INTERNATIONAL MONETARY FUND

IMF Country Report No. 14/354

UGANDA

POVERTY REDUCTION STRATEGY PAPER—PROGRESS REPORT

December 2014

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International Monetary Fund
Washington, D.C.

REPUBLIC OF UGANDA

Poverty Reduction Strategy Paper: Progress Report

Ministry of Finance, Planning and Economic Development
November 2014

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I. Introduction

Background

1. **The current assessment of the Uganda National Development Plan I, Uganda´s Poverty Reduction Strategy, constitutes the Annual Progress Report. A second National Development Plan is currently under preparation.**

2. The National Development Plan (NDP), Uganda's current Poverty Reduction Strategy Paper, was introduced in 2010/11 and originally intended to cover five fiscal years, until 2014/15. The NDP marked a turning point in Government's development strategy. The restoration of macroeconomic stability and market liberalisation pursued in the early 1990s facilitated rapid economic recovery and greatly improved allocative efficiency across the economy. As the resources available to Government increased, the Poverty Eradication Action Plan (PEAP), introduced in 1997, facilitated significant domestic spending and aid targeting the social sectors, successfully addressing gaps in service delivery. To maintain this progress, Government has shifted to a more ambitious agenda of socioeconomic transformation and structural change, with a strong focus on addressing the country's inadequate stock of physical infrastructure.

3. The NDP rebalanced the policy agenda towards long-term issues related to structural change, wealth creation and the productive capacity of the economy. This signalled a broadening of Government's objectives, beyond the narrower focus on extreme poverty that characterised the PEAP. Uganda's longer-term development strategy was set out in Vision 2040, launched on 18th April 2013, with the aim of achieving "A Transformed Ugandan Society from a Peasant to a Modern and Prosperous Country within 30 years". The vision is being implemented through a series of national development plans, sector master plans, and annual budgets. To ensure consistency with annual budgets, each national development plan is subject to a mid-term review coordinated by a multi-stakeholder technical committee.

4. The NDP emphasises the need to accelerate economic growth to increase average income and provide the financial resources required to expand public investment and service delivery. A temporary lapse in macroeconomic stability in 2011/12 necessitated strong fiscal tightening. Various domestic and external shocks have reduced average GDP growth over the NDP period to a projected 5.5%, compared to 7.2% targeted by the plan. Lower-than-

expected GDP growth and domestic revenue collections have left less space for large-scale infrastructure investment.

5. Government has successfully restored macroeconomic stability and investor confidence over recent years, but economic growth remains below potential and the country's infrastructure deficit is still considerable. Government plans to significantly boost public investment over the medium term and is updating its macroeconomic framework to accommodate its investment priorities, while taking account of the country's debt sustainability, the absorptive and implementation capacity of the economy, and the commercial viability of projects. This progress report for Uganda's Poverty Reduction Strategy Paper updates and extends the NDP for a period of one year and will serve to guide macroeconomic management before the introduction of the second National Development Plan.

Organisation of the report

6. The rest of the report is organised as follows. The next section presents the progress made towards the NDP objectives since 2010/11. Section III highlights the key objectives to be pursued for the remaining period of the current NDP. Section IV discusses the macroeconomic developments during the NDP period and outlines Government's updated macroeconomic strategy. Section V highlights the steps being taken to prepare the second NDP. Section VI concludes.

II. Progress towards National Development Plan Objectives

8. The NDP recognises the need to identify the most binding constraints to economic growth in Uganda's particular context and to focus reform efforts to address these constraints. The plan identifies seven key binding constraints, including inadequate physical infrastructure, and eight closely related strategic objectives (Box 1). For each of the objectives a number of specific development indicators were selected to monitor progress. This section reviews Uganda's progress against these eight objectives**.**

Box 1: Vision, key binding constraints, themes and objectives of the NDP

VISION: A TRANSFORMED UGANDAN SOCIETY FROM A PEASANT TO A MODERN AND PROSPEROUS COUNTRY WITHIN 30 YEARS

Vision Attributes

- Independent and sovereign
- Democratic and law abiding
- Stable and peaceful
- Knowledge based, informed and skilled
- Able to exploit and use its resources gainfully and sustainably
- In a strong federated East Africa with an effective African common market and a strong African defence mechanism

Key Binding Constraints

- Weak public sector management and administration
- Inadequate financing and financial services
- Inadequate quantity and quality of human resource
- Inadequate physical infrastructure
- Gender issues, negative attitudes, mind-set, cultural practices and perceptions
- Low application of science and technology
- Inadequate supply and limited access to critical production inputs

Objectives

- Increasing household incomes and promoting equity
- Enhancing the availability and quality of gainful employment
- Improving stock and quality of economic infrastructure
- Increasing access to quality social services
- Promoting science, technology, innovation and ICT to enhance competitiveness
- Enhancing human capital development
- Strengthening good governance, defence and security
- Promoting sustainable population and the use of environmental and natural resources

