Economic Management Thematic Report

Mid-Term Review of the Uganda National Development Plan Final Report

Prepared by Delta Partnership in Association with REEV Consult for the National Planning Authority

Contents

ACRONYMS

BFP	Budget Framework Paper
BoU	Bank of Uganda
CSO	Civil Society Organisation
DDP	District Development Plan
EAC	East African Community
EPRC	Economic Policy Research Centre
FBO	Faith Based Organisation
GAPR	Government Annual Performance Report
GDP	Gross Domestic Product
GoU	Government of Uganda
IFC	International Finance Corporation
IGG	Inspectorate of Government
JBSF	Joint Budget Support Framework
LDPG	Local Development Partners Group
LGDP	Local Government Development Plan
LGFC	Local Government Finance Commission
MDA	Ministry / Department / Agency
MoAAIF	Ministry of Agriculture, Animal Industries and Fisheries
MoD	Ministry of Defence
MoEACA	Ministry of East African Community Affairs
MoEMD	Ministry of Energy and Minerals Development
MoES	Ministry of Education & Science
MoFPED	Ministry of Finance, Planning and Economic Development
MoGLSD	Ministry of Gender, Labour and Social Development
MoH	Ministry of Health
MoIA	Ministry of Internal Affairs
MoICT	Ministry of Information and Communications Technology
MoJCA	Ministry of Justice and Constitutional Affairs
MoLHUD	Ministry of Lands, Housing and Urban Development
MoTIC	Ministry of Trade, Industry and Commerce
MoTWH	Ministry of Tourism, Wildlife and Heritage
MoWE	Ministry of Water and Environment
MoWT	Ministry of Works and Transport

MPS	Ministerial Policy Statement
MTEF	Medium Term Expenditure Framework
MTR	Mid Term Review
NDP	National Development Plan
NDR	National Development Report
NPA	National Planning Authority
OBT	Output Based Tool
OoP	Office of the President
OPM	Office of the Prime Minister
PEAP	Poverty Eradication Action Plan
PIP	Public Investment Plan
PPP	Public Private Partnership
PSFU	Private Sector Foundation of Uganda
SACCO	Savings and Credit Cooperative
SIP	Sector Investment Plan
SMEs	Small and Medium Enterprises
STA	Science and Technology Agency
SWG	Sector Working Group
ToR	Terms of Reference
UAAU	Urban Authorities Association of Uganda
UBOS	Uganda Bureau of Statistics
URA	Uganda Revenue Authority

EXECUTIVE SUMMARY

When the NDP was conceived, its goals in the economic management area were ambitious but deemed realistic based on past performance. However, over the last 3 years the global economic environment has changed and multiple commodity price shocks, combined with domestic supply side rigidities resulted in escalating inflation and macro-economic instability. This was further exacerbated by the global downturn which dampened export demand. For a large part of the implementation period of the NDP, corrective measures were put in place to contain aggregate demand and inflation but this came at a cost as growth decelerated. The Government of Uganda (GoU) has generally adopted relatively conservative fiscal policy and this has constrained available resources to support implementation of the NDP.

Implementation of the NDP was further complicated by lack of alignment with expenditure management systems. The annually revised medium term expenditure framework (MTEF) has not been fully consistent with the NDP owing to the initial expenditure framework being very ambitious and the changing macroeconomic conditions including the availability of resources. Other expenditure management systems including the output based budgeting system and the Chart of Accounts were not used to fully align resources with the high level goals in the NDP. Additional challenges that have complicated the smooth implementation of the NDP include the introduction of new spending priorities and supplementary budgets which have distorted the allocations and reduced funding for core NDP priorities.

Sustaining growth in the high priority sectors in the NDP remains a serious challenge. In particular, agriculture has consistently underperformed and growth in services has slowed. With limited growth and increasing population pressures, the goal of reaching middle income status by 2017 is looking increasingly ambitious. There has also been limited socio-economic transformation to date demonstrated by limited growth in exports and a low level of urbanisation. There are encouraging signs of growth in the information, communications and technology (ICT) sector and some good progress in roads, transport and financial services. However, many core projects have been delayed as they are not "investment ready". Whilst GoU has and is taking action to make it easier to do business in Uganda, there is much to be done to enhance competitiveness, and in some areas the cost of doing business has increased.

A critical implementation challenge for the NDP is financing. Domestic resource mobilisation has stagnated over the NDP implementation period, expected efficiency savings have not been realised, donor support has reduced and progress on developing innovative financing instruments has been slow. Many projects that were expected to be implemented through Public Private Partnership (PPP) arrangements have not materialised as envisaged, partly due to lack of progress on the regulatory framework governing PPPs.

For the remainder of this NDP, it is recommended that the Ministry of Finance, Planning and Economic Development (MoFPED) works with the Bank of Uganda (BoU) and the National Planning Authority (NPA) to agree what additional measures need to be addressed to justify expected higher levels of spending to support NDP implementation. These should focus on some of the following areas:

- A strategy to improve domestic resource mobilisation;
- Greater rigour in public expenditure management and enhanced budget discipline at all levels of government to enhance budget credibility;
- Demonstrated improvements in absorptive capacity in critical sectors - this will require decisive action to improve procurement and skills development to strengthen technical and financial management of large projects;
- More rigorous procedures to appraise projects to ensure that priority projects in the NDP are "investment ready";
- Robust financing strategies for existing and new projects which appraise the costs and benefits of alternative financing strategies including crowding out effects (if financed through higher domestic borrowing).

The budget preparation process should focus more explicitly on aligning resources to support NDP implementation. In particular, the budget process should be strategically aligned and guided by the NDP. For the remaining period of the NDP, the Budget Framework Paper should be shaped to deliver more against agreed critical NDP priorities. All priority projects included in the Public Investment Plan (PIP) should be "investment ready" and derived from the NDP. Action is needed to improve budget credibility, transparency and public financial management – this should build on proposals already included in the draft Public Finance Bill. There is a need to expedite the establishment of a "Contingencies Fund" to enhance budget discipline. This will improve transparency, control spending and should halt the introduction of supplementary budgets which undermine budget credibility.

