2,123	-2,349	-2,250
Income (net)	-341	-471	-539	-774	-444
Current transfers (net)	1,430	1,238	1,199	1,089	1,407
Capital and Financial Account	**1,081**	**2,357**	**1,793**	**2,254**	**1,170**
Capital account	160	194	297	206	99
Financial account	921	2,163	1,496	2,048	1,071
o/w direct investment	719	1,244	940	1,225	870
Errors and Omissions	306	620	422	618	499
Overall Balance (US$ millions)	-597	759	336	508	-353
Gross International Reserves (US$ millions)	2,044	2,644	2,912	3,394	2,895
Gross international reserves in months of imports	3.2	4.2	4.5	5.1	4.9

Table 5: Fiscal operations of the Central Government (percent of GDP)

	Outturn	**Outturn**	**Outturn**	**Outturn**	**Outturn**
	2010/11	**2011/12**	**2012/13**	**2013/14**	**2014/15**
Revenues and Grants	15.5	13.1	12.8	12.6	14.2
Revenues	13.6	11.2	11.3	11.6	13.0
URA	10.9	10.3	11.0	11.4	12.6
Non-URA	0.2	0.2	0.3	0.2	0.3
Oil Revenues	2.5	0.7	-	-	0.2
Grants	1.9	1.9	1.4	1.0	1.2
Budget Support	1.1	1.0	0.3	0.3	0.3
Project Support	0.8	0.9	1.1	0.7	0.9
Expenditure and Lending	19.1	15.6	16.2	16.6	18.5
Current Expenditures	12.7	9.1	9.0	9.5	9.9
Wages and Salaries	3.5	3.1	3.3	3.4	3.5
Interest Payments	0.9	1.0	1.4	1.4	1.6
Other Recurrent. Expenditures	8.2	5.0	4.3	4.8	4.8
Development Expenditures	6.1	6.1	6.5	7.0	6.7
Net Lending/Repayments	(0.1)	(0.1)	0.6	0.0	1.6
Domestic Arrears Repayment	0.4	0.5	0.1	0.0	0.3
Overall Fiscal Bal. (excl. Grants)	(5.5)	(4.4)	(4.9)	(5.0)	(5.5)
Overall Fiscal Bal. (incl. Grants)	(3.6)	(2.5)	(3.5)	(4.0)	(4.3)
Financing:	3.6	2.5	3.5	4.0	4.3
External Financing (Net)	1.5	1.9	2.2	1.3	1.2
Domestic Financing (Net)	2.3	0.0	1.1	2.3	3.2
Errors and Omissions	(0.3)	0.6	0.2	0.4	(0.1)

Table 6: Expenditure framework under the NDP and budget 2010/11-2014/15

	Percent of Annual Budget										
	2009/10	**2010/2011**		**2011/2012**		**2012/2013**		**2013/14**		**2014/15**	
	Base	NDP	Budget	NDP	Budget	NDP	Budget	NDP	Budget	NDP	Budget
Agriculture	4.3	4.7	4.7	4.8	4.4	5	3.7	5.2	3	5.3	3.2
Water and Environment	2.4	3.3	3.3	3.4	2.9	3.4	3.3	3.7	3	3.7	2.8
Tourism, Trade and Industry	0.7	0.9	0.8	0.9	0.6	0.9	0.5	0.8	0.3	0.8	0.5
Energy and Mineral Development	11.4	11.2	5.2	11.8	14.6	11.8	12.7	12.3	12.8	12.6	11.9
ICT	0.2	0.1	0.2	0.1	0.2	0.1	0.2	0.1	0.2	0.1	0.3
Lands, Housing-Urban Development	0.4	0.3	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.3
Works and Transport	16.9	15.6	13	16	12.4	16	14.2	16.2	18.1	16.4	15.2
Accountability	6.7	5.8	6.4	5.7	7.6	6.3	5.2	6	5.2	5.9	7.8
Social Development	0.5	0.5	0.4	0.5	0.5	0.4	0.5	0.4	0.3	0.4	0.5
Health	10	11	8.4	11.2	7.8	11.3	7.5	11.4	8.3	11.6	8.3
Education	14.7	16.2	17.5	17.2	15.2	18.2	15.3	18.9	14.3	19.1	14.6
Defence and Security	6.8	6.4	8.3	6.4	9.3	6.2	8.2	6	7.5	6	7.4
Public Sector Management	9.8	9.5	12	7.9	10.3	7	9.8	6.4	8.5	5.8	8
Justice Law and Order	5.3	4.7	7.2	4.5	5.4	4.4	5.1	4.2	4.8	4	5.4
Legislature	1.7	1.6	2	1.5	1.5	1.5	2	1.4	1.7	1.3	2.1
Public Administration	3.1	3.2	3.8	3	2.3	2.3	2.3	1.8	2.9	1.6	3.5
Interest Payments	5	4.8	6.6	4.6	5	4.6	9.3	4.6	8.7	4.7	7.8