THEME: Growth, Employment and Socio-Economic Transformation for Prosperity

Specific Development Indicators:

- Per capita income
- Employment levels
- Share of labour force distribution in line with sectoral GDPs
- Life Expectancy
- Skilled manpower level
- Proportion of manufactured exports to total exports
- Level of development of industrial sector
- Level of urbanisation
- Country's competitiveness position

Increasing household incomes and promoting equity

9. Economic growth is necessary to increase both household incomes and financing of public investment and social service delivery, and is therefore a central objective of the NDP. Average GDP growth over the original NDP period (2010/11 to 2014/15) is currently projected at 5.5%, compared to 7.2% targeted by the plan. Growth was lower than planned due to a number of external and domestic shocks.

Table 1: NDP indicators for increasing household incomes and promoting equity

NDP Indicator	Base Year (2008/09)	Current Status	NDP Target (2014/15)	Status against NDP target
Per Capita Income (Nominal US$)	506	646 (2013/14)	837	IMPROVED BUT BELOW TARGET
Proportion of people living below poverty line (%)	28.5	19.7 (2012/13)	24.5	ACHIEVED

Source: MFPED (2014), Uganda Poverty Status Report.

10. Despite lower-than-expected average income growth, Uganda has made substantial progress in improving household incomes at the bottom end of the distribution. The proportion of the population living below the poverty line fell to 19.7% in 2012/13 from 31.1% in 2005/6, surpassing both the NDP target and the first MDG to halve absolute poverty. The fall in income poverty is statistically significant and robust to the choice of the poverty line. This indicates that although economic growth has been lower than expected, it has been strongly pro-poor.

11. Significant poverty reduction has occurred across all regions of the country. Between 2005/6 and 2012/13, poverty declined by 17 percentage points in the Northern region; 12 percentage points in the Central and Western regions; and 11 percentage points in the Eastern region. The Northern region remains the poorest part of the country, but the gap has narrowed significantly since the restoration of peace in 2006. More recently, it is the Eastern region that has seen the slowest progress in reducing income poverty. This mainly reflects adverse weather conditions, a high dependency ratio and growing population pressures contributing to land fragmentation and soil degradation. However, the region has seen significant progress in other dimensions of welfare, including education, health, housing conditions and access to information.

12. The considerable reduction in poverty over the years is attributed to Uganda's general economic development, significant public investment in physical infrastructure, and several targeted Government interventions. Lower trade costs across the country, driven by improved transport infrastructure and better-integrated agricultural value chains, have been particularly

important in ensuring agricultural households share the benefits of economic growth. Increased demand in the context of rapid urban growth and an increasingly connected region has created numerous income-earning opportunities for poor households. Government-supported Savings and Credit Cooperative Organizations (SACCOs) have enabled many households to grow their enterprises, particularly those that emerged to advance the common economic interests of a particular group. Government interventions such as the Vegetable Oil Development Project in Kalangala have also had a transformative impact on the livelihoods of smallholder farmers. Gaps in public service delivery have successfully been addressed, through the Peace, Recovery and Development Programme in the north for example.[1]

13. To build on past gains, Government increasingly needs to harness the poverty-reducing potential of structural transformation – or shifts in the sectoral share of employment and GDP in favour of more productive and dynamic activities. Although socioeconomic transformation is necessary to eradicate poverty, it requires many households to take potentially risky investments, and the modernisation of Uganda's economy is creating new sources of vulnerability that need to be appropriately managed. Commercial agriculture is associated with a number of business risks that subsistence farmers avoid. Population growth is contributing to land fragmentation and growing landlessness in rural areas. Urban centres offer significant opportunities, but migrants often possess few assets and face high risks, exacerbated by high competition for jobs, weakening of traditional community support systems and inadequate social care services. Many poor and vulnerable households require support in order to exploit the emerging economic opportunities.

14. Government is therefore complementing its strategy for economic growth with targeted interventions to build the productive capabilities and resilience of vulnerable households. Government and development partners are implementing a number of interventions to build social resilience ranging from state and formal pension schemes, through public work and unconditional cash transfer programmes, to social care and support services. Government is currently piloting direct income support and other social protection measures which are aimed at enabling households to save for the future, invest in productive assets and embrace higher-risk high-value activities. Assessment of the fiscal sustainability of expanding the programme to cover all eligible households countrywide is being undertaken.

[1] The Peace, Recovery and Development Programme is a comprehensive development framework led by the Government of Uganda, coordinating donor, government and other development activities in Northern Uganda.

Enhancing the availability and quality of gainful employment

15. Job creation in high-value sectors is the key driver of socioeconomic transformation, critical for both wealth creation and poverty reduction. The NDP contains numerous strategies to remove the constraints to private-sector growth and thus enhance the quantity and quality of employment opportunities available to Uganda's growing labour force. According to the National Household Survey, the number of wage jobs increased by over 450,000 between 2009/10 and 2012/13 (Table 2).