Recent debt sustainability suggests that there is still significant room for prudent borrowing for productive investments. The government is already taking steps in this direction and is preparing to issue long-term bonds to finance its development agenda. However, this approach has to be implemented without compromising debt sustainability. Debt levels and key ratios must be monitored carefully.

There is an urgent need to fast track action to improve domestic resource mobilisation to finance the full range of priorities included in the NDP. This is particularly important given budget support and direct donor financing of government expenditure is declining. A strategy to expand the tax base should include measures to make it easier to start up and run "compliant" businesses and to encourage formalisation. Immediate areas for action include: (i) a continued push to streamline and improve access to business registration services including systems covering the informal sector; (ii) streamlining tax exemptions including a clearer set of principles to guide exemptions which should focus on maximising tax collection and minimising abuse of the tax system. In addition, greater attention could be given to enhancing the collection of non-tax revenues by Ministries, Departments and Agencies (MDAs).

Many of the above actions would also help to strengthen preparation and implementation of the next NDP. More specifically, greater attention should be placed on aligning sector investment plans and district development plans with the next NDP. This should be an iterative two way process which creates space for some adjustment and refinement in the course of NDP implementation, whilst keeping the major development project priorities intact. In addition, action should be agreed up front on how to align better expenditure management systems (e.g. budget preparation process, output based budgeting, chart of accounts, performance measures included in Ministerial Policy Statements) with the new NDP to enhance accountability and to strengthen an "all of government" focus on a set of key results and performance measures.

In addition to these findings, the report includes the key points from six reports that were commissioned separately alongside the core mid-term review to assess the degree to which cross-cutting issues have been addressed during NDP implementation. The cross-cutting reports identify a number of issues that have implications for the management of the economy during NDP implementation. For example, weak governance has been linked to poor financial management, including the persistence of supplementary budgets. The environment reports states that the potential negative environmental impacts of oil are being considered by environmental impact assessments. In terms of water, pollution has increased the cost of water for urban areas, and the destruction of wetlands has been linked to a shortage of water in Kampala. It is reported that gender is not adequately considered in certain GoU activities, for example, in agriculture where many activities do not optimally benefit women. This serves to restrict the contribution of women to the economic growth.

To address these and other issues, the cross-cutting reports identify a number of recommendations. These include increasing the autonomy and amount of information available to the legislature in relation to the budget process; improving the financing for environment related activities by establishing an environment fund and establishing PPPs for environment services payment systems; and, ensuring key services such as agricultural credit are specifically tailored to the needs of female and male users.

1 INTRODUCTION

1.1 Background

The NDP 2010/11-2014/15, which is the first of six plans that comprise the Vision 2040, builds on the successes of the last two decades. Growth during the 2000's averaged 7 per cent which was higher than many other Sub-Saharan African economies. Per capita income growth averaged 4 per cent over the last 20 years. Poverty reduction was at the heart of successive Poverty Eradication Action Plans (PEAPs), the predecessors to the NDP. These have generated impressive results with the poverty headcount falling from 56.4 per cent in 1992/3 to 24.5 per cent in 2009/10. Over much of this period Uganda combined prudent economic management with high levels of growth. Until very recently inflation had been successfully contained at single digit levels. All this suggests that many elements of the government's approach to growth and development has been working well.

The NDP maintains a strong focus on sustaining progress in areas such as health, education and access to water. However, this NDP focuses strategically on action required to support economic diversification and modernisation of the economy. It aims to support export led growth with a focus on value addition and transformation of agriculture. It recognises the contribution of emerging sectors such as tourism, oil and mining which can potentially spur growth. The NDP anticipates the need to put the necessary regulatory frameworks and institutions in place, especially with respect to development of the oil industry. The NDP recognizes the need to have a diversified economy to circumvent the "Dutch disease syndrome" associated with economies endowed with natural resources such as oil.

A key objective of this NDP is to enhance competitiveness through strategic investments in infrastructure and action to raise productivity. The agenda presented in the NDP is broader than previous frameworks such as the PEAP and includes many challenging reforms to be implemented simultaneously, e.g. improvements in skills, action to address the full range of supply side constraints and improved efficiency in the public sector. All of these areas will take time to address and many may spill over into subsequent planning frameworks. Whilst the private sector is vibrant and growing it is still small and largely comprises micro, small and medium sized enterprises (SMEs). Many SMEs need to upgrade skills, knowledge and gain access to new technology and finance to modernise. This level of transformation will take more than a five year period. As the June 2013 Budget speech states "The Journey Continues towards Socio-Economic Transformation for Uganda".

When reviewing progress on NDP implementation it is useful to consider whether, and how, the current NDP is helping to achieve broad based inclusive growth as well as social economic transformation. Infrastructure development is critical but it may not be enough to achieve the step change required in key sectors, such as agriculture, which touch on so many Ugandans lives. What is evident is that these challenges cannot be overcome by the government alone. The government must embrace the "National" element of the NDP. It needs to focus on supporting innovation, new ways of working and mind-set change. It should proactively engage the general population and the private sector so that together, these ambitious goals can be realised.

The NDP recognises that the core foundation for growth is macro-economic stability. The NDP macro-economic strategy aims to "maintain a balance between macroeconomic stability, acceleration of growth and continued progress towards achievement of social development goals". It presumes that greater government efficiency and growth will generate new resources that can be invested in infrastructure which will help improve the performance of productive sectors.

1.2 Context

Uganda has an established history of national plans designed to improve the lives of people living in poverty. The PEAP started in 1997 and was revised in 2000 and 2003. It predates the World Bank sponsored Poverty Reduction Strategy Papers which were implemented across Africa. The PEAP helped to build national consensus by embracing participation and providing a strategic framework for the Government of Uganda (GoU) to work with its development partners who provided significant funding for PEAP implementation. The PEAP contributed to sustained growth in gross domestic product (GDP), reduced dependency on donors and increased confidence areas such as economic management. Headcount poverty reduced, but the target of reducing poverty to 10 per cent by 2017 was not seen as achievable based on the status quo. A national evaluation of the PEAP identified a number of constraints to human and economic development in Uganda as well as increasing evidence of corruption and weak accountability. It was in this context that the first NDP was launched in 2010.