Documents reviewed

1. Vision 2040
2. Constitution of the Republic of Uganda (As Amended)
3. National Development Plans (FY 2010/11-2014/15) and (FY 2015/16-2019/2020)
4. Mid-term Review Reports and their Synthesis of NDP I
5. National Development Reports (FY 2010/11, 2011/12, 2012/13, 2013/14, 2015/16 and 2016/17)
6. Government Annual Performance Reports
7. Annual Budget Performance Reports
8. Sector Working Group Reports since 2010
9. Certificates of Compliance Reports 2015/16, 2016/17, and 2017/18
10. Country Self-Assessment Report 2017
11. Economic Memorandum on Uganda (annual reports since 2010)
12. State of the Economy Reports of the Bank of Uganda
13. Background to the Budget Reports 2012/13, 2013/14, 2015/16, 2016/17 and 2017/18
14. State of the National Addresses since 2010
15. Budget Speeches since 2010
16. National Housing and Population Census Report 2014
17. UBOS Statistical Abstracts 2010 to-date
18. Uganda National Household Surveys since 2010
19. Poverty Status Reports since 2010
20. Chronic Poverty Reports since 2010
21. State of the Population Reports 2010 to-date
22. Samples of District Development Plans
23. Evaluations of Key Government Programmes
24. Past National Development Plans (including pre-independence) including The Worthington Plan
25. National Policy Framework of Uganda's EAC integration
26. National Investment Policy Draft
27. Monetary Policy Framework
28. Public Finance Management Act (2015)
29. Public Private Partnership Policy
30. Investment Code 1991 (being reviewed)
31. National Agricultural Policy (2013)
32. National Agricultural Sector Strategic Plan (ASSP) 2015-2020
33. National Agricultural Advisory Services (NAADS Act) 2001
34. Operational Wealth Creation
35. Plan for the Modernization of Agriculture (2000)
36. Uganda Land Policy
37. Revised Mining Policy (2016) still Draft
38. Petroleum Exploration Development and Production Act 2013
39. National Industrial Policy (2008)
40. Draft National Industrial Development Policy 2018
41. Draft Industrial Master Plan 2018
42. National Trade Policy (2007)
43. Buy Uganda Build Uganda Policy (2014)

44. National Grain Policy (2014)
45. National Trade in Services Policy (2017)
46. National Export Development Strategy (2015-2020)
47. National Industrial Sector Strategic Plan (2010-2014)
48. Trade, Industry and Cooperatives Sector Development Plan (2015-2020)
49. Public Procurement and Disposal of Public Assets Authority Act No. 2/2003
50. National SMEs and MSEs Policy 2014
51. National Energy Policy September 2002
52. National Renewable Energy Policy 2007-2017
53. Mining and Minerals Policy for Uganda Draft (2016)
54. National Renewable Energy Policy 2007-2017
55. BTVET Strategic Plan 2012/12-2021/22
56. National Employment Policy and Regulations (2011)
57. Employment Act 2006
58. Draft Sanitary and Phyto-sanitary Policy 2008
59. Uganda Partnership Policy (2013)
60. Public Sector M&E Policy (2013)

Stakeholders met

Government

Bank of Uganda

1. Director Research

Ministry of Finance Planning and Economic Development

1. Budget Department
2. Macro department
3. Tax policy Department
4. Uganda Revenue Authority
5. Uganda Investment Authority

National Planning Authority

1. Executive Director
2. Head of M&E and staff of the M&E unit

Private Sector

1. Uganda Manufacturers Association
2. Uganda Small Scale Industries Association

3. Private Sector Foundation of Uganda
4. Kampala City Traders Association

Local Governments

	Local Government	Region
1.	Kampala Capital City Authority KCCA	Central Uganda
2.	Mukono	Central Uganda
3.	Kalangala	Central Uganda
4.	Jinja	Eastern Uganda
5.	Mbale	Eastern Uganda
6.	Soroti	Eastern Uganda
7.	Nakapiripirit	Karamoja North Eastern Uganda
8.	Kitgum	Acholi Central Northern Uganda
9.	Nebbi	West Nile West Northern Uganda
10.	Hoima	Mid-Western Uganda
11.	Kiruhura	Western Uganda
12.	Kisoro	South Western Uganda