Table 2: Wage job growth, 2009/10 to 2012/13

	2009/10	2012/13	Annual growth
Regular wage jobs (main activity)	**2,788,042**	**2,700,047**	**-1.1%**
Agriculture	803,909	1,060,051	9.7%
Non-agriculture	1,984,133	1,639,996	-6.2%
Casual wage jobs (secondary activity)	**750,958**	**1,292,384**	**19.8%**
Agriculture	547,412	952,121	20.3%
Non-agriculture	203,546	340,263	18.7%
All wage jobs	**3,539,000**	**3,992,431**	**4.1%**
Agriculture	1,351,321	2,012,172	14.2%
Non-agriculture	2,187,679	1,980,259	-3.3%
Working-age population	**14,599,000**	**16,502,000**	**4.2%**

Source: MFPED (2014), Uganda Poverty Status Report. Note: Regular wage jobs are defined as wage jobs that were reported in the household survey as the main activity in the previous 12 months. Casual wage jobs are wage jobs that were reported as secondary or tertiary activities in the previous 12 months.

16. Although improvements in the stock of physical infrastructure have begun to ease an important bottleneck, other factors continue to constrain labour demand. These include the inadequate supply of practical skills among the labour force and poor management practices among firms. Government is undertaking a comprehensive evaluation of its strategy vis-à-vis the employment challenge.[2] The study will develop an action plan to address the most important constraints to job creation, which Government will implement over the remainder of the NDP period and during NDP II.

17. The oil and natural resource sectors are expected to create a relatively small number of jobs directly, but future oil revenue and Government's investment programme will provide a significant boost to the construction sector and related activities. Government has prioritised technical and vocational training and is investing heavily in the specific skills required to ensure the private sector can respond flexibly to increased demand and thereby

[2] MFPED (forthcoming), 'Uganda's employment challenge: an evaluation of Government's strategy'.

generate significant employment opportunities.

Improving the stock and quality of economic infrastructure

18. The NDP identified inadequate physical infrastructure as one of the most important binding constraints to economic growth. Poor transport infrastructure and unreliable electricity supply increase business costs and undermine Uganda's competitiveness. Significant progress has been made in improving the stock and quality of economic infrastructure during the NDP period, particularly in the roads sector. The share of paved roads in the national road network has risen more than fourfold from 4% in 2008/9 to 17% percent in 2012/13, significantly improving the integration of national and regional markets. At the same time, more feeder roads have been opened up and maintained at the local-government level.

Table 3: NDP indicators for improving stock and quality of economic infrastructure

NDP Indicator	Base Year (2008/09)	Current Status	NDP Target (2014/15)	Status against NDP target
Proportion of Paved roads to the total road network (%)	4	16.6 (2012/13)	5.3	ACHIEVED
Proportion of freight cargo by rail (%)	3.5	8.0 (2012/13)	17.8	IMPROVED BUT BELOW TARGET
Proportion of households accessing power from na	11	14 (2012/13)	20	NEEDS WORK
Power consumption per capita (Kwh)	69.5	80.8 (2013/14)	674	IMPROVED BUT BELOW TARGET

Sources: OPM, 'Annual Government Performance Report FY2012/13'; ERA.

19. Progress in the rail sector has been below expectations. Construction of a new standard-gauge railway has not begun as envisaged in the plan. The condition of the existing metre-gauge rail network has improved under the current concession arrangement, helping to cut the Mombasa-Kampala transit time by more than 30%. This has not significantly increased freight cargo carried by rail however. The Kenya-Uganda concessionaire has delayed investment in rolling stock and customer relations with transport firms have deteriorated. As a result the transport sector remains overly dependent on the road network.

20. There has been a large increase in Government investment in the energy sector during the NDP period. Total installed energy capacity increased by a third with the start of operations of the Bujagali hydropower plant and works have recently began on the Karuma and Isimba dams. The Karuma dam is expected to produce 600MW, doubling current installed capacity, while Isimba's capacity is expected at about 183 MW. The two dams will respond to the expected increase in electricity demand without having to resort to expensive thermal power, as was the case particularly in 2010 and 2011. Both Hydropower Projects are

identified as National Core Projects for development during the Plan period. In addition, associated transmission lines and sub-stations are critical to the evacuation of power from the hydropower plants and the efficient delivery of power to the ultimate users of electricity. In this respect, associated transmission line infrastructure for the Karuma and Isimba Hydropower Projects, and the construction of sub-stations at Namanve, Luzira, Mukono and Iganga Industrial Parks are an integral part of these specific NDP interventions. The loan agreement for the financing of Isimba is currently in front of Parliament and the agreement for Karuma will be finalised soon. There has also been a significant increase in the number of connections to the national grid, facilitated by Government's rural electrification programme.