Two major conceptual differences distinguish the NDP from its PEAP predecessor; the NDP places much greater emphasis on the:

- Need for economic growth to create jobs that generate additional employment opportunities for the population, increasing per capita income and providing the financial resources needed to continue to fund the pro-poor social policies;

- Emulation of the successes enjoyed by many East Asian economies where the state adopted a strong central planning mandate, while at the same time recognising the role of the private sector as the engine of growth.

The NDP economic strategy seeks to support improved productivity in the agricultural sector and anticipates that the workforce, released through productivity gains, would be absorbed by newer, higher value, export focused sectors of the economy. This transformation would be led by the private sector. Continued macroeconomic stability is identified as critical to providing an appropriate environment within which private sector development can flourish. The main sources of economic growth were expected to come from the 8 ‘primary growth sectors’ which are agricultural development, forestry, tourism, mining, oil and gas, manufacturing, information and communications technology (ICT) and housing development.

The NDP identifies the need for significant improvements in complementary sectors of the economy; most notably energy, water, transport and financial services. The Plan outlines the need for more trained professionals and better quality infrastructure to increase the potential for Uganda’s health and education systems to boost Uganda’s human capital and to create a workforce that is well equipped to support economic development. Special attention is afforded to tackling high levels of population growth, gender inequality and the corroding impact of HIV/AIDS on society. The NDP acknowledges that a key constraint to further economic development is the performance of “enabling sectors”, including the public sector. It outlines improvements required in public sector administration and management to address criticism in the previous national evaluation of the PEAP.

1.3 Study approach / methodology

It was agreed as part of the inception report that the Economic Management thematic report will cover the following review questions:

EM1	Are we on track to achieve the macro-economic objectives / targets articulated in the NDP?
EM2	How well have macro policy instruments been used to achieve economic stability and

	growth?
EM3	To what extent have public expenditure and related accountability systems changed to ensure alignment of budgets, spending and financial reporting with the NDP objectives
EM4	How has the NDP influenced macro-economic strategy and related reforms in Uganda?
EM5	What progress has there been on unlocking the key economic constraints to growth?
EM6	How has NDP implementation so far contributed to improvements in productivity, private sector development and competitiveness?
EM7	To what extent is deregulation taking place and how well is this facilitating private sector growth and competitiveness?
EM8	To what extent and how have additional private sector funds been harness to finance NDP priorities?
EM9	From an EM perspective, what can be done to improve the next version of the NDP?
EM10	To what extent is the NDP an effective mechanism for ensuring that economic growth does not have a detrimental impact on the environment?

The overall approach to the mid-term review has included:

- A three week inception period to hold introductory meetings, to collect and review background documentation, to refine and agree the review questions, and to populate review matrices showing how evidence would be collected and analysed;
- Discussion forums with representatives of 13 sectors, the private sector, civil society organisations (CSOs) and development partners;
- A series of key informant meetings in each thematic area, focused on the review questions;
- Supplementary analysis of data and collation of documented evidence;
- Review of 10 relevant research reports of the Economic Policy Research Centre produced over the past 2 to 3 years;
- Assessment of the national development planning experiences in the four comparator countries mentioned in the NDP itself – Kenya, Ghana, Malaysia and South Korea;
- Visits to 12 districts / municipalities to obtain data and opinion surrounding NDP implementation at local government level;
- Two meetings with a Technical Committee to present and get feedback on progress;
- Internal meetings to peer review the quality and robustness of analysis and interpretation;
- Preparation of the zero draft thematic reports;

- Presentation of draft thematic findings and recommendations to the extended management team of the NPA;
- Conduct of meetings with the NPA review manager to obtain and incorporate verbal comments into the first draft thematic reports;
- Presentation of updated drafts reports to the Ministry of Finance, Planning and Economic Development (MoFPED), the Extended NPA Board and the committee of Permanent Secretaries chaired by the Cabinet Secretary;
- Incorporation of comments on the updated draft reports.

1.4 Organisation of the report

This Economic Management thematic report is structured as follows.

- Section 2 reviews macro-economic performance and policy and assesses progress on implementation of the NDP macro-economic strategy;
- Section 3 looks at the alignment of Public Expenditure Management with the NDP;
- Section 4 reviews the extent to which NDP implementation is supporting and promoting economic transformation with a focus on private sector development and action to improve competitiveness;
- Section 5 assesses the assumptions underpinning the NDP financing strategy and progress on mobilising new finance for the NDP;
- Section 6 looks at cross-cutting issues which were commissioned as separate studies;
- Section 7 summarises the key findings and policy implications.

2 MACROECONOMIC POLICY AND PERFORMANCE

2.1 Overview

The macroeconomic policy stance pursued over the last 20 years has delivered economic growth and stability. The period 1990-2010 can be divided into two distinctive growth episodes. The 1990 to 1999 phase was characterised by sustained positive growth rates far above the sub-Saharan average. The Uganda Bureau of Statistics (UBOS) estimates trend growth over this period at about 6.8 percent per year with all sectors of the economy growing relatively fast during the period 1990-1999. This high growth rate was partly explained by the recovery process where the country was growing from a low base.

Similarly, the period 2000-2008 was very impressive. For example, estimates by UBOS show that average GDP growth rate (at factor prices) for the five years (2003/04-2007/08) was as high as 7.9 per cent, with the economy posting a growth rate of 8.9 per cent in 2007/08. However, the economy slowed to 6 percent in real terms in 2008 due to the turmoil in the world economy and regional instability. Between the period 2009 and 2010, growth was hit further by a combination of internal and external shocks.

In light of past performance, the NDP strived to achieve the objective of sustaining high levels of growth whilst at the same time maintaining macroeconomic stability. This section takes stock of progress against macro-economic objectives and targets articulated in the NDP. It cross checks the assumptions made when formulating these targets and assesses which have held true. It reviews the extent to which macro-economic policy over the implementation period has balanced the NDP's goals of macro-economic stability and growth.

2.2 Macro-economic performance and review of assumptions

Implementation of the NDP during the first two years was characterised by an unstable macro-economic environment which meant that many of the key assumptions underpinning the NDP did not hold true over the period. In particular, the growth rate realised in 2011/12 was much lower than projected, inflation increased significantly in 2011 due to a combination of shocks. In response there was a significant tightening of monetary policy through increased interest rates. Fiscal policy was tighter than the NDP anticipated in 2011/12. This was due to weak global economic conditions and related uncertainty about global economic prospects, high domestic interest rates, and slow implementation of key NDP investment projects. Given this macro-economic context it became increasingly difficult to deliver resources in line with NDP expectations. In addition to tight monetary policy, structural rigidities within the banking sector have kept interest rates high despite recent easing of monetary policy. This combination of shocks and policy choices limited growth and private sector development over the period under review.

The NDP was underpinned with an average real growth rate of 7.2 percent ranging from 6.7 percent in 2010/11 to 7.5 percent in 2014/15 (Table 1). This high growth rate was based on two assumptions: (i) it was expected that there would be recovery in agriculture growth with the sector growing at 5.6 percent over the period; (ii) growth in the industrial sector would be sustained between 6 and 7 percent annually and; (iii) key binding constraints including the reduction in the cost of energy and transport would have an impact especially on the manufacturing sector. However, the growth outcome for the first 2 years of the implementation fell short of expectations. Real growth in 2011/12 decelerated to 3.4 percent compared to the 7 percent that anticipated in the NDP. For 2012/13 it is now projected that growth will be about 4.3 percent compared to the 7.3 percent in the NDP.

There are various factors explaining why real growth has decelerated over the past two years. The first is spill-over effects due to the global economic downturn which resulted in deteriorating terms of trade as commodity prices declined while fuel prices, a key input for most sectors, continued to increase. The second factor was slow implementation of NDP projects that aimed to unlock the key binding constraints to growth. The third factor was the prolonged drought which had an impact on agriculture production—a key sector where growth was expected to increase 2010-15.

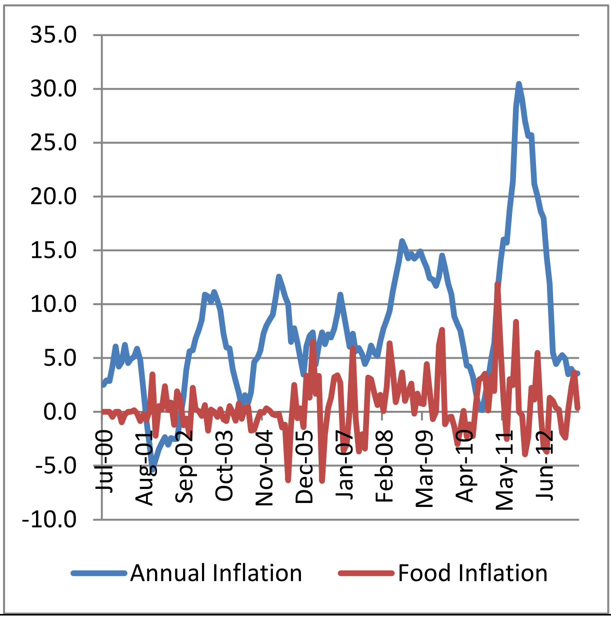
Table 1: Selected macroeconomic and finance indicators

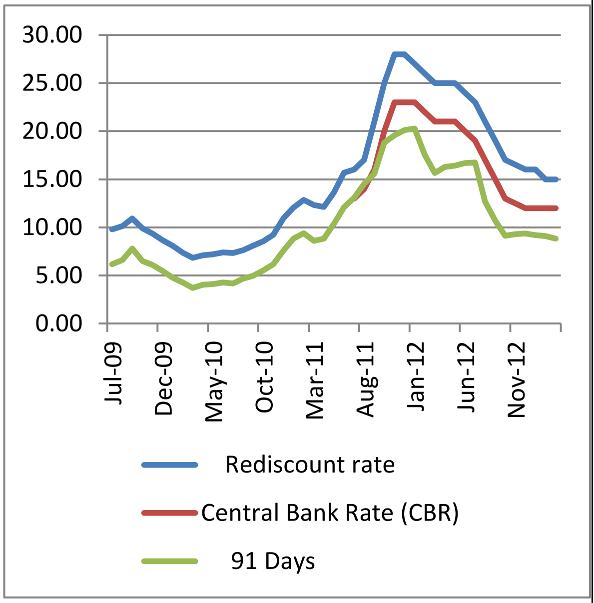
Selected Macroeconomic and Financial Indicators, 2010/11-2014/15								
Maccroeconomic Indicators	2010/2011		2011/2012		2012/13		2013/14	2014/15
	NDP	Actual	NDP	Actual	NDP	Estimate	NDP	NDP
Real Sector								
Annual GDP Growth rates (factor cost)	6.6%	6.7%	7.0%	3.4%	7.2%	5.1%	7.4%	7.5%
GDP (mkt) -shs bn	41.397	39.051	46.934	49.849	53.904	54.688	62.227	72.094
Private investment (% of GDP)	16.9%	18.1%	17.4%	18.8%	18.1%	19.3%	18.2%	18.3%
Public investment (% of GDP)	8.0%	6.7%	8.8%	5.7%	8.9%	6.0%	9.2%	10.0%
Private consumption (% of GDP)	76.4%	83.7%	75.3%	82.9%	74.1%	77.3%	73.4%	73.9%
Public consumption (% of GDP)	10.3%	9.8%	10.1%	8.1%	10.1%	7.8%	9.9%	8.7%
Domestic savings (% of GDP)								
Fiscal Sector								
Government domestic revenue (% of GDP)	13.1%	16.2%	13.6%	13.3%	14.1%	13.6%	14.6%	15.1%
Government expenditure (% of GDP)	19.2%	22.8%	19.8%	18.6%	19.8%	19.2%	19.8%	19.4%
Fiscal deficit, excluding grants (% of GDP)	-6.1%	-4.3%	-6.2%	-5.3%	-5.7%	-5.7%	-5.2%	-4.3%
Domestic interest payments (% of GDP)	0.8%	1.1%	0.7%	1.2%	0.7%	1.4%	0.6%	0.6%
Domestic borrowing (% of GDP)	0.7%	2.9%	0.6%	2.9%	0.6%	1.5%	0.6%	0.6%
External sector								
Exports & NFS (% of GDP)	21.6%	13.7%	21.3%	13.7%	20.9%	13.4%	20.7%	19.1%
Imports goods and services (% of GDP)	33.2%	27.8%	33.0%	27.2%	32.1%	26.2%	31.4%	30.0%
Trade deficit (% of GDP)	-11.6%	-14.1%	-11.7%	-13.4%	-11.2%	-12.8%	-10.7%	-10.9%
Debt stock/GDP	14.8%	17.3%	17.3%	17.0%	18.9%	…	19.8%	18.2%
Net donor aid (% of GDP)	5.4%	4.5%	5.6%	5.0%	5.1%	4.5%	4.6%	3.7%
Monetary sector								
Inflation	7.5%	6.5%	6.0%	23.5%	6.9%	6.0%	6.8%	6.8%
Reserves in months of imports	5.1	3.2	5.3	4.2	5.5	4.1	5.6	5.7
Average Nominal Interest Rate on Government Securities	11.0%	17.6%	9.5%	9.2%	9.9%	…	9.8%	9.8%
Private sector credit (% of GDP)	14.3%	16.7%	15.2%	14.5%	16.0%	14.8%	16.8%	17.3%
Private sector credit growth	27.1%	44.4%	20.6%	11.1%	20.1%	13.1%	19.3%	19.3%
Money (M3) (% of GDP)	18.5%	26.7%	19.1%	22.5%	19.7%	22.6%	20.1%	20.8%
Base Money (% of GDP)	7.1%	7.8%	7.5%	6.1%	7.7%	6.6%	7.9%	7.9%