21. Despite the progress made, many infrastructure projects included in the NDP have not moved forward as planned. Government is now taking steps to improve the screening and selection of investment projects, and is strengthening its capacity in project planning and financing assessments. To this end, a new Department has been created within the Ministry of Finance, Planning and Economic Development. New guidelines to improve public investment management are also being developed.

Increasing access to quality social services

22. The NDP has built on the successes of the PEAP era, which saw Universal Primary Education significantly increase school enrollment, and the abolition of user fees boost access to healthcare. With the gaps in basic public services addressed the NDP places greater emphasis on enhancing value for money and the quality of services provided.

23. Significant progress has been made in improving the quality of health services, with most NDP targets on track or already achieved (Table 4). Improved supply chain management by the National Medical Stores has resulted in the number of health facilities with no stock-outs of tracer drugs more than doubling, from 26% to 53%. The proportion of the population with advanced HIV/AIDS with access to antiretroviral drugs improved from 44% in 2008 to 83% in 2014. These service improvements have contributed to significant progress in health outcomes. The most recent Demographic and Health Survey undertaken by the Uganda Bureau of Statistics (2011) revealed a 34% fall in under-five mortality since 2006, mainly resulting from a drive to expand malaria prevention and control measures. Uganda's maternal mortality ratio remains unacceptably high, but there has been progress in

five of the six MDG indicators related to maternal health.[3] The proportion of deliveries in health facilities increased from 34% in 2008/9 to 41% in 2012/13. Government is continuing to strengthen the health system by expanding infrastructure, equipping and stocking health facilities with essential medicines and supplies, and expanding disease prevention measures.

24. The NDP indicators on education show strong progress. The improvement in net primary enrolment is on track to meet the NDP target, due to a reduction in drop-out and grade-repetition rates, particularly among girls. This reflects significant investment that has reduced the pupil-teacher and pupil-classroom ratios; numerous quality initiatives and policy reforms, including a revised lower primary curriculum focusing on literacy, numeracy and life skills taught through local languages; and customised performance targets for head teachers and deputy head teachers to ensure compliance with set school management standards. Although falling short of the ambitious NDP target, there has been a significant increase in enrolment in technical and vocational institutions, and this is expected to help address the critical shortage of practical skills among the labour force.

Table 4: NDP indicators for increasing access to quality social services

NDP Indicator	Base Year (2008/09)	Current Status	NDP Target (2014/15)	Status against NDP target
DPT3 pentavalent vaccine	85	91 (2012/13)	87	ACHIEVED
Proportion of qualified workers	56	58 (2011/12)	85	NEEDS WORK
HCs without medicine stock outs (%)	26	53 (2012/13)	65	ON TRACK
Deliveries in Health facilities (%)	34	41 (2012/13)	40	ACHIEVED
OPD utilization (visits per capita)	0.8	1.0 (2011/12)	1.5	NEEDS WORK
Infant mortality rate*	76	54 (2011)	41	ON TRACK
Under five mortality rate*	137	90 (2011)	60	ON TRACK
Maternal mortality ratio**	435	438 (2011)	131	NEEDS WORK
Net enrolment rate primary (%)	93.2	96 (2013)	96.4	ON TRACK
Net enrolment rate secondary	23.5	26 (2013)	35	NEEDS WORK
Pupil-Teacher Ratio	53:01:00	46:1 (2013)	43:01:00	ON TRACK
Pupil-Classroom Ratio	72:01:00	57:1 (2013)	61:01:00	ACHIEVED
Student-Teacher Ratio	18:01	22:1 (2013)	-	NO ASSESMENT
Student-Classroom Ratio	45:01:00	55:1 (2013)	-	NO ASSESMENT
BTVET Enrolment (Students)	30,009	58,798 (2013)	390,208	IMPROVED BUT BELOW TARGET
Rural water coverage (%)	66	64 (2012/13)	77	NEEDS WORK
Urban water coverage (%)	60	70 (2012/13)	100	IMPROVED BUT BELOW TARGET
Sanitation coverage (%)	62	71 (2012/13)	80	NEEDS WORK

Notes: * per 1000 live births; ** per 100,000 live births. Sources: OPM, 'Annual Government Performance Report FY2012/13'; Education Abstract 2013.

25. Progress towards achieving the targets for safe water and sanitation coverage has fallen below expectations. The NDP targets are significantly more ambitious than the MDGs relating to safe drinking water and improved sanitation, which Uganda remains on track to

[3] MFPED (2013), 'Millennium Development Goals Report for Uganda 2013'.

achieve. Government plans to increase investment in water supply over the medium term, particularly in urban areas.