Sources: National Development Plan, UBOS and MoFPED.

High inflation which peaked at 30 per cent in October 2011, and related policy responses compromised achievement of the macro-economic objectives included in the NDP. The NDP anticipated inflation to be kept at an average of 7 per cent during the first three years. In the course of implementing the NDP, the central bank switched from use of reserve money as the main operating target of monetary policy in July 2011 to the central bank rate (CBR). The Central Bank focused on taming inflation by targeting demand factors driven by rapid growth in private sector credit. The tight monetary stance adopted end-2011 led to a slowdown in private investment and consumption. The increase in the CBR rate from 13 percent in July 2011 to 23 percent in November 2011, led to a decline in private sector credit growth from 44 per cent in 2010/11 to 11.1 per cent in 2011/12. In addition, the increase in the CBR rate and corresponding commercial bank rates, resulted in a shift towards borrowing dollar denominated loans.

Figure 1: Inflation and trends in investment





Source: Bank of Uganda.

Various drivers have been identified to explain the recent spike in inflation. One of the drivers has been growth in money supply which according to a recent AfDB study[1] contributed 32 per cent of growth in overall inflation. Other factors include increasing oil prices and commodity prices. This price volatility also reflects underlying structural weaknesses in the real economy and particularly the agricultural sector.

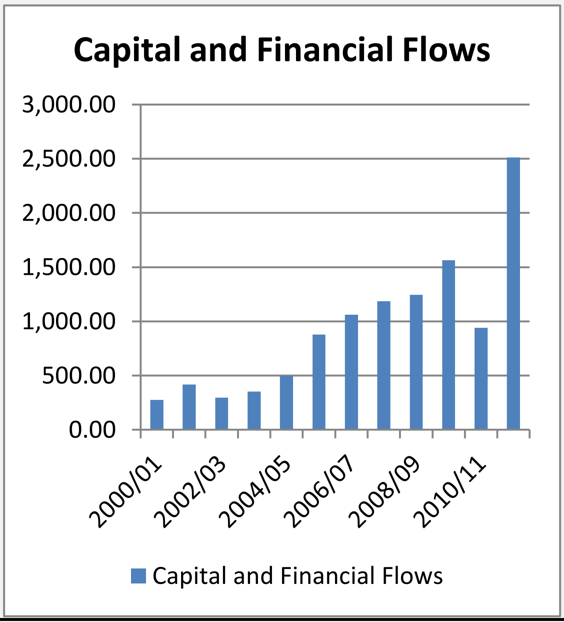
[1] AfDB Brief: Inflation Dynamics in selected East African countries: Ethiopia, Kenya, Tanzania and Uganda.

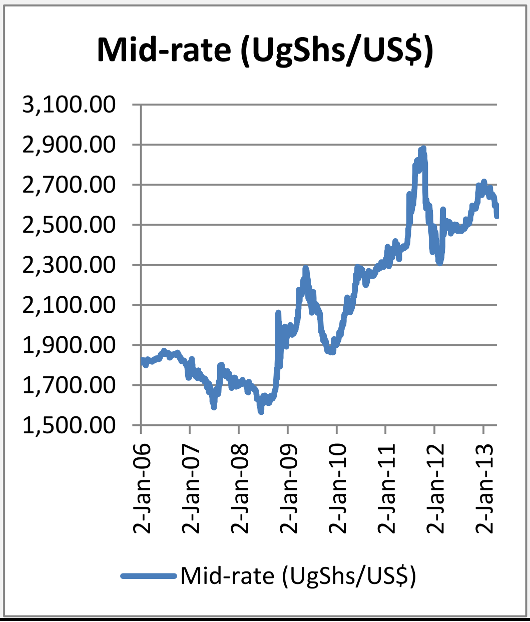
Box 1: Drivers of inflation and exchange rate instability in 2011/12

A recent AfDB brief[2] analyses the causes of inflation in four of the East African Economies. The study concluded that 32 per cent of short run inflation in Uganda was due to monetary expansion, 21 per cent due to world oil prices and 13 per cent due to increases in world food prices.

Exchange rate depreciation was also a significant contributory factor. Between January 2010 and September 2011 the exchange rate depreciated by 45 per cent from 1,934 to 2,814 in September 2011. The higher cost of imports combined with increased oil prices escalated inflation further and impacted significantly on businesses with high import content.

Over this period **volatility of capital flows** further complicated monetary and exchange rate policy. Capital outflows accelerated devaluation in 2010/11 but then increased in 2012 due to high interest rates. At present the Bank of Uganda pursues a flexible exchange rate policy which ensures a competitive real exchange rate over the medium term and which aims to dampen short term volatility. Managing volatility due to capital flows whilst maintaining competitiveness is likely to become even more challenging in the years ahead.