Promoting science, technology, innovation and ICT to enhance competitiveness

26. The NDP prioritises the promotion of science and technology for Uganda to drive innovation, accelerate growth and contribute to the global knowledge-based economy. Data constraints prevent a robust assessment against the indicators identified in the plan, but significant progress has been made in a number of areas. Government's liberalisation of the telecommunications sector has allowed private firms to rapidly penetrate the Ugandan market, bringing large benefits for the Ugandan people. Telephone use has grown exponentially, with the number of subscribers reaching 53 per 100 Ugandans at the end of 2013/14, up from 33 at the start of the NDP implementation period. The penetration of mobile phones is linking previously remote rural areas to the rest of the country and the whole world in an unprecedented way, and has enabled many innovative new services to be delivered cost effectively, including money transfers and the dissemination of market information.

Enhancing human capital development

27. Government is committed to empowering the population through enhanced human capital, both as an end in itself and as a means to deliver economic progress and sustainable development. The NDP identifies the Human Development Index (HDI) published by UNDP as a means to monitor the Uganda's progress in enhancing human capital. The HDI is a composite of three indices capturing life expectancy, years of schooling and Gross National Income per capita.

Table 5: NDP indicators for enhancing human capital development

NDP Indicator	Base Year (2008/09)	Current Status	NDP Target (2014/15)	Status against NDP target
Life Expectancy (years)	50.4	59.2 (2013)	52.4	ACHIEVED
Literacy (%)	73.6	74.6 (2011/12)	82.2	IMPROVED BUT BELOW TARGET
HDI Score	0.438	0.484 (2013)	0.572	NEEDS WORK
HDI Rank	157/183	164/187	142/183	NEEDS WORK

Sources: OPM, 'Annual Government Performance Report FY2012/13'; UNDP.

28. Uganda's HDI score has steadily improved from 0.458 in 2008 to 0.484 in 2013, but is likely to fall short of the NDP target of 0.572. This performance has not been sufficient to improve the country's global ranking as envisaged. This mainly reflects Uganda's relatively

low average income growth, as improvements in life expectancy and years of education are in line with or above other low-human-development countries. The adult literacy rate has increased less than expected in the NDP, but literacy among recent school leavers – particularly girls – has improved notably.[4]

Strengthening good governance, defence and security

29. Peace, security and good governance are prerequisites for sustained economic progress and human development. Governance throughout the country is undergoing a progressive deepening of democratic principles and citizen participation. Multiparty democracy continues to take root as evidenced by the peaceful conduct of the presidential, parliamentary and local government elections held during the NDP period.

30. The Local Government Act (1997) was amended in 2010 to ensure its alignment with the NDP and further entrench the decentralised delivery of essential services to the population. The Judiciary has been strengthened with the appointment of more judges and the physical and functional presence of the legal system has been expanded across the country. Nonetheless, the backlog of cases remains large. To address this, Government plans to strengthen local council courts and alternative dispute resolution mechanisms to reduce the pressure on the traditional judicial courts.

31. Improvements are also ongoing to further strengthen public financial management. The upcoming Public Finance Management bill is expected to introduce internationally recognized best practices in the management of public resources, including establishing transparent and efficient petroleum revenue management mechanisms.

Promoting sustainable population and use of the environment and natural resources

32. Government is committed to developing the economy without putting undue pressure on the environment or compromising the ability of future generations to meet their needs. The NDP recognises that the country's natural resource base is a crucial factor in the socioeconomic transformation process, and targets the preservation and restoration of forests and wetlands.

33. To improve enforcement of environmental laws and regulations, Government has

[4] MFPED (2013), 'Millennium Development Goals Report for Uganda 2013'.

created the environment police protection unit. In the longer term, pressure on natural resources will be reduced through improved agricultural productivity to raise yields, the expansion of non-agricultural income-earning opportunities and well-managed urbanisation.

III. Objectives until the end of NDP I

34. The eight key strategic objectives mentioned in Box 1 will remain the leading principles for public action, measured by the specific development indicators. Particular areas of action during the next two years will focus on strengthening public investment management, creating fiscal space for infrastructure projects and enhancing the development of practical skills among the labour force. Renewed efforts to increase agricultural productivity and value addition will serve to increase household incomes, promote equity, create jobs, accelerate structural change and ensure the sustainable use of natural resources.

Public investment management

35. Government will take steps to further improve the screening and selection of investment projects, and its capacity in project planning and implementation. A new Department within the Ministry of Finance, Planning and Economic Development will analyse, appraise, monitor and evaluate public investment projects and facilitate the implementation of PPP initiatives. Public Investment Management Guidelines will be developed to strengthen the capacity of Ministries, Departments and Agencies (MDAs) in the preparation of feasibility studies, project preparation and financing assessments.