The fiscal stance of the NDP aims to strike a balance between wealth creation and socio-economic transformation. There was a change in emphasis relative to the previous PEAP which focused more directly on development of social sectors and poverty reduction. The

[2] AFDB Brief Inflation Dynamics in selected East African Countries: Ethiopia, Kenya, Tanzania and Uganda.

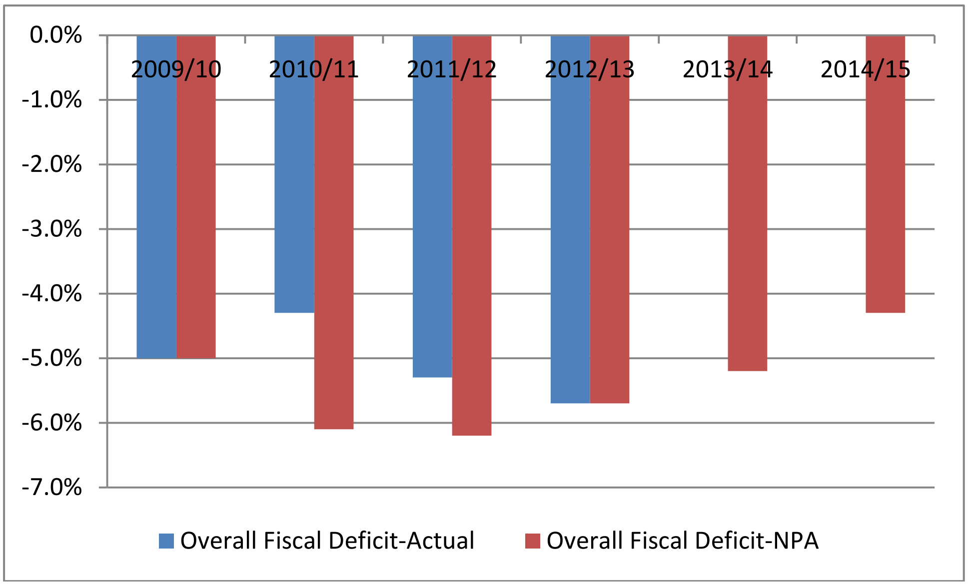
NDP's goal is social economic transformation with a focus on unlocking the binding constraints to wealth creation, especially in the energy and transport sectors. This is combined with continued support to the social sectors but with a strong focus on achieving efficiency gains in the public sector to release resources to fund higher levels of public investment.

The fiscal stance has also been guided by Uganda's ambition to participate in the East African Monetary Union which targets the fiscal deficit of member countries at 5 per cent or less of GDP. This puts limitations on public investment and spending over the medium term. As shown in Figure 2, the fiscal deficit for the first year of the implementation of the NDP 2010/11 was on target at 6.3 percent of GDP (compared to 6.1 percent in the NDP). However, much of this was due to a revenue windfall (16.3 percent actual collection compared to 13.1 percent of GDP in the NDP) generated by capital gains tax realised from oil transactions. The first year of NDP implementation coincided with the global financial crisis and spending increased to 22.8 percent of GDP compared to the 19 percent in the NDP. This was justified as a mitigation measure through counter cyclical spending. However, in the course of 2010/11, the implementation of the budget was compromised by election and defence spending which reduced resources available to support NDP priority sectors. This damaged the credibility of the budget and undermined government commitment to implementing the NDP.

The fiscal year 2011/12 witnessed some fiscal consolidation with total spending declining to 18.6 per cent of GDP compared to 19.8 per cent envisaged in the NDP. This reduction is partly explained by delays in the implementation of the Karuma dam, a key NDP project. Slow implementation of this resulting from weak planning and procurement irregularities, led to a reduction in the deficit to 5.3 percent of GDP. In 2012/13 it was recognised that fiscal policy needed to be more expansionary to boost aggregate demand. As a result financing for capital spending was increased. The budget targeted increased spending with a focus on roads, rehabilitation of water ferries, investments in the standard gauge rail and construction of the Karuma hydro-electricity dam. This was perhaps the first fiscal year where there was a very conscious effort to align the budget with key NDP priorities.

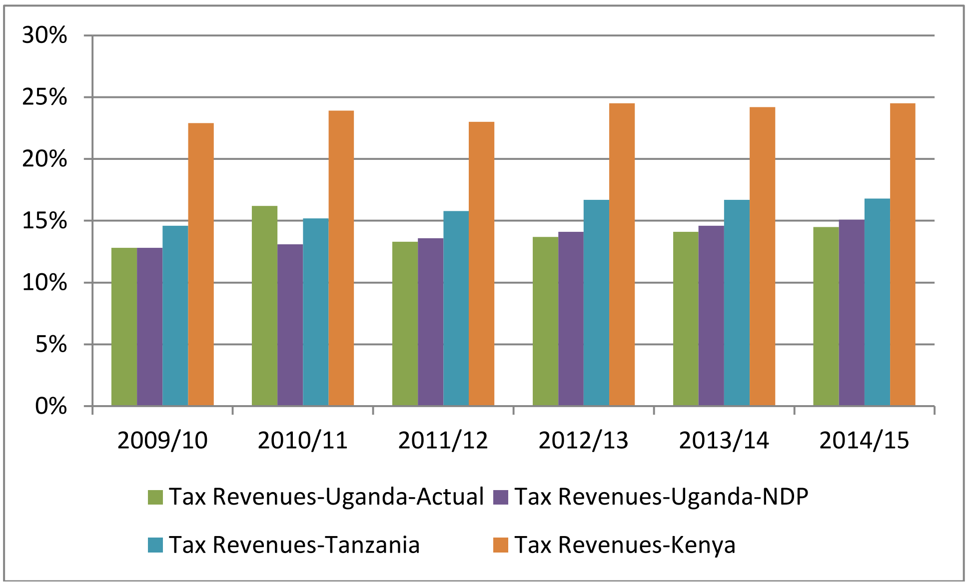
Spending ambitions have also been held back by poor performance on domestic resource mobilisation. The NDP envisaged increasing domestic resource mobilisation effort by 0.5 percent of GDP. This would be achieved by expansion of the tax base, reforming the structure of taxation and improving tax collection efficiency and compliance. However, revenues stagnated at 13 percent of GDP which is lower than the taxes collected by the neighbouring countries (Figure 3). The URA has endeavoured to widen the tax base by introducing new taxes on land transactions and enforcing property taxes.