Domestic resource mobilisation

36. To create fiscal space for infrastructure investment, Government will continue to strengthen domestic resource mobilisation. Measures introduced in 2014/15 are projected to increase the tax-to-GDP ratio by 0.5 percentage points, and Government expects to maintain this rate of increase in 2015/16. The recently completed VAT gap analysis found that non-standard exemptions complicate tax administration and increase the risk of non-compliance, which costs Government significant VAT revenue each year.[5]

Skills development

37. In response to rising completion rates for primary and secondary schooling and the growing skills demand of the labour market, Government will continue to prioritise

[5] Hutton, Thackray and Wingender (2014), 'Revenue Administration Gap Analysis Program: The Value-Added Tax Gap', IMF Fiscal Affairs Department.

vocational education within the 'Skilling Uganda' programme.[6]

38. To address an unmet demand for vocational training, public funds will be used more efficiently and equitably to target disadvantaged sections of the population. The provision of non-formal Business, Technical and Vocational Education and Training (BTVET) will be prioritised, with greater focus on entrepreneurship training, financial literacy and more practical and flexible modes of instruction. The Youth Livelihood Programme will be rolled out across the country to provide youth with marketable vocational skills, financial support and relevant knowledge and information to increase self employment and income levels.[7]

Agricultural development

39. The agricultural sector employs 72% of the workforce and almost 90% of the working poor, and is therefore critical in increasing household incomes and promoting equity. The sector also has a central role to play in accelerating growth and structural transformation. A recent study found that agricultural productivity growth has significant potential to create non-agricultural jobs, while growth driven by services or industry without corresponding improvements in the agricultural sector has limited job creation potential.[8]

40. Government has renewed its efforts to promote a competitive, profitable and sustainable agricultural sector through the Agriculture Sector Development Strategy and Investment Plan. Over the next two years, Government has prioritised investments addressing key constraints to production and productivity; marketing of agricultural products; access to finance; and enhanced value addition through the development of agro-industries. The National Agricultural Advisory Services (NAADS) will be overhauled to reduce wastage and direct more resources to enhancing agro-based production. Government will foster farmer organisations and increase its partnerships with private actors to promote the integration of smallholder farmers into larger value chains. Government will also strengthen regulatory frameworks to create competition, ensure quality standards, and enforce contractual arrangements between agro-processors and farmer organisations.

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[6] 'Skilling Uganda' is Government's strategic plan for business, technical and vocational education and training covering the period from 2011 to 2020, spearheaded by the Ministry of Education and Sports and the semi-autonomous Directorate of Industrial Training. The strategic plan aims to build a comprehensive system of skills development for all Ugandans to enhance employment, productivity and growth.

[7] The Youth Livelihood Programme (YLP) is a Government of Uganda programme targeting poor and unemployed youth in all the districts in the country, launched in January 2014 and implemented under the Ministry of Gender, Labour and Social Development. The programme provides loans to youth interest groups from a revolving fund to finance viable and sustainable livelihood enterprises.

[8] MFPED (forthcoming), 'Uganda's employment challenge: an evaluation of Government's strategy'.

IV. Macroeconomic framework

Macroeconomic developments during the NDP period

41. Uganda's economic performance since 2010/11 has diverged from NDP projections (Table 7). Lower-than-expected GDP growth, domestic revenue collections and external borrowing has left less space for large-scale infrastructure investment. Following a number of domestic and external shocks, average GDP growth over the NDP period is projected to be 5.5%, compared to 7.2% targeted by the plan. A temporary lapse in macroeconomic stability in 2011/12 necessitated strong fiscal tightening, which coincided with lower-than-expected donor support, the slow development of new financing instruments and implementation constraints within Government. External financing is projected to average 2.1% of GDP over the NDP period, compared to a planned 4.9% of GDP. Lower growth and slow progress with a number of tax reforms have reduced domestic resource mobilisation. The NDP expected domestic revenue to reach Shs 10.9 trillion by 2014/15, but this is now projected at Shs 9.5 trillion.

42. Uganda experienced significant macroeconomic instability in 2011/12, the result of a severe drought afflicting the wider region, rising global commodity prices and higher-than-expected spending running up to the general election in February 2011. Headline inflation peaked at an 18-year high of 30.5% in October 2011 and annual economic growth fell to just 3.4%. Government responded with rapid and coordinated monetary and fiscal tightening to reduce excess liquidity. Inflation was brought back down close to Bank of Uganda's 5% target, while growth recovered to 6.0% in 2012/13.

43. Uganda's economy has remained on a recovery path since 2011/12. The rapid restoration of macroeconomic stability brought a quick rebound in investor confidence, strengthening the foundation for faster economic growth. The tightening of monetary and fiscal policy was necessary to achieve this but disrupted economic activity in the short term. High interest rates significantly reduced the growth of private sector credit in 2011/12, contributing to the slowdown in economic growth. Although credit flowing to the private sector has since increased, this has mainly been driven by foreign-currency-denominated loans, facilitated by low global interest rates and greater stability of the exchange rate. Higher domestic interest rates led to a significant increase in non-performing loans, and banks have cut back shilling lending in favour of safer alternatives such as Government securities.

Shilling-denominated loans have recently begun to pick up, but banks continue to collect more in repayments than they advance in new lending. However the financial system remains sound, and banks remain solvent and well capitalized.

Table 6: Selected economic and financial indicators, NDP projections and outturns

	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015
			(Annual percentage change)		
Output and prices					
Real GDP growth					
NDP projection	6.6%	7.0%	7.2%	7.4%	7.5%
Outturn*	6.6%	3.4%	6.0%	5.2%	6.1%
CPI (period average)					
NDP projection	7.5%	6.0%	6.9%	6.8%	6.8%
Outturn*	6.5%	23.5%	5.8%	6.7%	5.0%
Money and credit					
Broad money (M3)					
NDP projection	18.4%	17.1%	18.5%	17.8%	19.9%
Outturn*	25.7%	7.2%	6.6%	17.4%	17.5%
Private sector credit					
NDP projection	27.1%	20.6%	20.1%	19.3%	19.3%
Outturn*	43.6%	11.5%	6.4%	13.9%	15.6%
			(Percent of GDP)		
Fiscal sector					
Domestic revenue					
NDP projection	13.1%	13.6%	14.1%	14.6%	15.1%
Outturn*	16.2%	13.2%	13.1%	13.1%	13.6%
Expenditure					
NDP projection	19.2%	19.8%	19.8%	19.8%	19.4%
Outturn*	22.8%	18.5%	18.9%	18.4%	22.0%
Fiscal deficit, excluding grants					
NDP projection	6.1%	6.2%	5.7%	5.2%	4.3%
Outturn*	6.6%	5.3%	5.8%	5.3%	8.3%
Net domestic borrowing					
NDP projection	0.7%	0.6%	0.6%	0.6%	0.6%
Outturn*	2.8%	0.0%	1.2%	2.5%	4.0%
External sector					
Trade balance					
NDP projection	-11.6%	-11.7%	-11.2%	-10.7%	-10.9%
Outturn*	-17.8%	-15.6%	-10.4%	-10.2%	-12.2%
Memorandum items:					
GDP at current market prices (Shs bn)					
NDP projection	41,397	46,934	53,904	62,227	72,094
Outturn*	39,086	50,193	55,602	62,392	69,962

*Projection for 2014/15.

44. Uganda's export sector has continued to suffer from the slow recovery of advanced economies, but this has been offset by a shift from traditional export markets in Europe towards the growing regional market. Uganda's external position has improved dramatically during the NDP period, with the current account deficit narrowing from 11.4% of GDP in

2010/11 to 6.2% of GDP in 2013/14. Greater regional integration and the gradual diversification of Uganda's economy have helped to narrow the trade deficit to 10.2% of GDP in 2013/14, from 17.8% of GDP in 2010/11.

45. Exchange rate volatility has been reduced as the current account deficit narrowed, improving the business environment across all sectors. High and increasing current account deficits in the late 2000s placed significant pressure on the exchange rate. The shilling lost around 40% of its nominal value between 2007/08 and 2010/11. The real effective exchange rate has since returned to around the same level as in the mid-2000s and short-term volatility has moderated since the Bank of Uganda introduced the Central Bank Rate in 2011, improving communication of the monetary policy stance.

Medium-term macroeconomic strategy

46. Uganda's infrastructure gap remains considerable. To enhance regional integration, prepare for oil production, and improve the business environment, Government plans to significantly boost infrastructure investment over the medium term. Government is updating its macroeconomic framework to accommodate its investment priorities, while taking account of the country's debt sustainability, the absorptive and implementation capacity of the economy, and the commercial viability of projects. This updated macroeconomic framework is intended to form a consistent basis for the upcoming NDP II, and an IMF successor program.

47. Government has taken steps to improve the screening and selection of investment projects, and is working on prioritising multiple projects such as the standard-gauge railway, the oil refinery, infrastructure serving the Albertine region, and a number of express highways. These projects are expected to be financed through a combination of domestic resources, external borrowing and private investment under PPP arrangements. Concrete financing plans for the priority projects are currently being discussed.

48. The economy is projected to continue its recovery, growing at 6.1% in 2014/15 and 6.2% in 2015/16. The impact of new investment projects will start to be felt in 2016/17. Government's investment programme and future oil revenue inflows are expected to provide a significant boost to the construction sector. Economy-wide simulations suggest that the planned infrastructure projects will increase short-run GDP growth by between 0.2 and 0.4 percentage points each year. In line with an expected increase in potential output, growth is

projected to reach 7.4% in 2018/19, the first year of oil production. To ensure the construction sector can respond flexibly to increased demand and reduce adjustment costs, Government is introducing reforms to ease the registration and transfer of property and investing heavily in technical and vocational skills.