Figure 2: Fiscal deficits - actual and NDP



Source: NDP and BTB.

Figure 3: Comparative performance on tax revenue – selected EAC countries



Source: NDP and BTB.

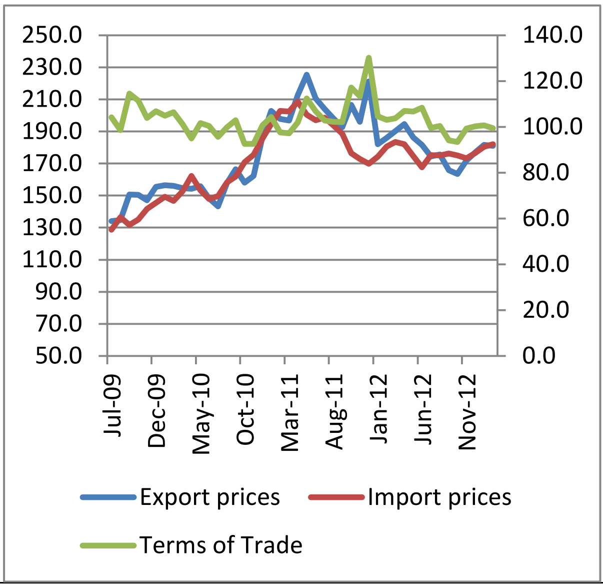
However, tax collection continues to be compromised by a large number of exemptions and tax incentive policies. Whilst some of these may help to enhance the performance of the productive sector there is a high risk that exemptions lead to abuse of the tax system and reduce tax efficiency. Ideally exemptions should be targeted, limited in scope and temporary. There is also the continued challenge of broadening the tax base through extension of VAT collection to the retail stage and inclusion of the large informal sector. In part this has been hampered by relatively slow progress on streamlining business registration, lack of awareness of the benefits versus the risks of operating in the formal sector (particularly on the part of the small business sector) and slow progress on implementation of a national identity card system that would help to track tax payers.

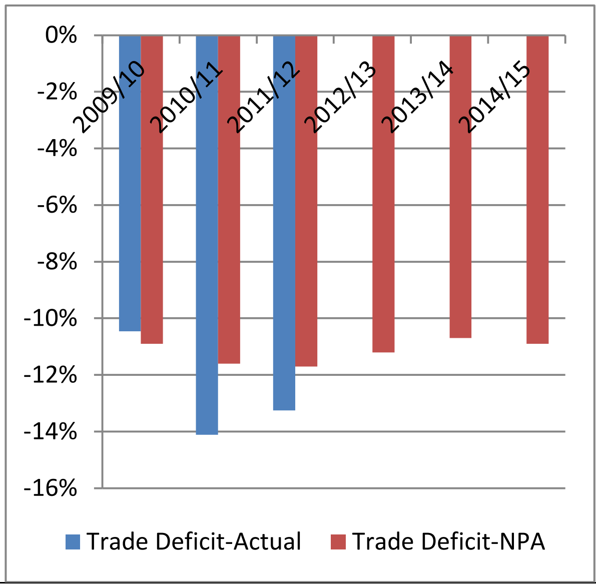
The NDP fiscal stance was also based on expected improvements in allocative and technical efficiency. It was envisaged that this would create fiscal space to increase resource allocation especially to priority areas NDP areas. This would be done by strengthening the link between public spending and outputs; strengthening regulations and compliance, eradicating corruption and reducing duplication of functions. Progress in this area has been slower than anticipated. This is discussed in more detail later in this report and in the Results Framework thematic paper of this MTR.

While tight monetary policy has successfully curbed inflationary pressures it has also contributed to a slowdown in economic growth. The NDP envisaged that in addition to controlling inflation within manageable levels, monetary policy would continue to support growth especially through financial intermediation with private sector credit anticipated to grow from 12 to 17 per cent by the end of plan period. This would be achieved by reducing government domestic borrowing. However, the first year of implementation of the NDP was characterised by monetary expansion which contributed to inflationary pressure. Tight monetary policy followed to curb inflation and although CBR rates were reduced to 12 per cent to boost growth, this has not yet been fully translated into lower commercial bank rates. Commercial banks continue to charge high interest rates and the spread between lending and borrowing rates is the highest in East Africa. This appears to be due to a combination of factors including high operating costs, increases in banks financing costs due to high interest rates over the last 2 years, an increase in non-performing assets and structural market deficiencies within the financial system.

There has been some improvement in terms of trade driven by an increase in prices of exports in the course of implementation of the NDP. As a result the trade deficit has not diverted significantly from the NDP target - the actual trade deficit in 2011/12 was 13.4 per cent of GDP, compared to 11.7 per cent of GDP in the NDP (Figure 4). However, workers' remittances have continued to decline to US$ 753 million dollars due to global recession and depreciation of the Ugandan shilling in 2011/12.

Figure 4: External developments





Source: Bank of Uganda.

2.3 Balancing macro-economic stability and growth

Macro-Economic policy development and the NDP

The government's strategic macro-economic objectives have been aimed over the last decade at ensuring a conducive environment for the private sector and creating the right conditions to generate employment, income and reduce poverty. The government's current medium term macro-economic objectives are to: (a) ensure that the growth in annual inflation remains low, stable and within single digits; (b) achieve and maintain rates of economic growth of at-least 7 per cent per annum; (c) maintain an adequate level of foreign exchange reserves equivalent of 4 months of import cover to cushion the economy from external shocks and d) maintain a level of exchange rate supportive of growth. These goals remain broadly consistent with the NDP medium term strategy. As was described above it has proved challenging to achieve these objectives simultaneously over the last 2 years.