49. Government's infrastructure-related imports are projected to increase significantly, mainly owing to construction of the standard-gauge railway and the oil refinery. However, since these projects will be largely financed from external sources, the net short-term impact on the balance of payments will be positive. In the longer term, the projects will generate resources to serve the debt. Official reserves are expected to increase gradually from around 4 to over 5 months of import cover, well beyond the medium-term EAC convergence criterion of 4.5 months of imports. Government will continue to support exports through deeper regional integration. In the longer term, the productivity benefits of improved public infrastructure will increase export growth and help to narrow the current account deficit.

50. The overall fiscal deficit will increase temporarily, although when excluding one-off expenditures that will have limited impact on domestic liquidity, the primary deficit is projected to grow only marginally up to 2016/17, and fall significantly thereafter. To finance its investment programme between 2014/15 and 2018/19, Government will borrow from external sources on semi-concessional or non-concessional terms since availability of concessional financing for this type of projects is limited. After this period, oil revenue inflows are expected to significantly reduce the need for external financing and enable Government to quickly pay down its debt. In the run up to oil production, the government has decided not to use its oil revenues as collateral, and enshrined this principle in the Public Finance Management bill. The increase in public investment will not jeopardise debt sustainability. Public debt is projected to peak in 2017/18, at a still sustainable level and at low risk of distress. The net present value of debt will remain substantially below the 50% of GDP ceiling set under the EAC monetary union convergence criteria.

51. Although external borrowing is required for Uganda to narrow its infrastructure gap over the medium term, Government recognises that domestic resources remain the most important source of financing. Without adequate domestic revenue to operate and maintain the country's expanded stock of physical infrastructure, public capital will be under used and depreciate rapidly. With total expenditure exceeding 20% of GDP but revenue currently at 13% of GDP, there is a pressing need to increase domestic resource mobilisation.

Government will continue to streamline investment incentives, improve tax administration, broaden the tax base and increase compliance, with the objective of increasing the tax-to-GDP ratio by at least a 0.5 percentage points each year.

52. The high import content of infrastructure investment means that these fiscal operations will have limited impact on domestic liquidity. External financing inflows will nonetheless increase the balance of payments surplus, allowing for reserve accumulation. Bank of Uganda will continue to manage liquidity through repurchase agreements with commercial banks and use the Central Bank Rate to signal its policy decisions with the ultimate objective of maintaining low and stable inflation. Core inflation is expected to remain close to the Bank of Uganda's 5% medium-term target, while credit to the private sector will be maintained at healthy levels. To ensure that the banking system supports economic growth, Government will continue financial regulatory reforms and financial literacy programmes, which will exert downward pressure on interest rates and encourage longer-term lending to priority sectors.

V. Preparation of the Second National Development Plan

53. The start of the new plan has been pushed forward and NDP I extended by one year. This is so that the new plan can take account of the forthcoming rebased GDP estimates and the findings of the 2014 census, as well as the expected coming into force of the new PFM bill and charter of fiscal responsibility. The extension will also provide time to finalise the financing and implementation plans for high-priority investment projects that will feature prominently in the new plan.

54. NDP II is being developed through a broad consultative process to ensure it addresses the key issues and priorities identified by all stakeholders at the national and sub-national levels. Strong leadership by the National Planning Authority (NPA) and MFPED will ensure the plan provides a coherent and focused policy direction for the development of the nation, that takes account of macroeconomic and implementation constraints and charts specific actions to be undertaken in concrete temporal terms.

VI. Conclusion

55. The NDP emphasises the need to accelerate economic growth to create jobs, increase average income and provide the financial resources required to expand public investment and service delivery. However, a number of macroeconomic and implementation challenges have reduced infrastructure investment, economic growth and job creation below the levels targeted by the plan. Nonetheless, significant progress has been made towards other objectives, particularly reducing poverty and improving the quality of social services.

56. The key strategic objectives of the plan will be maintained over the next two years, with particular focus placed on strengthening public investment management, creating fiscal space for infrastructure projects and enhancing the development of practical skills among the labour force. Renewed efforts to increase agricultural productivity and value addition will serve to increase household incomes, promote equity, create jobs, accelerate structural change and ensure the sustainable use of natural resources.

57. To enhance regional integration, prepare for oil production, and improve the business environment, Government plans to significantly boost infrastructure investment over the medium term and has identified a number of projects including the oil refinery and a standard-gauge rail line from the Kenyan border to Kampala. Although large, these projects will have high import content and be largely financed from external sources, and will consequently have manageable macroeconomic consequences. Public debt will increase temporarily but peak well below the ceiling set by the EAC monetary union convergence criteria.

58. The recalibrated macroeconomic framework outlined in Section IV will help guide fiscal policy and economic management as the next National Development Plan is being finalised. NDP II will be launched before the 2016/17 fiscal year and will guide budgetary priorities and programmes over the medium term.