Macro-economic policy is developed and coordinated between the MoFPED and Bank of Uganda. The Fiscal framework and growth forecasts are developed by the MOFPED using a macro-economic model and regular consultations with key sectors on growth prospects. This is used by the Bank of Uganda to develop monetary policy and projections using a financial programming model. Key decisions on macro-economic targets such as growth and inflation are jointly determined by both MoFPED and the Bank of Uganda. Performance, forecasts and any changes to fiscal and monetary policy are reviewed at technical and Ministerial / Governor at least 3 times a year as part of the process of preparing the budget and in the course of IMF programme reviews. Roles and mandates of the MoFPED and the Bank of Uganda are laid out in the 1995 Constitution of Uganda (Article 162) and a Memorandum of Understanding between the two organisations which articulates statutory responsibilities, information exchange requirements and policy coordination. Terms of Reference are laid out for each relevant committee including a high level Apex Policy Committee which is responsible for overall coordination of policy and operational matters between the Government and Bank at senior level (Minister of Finance and Governor Level). This Committee is mandated to meet quarterly.

At the end of 2012 coordination processes were also introduced for senior level meetings on a monthly basis. This was in part due to the need to develop more sophisticated instruments to support government borrowing. This provides a solid framework for strategic coordination of policy and discussions on policy trade-offs in response to shocks or other unforeseen developments.

A number of external factors influence policy. The IMF assessments are critical as they are watched closely by donors and investors and are used to judge the effectiveness of Uganda's macro-economic management. These reviews assess progress and shape targets for macro-economic policy and structural reforms. The focus of structural reforms will vary over time. For example the most recent PSI Review puts a strong emphasis on strengthening public financial management reforms following misappropriation of donor funds from a major project in Northern Uganda. A High Level PFM Reform Action Plan Matrix has been developed to improve the integrity of the public expenditure management and to promote transparency.

Other factors that shape policy making include global developments and EAC requirements. The Protocol on the EAC Monetary Union which is currently being negotiated requires convergence around key macro-economic indicators. This will constrain fiscal policy over the medium term through limitations on the size of budget deficits.

Macroeconomic Implementation and the NDP

When the NDP was conceived growth had been favourable for many years and despite global shocks macro-economic stability and growth had been sustained. The macro strategy formulated in the NDP seemed reasonable and relevant at the time. It assumed that fiscal policy would be slightly expansionary and resources would be allocated to support higher growth of the productive sectors. Higher spending in the middle years would be financed through increases in domestic revenue, modest domestic borrowing and other financing mechanisms such as public private partnerships, external financing and new innovative instruments (sovereign bonds for infrastructure). Monetary policy would maintain low inflation and facilitate private sector growth and investment.

Fiscal Policy

Fiscal policy stance implemented during 2010/11 was characterized by spending that was not originally catered for in the NDP (Table 2). The fiscal stance was influenced by higher than anticipated spending on the elections and defence. A supplementary budget was introduced which was equivalent to 1.3 per cent of GDP for security related expenditures. This spending, on police, security and other election-related activities, led to cuts in spending in other sectors. It also compromised implementation of the domestically financed development budget. As a result a number of performance targets were missed including the floor on net international reserves and the ceiling on net domestic assets as set out under the PSI program. In addition, base money was higher than the indicative target by 0.4 per cent of GDP and spending related to poverty reduction was lower than planned. This higher spending was largely financed by higher net domestic financing which compromised several targets under the PSI program. Towards the end of the first year of NDP implementation in June 2011, net credit to the government was breached by 0.9 per cent due to over spending in the roads sector and higher wage and interest payments which were not planned for.

Overall, the fiscal policy stance during the period 2010-12 was not conducive to NDP implementation. In an effort to contain the deficit in 2011/12 and to limit expensive domestic financing, tight cash ceilings were imposed on spending. This led to a squeeze on non-wage recurrent spending and delayed implementation of a number of development projects. The second year of 2011/12 was characterised by relatively tight fiscal policy and tight monetary policy to address inflation and safeguard medium-term growth prospects and poverty reduction. The actual deficit realised was 3 per cent of GDP compared to 6 per cent planned in the NDP. This further compressed recurrent and capital expenditure.

Table 2: Performance against IMF PSI programme targets 2010-12

Quantitative Assessment Criteria and Indicative Targets	Dec-10	Jun-11	Dec-11	Dec-12
Ceiling on the increase in net domestic assets of the Bank of Uganda	Not Observed	Observed	Observed	Observed
Ceiling on the increase in net claims on the central government by the banking system	Observed	Not Observed	Observed	Observed
Ceiling on the stock of external payments arrears incurred by the public sector	Observed	Observed	Observed	Observed
Ceiling on the contracting or guaranteeing of new nonconcessional external debt with maturities greater than one year by the public sector	Observed	Observed	Observed	Observed
Ceiling on new external debt with maturity up to one year contracted or guaranteed by the public sector	Observed	Observed	Observed	Observed
Minimum increase in net international reserves of the Bank of Uganda (US$mn)	Not Observed	Observed	Observed	Observed
Ceiling on the increase in base money liabilities of the Bank of Uganda	Not Observed	Observed	Not observed	...
Stock of domestic budgetary arrears under the Commitment Control System (CCS)	...	...	...	...
Minimum expenditures under the Poverty Action Fund (including the Universal Primary Education component of development expenditure)	Not Observed	Not Observed	...	...

Source: IMF

The NDP anticipated a reallocation of public expenditure to high priority areas for NDP implementation. However, in the first year of NDP implementation the enabling sector cluster in the NDP accounted for more than half (61 per cent) of total government expenditure from the consolidated fund. Complementary and growth sectors together received 16 per cent of funding[3] in 2010/11. This composition of spending impacted on NDP implementation and the real sector. The expected reallocation of funds did improve in subsequent years particularly in 2012/13.

Monetary Policy

Higher than anticipated monetary growth and fiscal expansion contributed to inflationary pressure which was sparked by increases in commodity prices. This made the subsequent policy adjustment very sharp. Between March 2011 and September 2012 macro-economic policy became tightly focused on reducing inflation to single digits and restoring stability. This was achieved through tight monetary policy with central bank rates reaching 23 per cent. In addition there was unintended tightening of fiscal policy in the course of 2011/12 due to slow implementation of key infrastructure projects such as Karuma Dam project.

When assessing how well macro policy instruments have been used to achieve stability and growth, it is useful to review the underlying causes of the escalation of inflation. There is general consensus that higher food and energy prices were a major driver of inflation in the

[3] Source: MOFPED National Budget Framework Paper 2013/14-2017/18 p.30.

course of 2011. However, what is often given less attention is the rapid growth in the money supply (linked to growth in defence and election related spending) over this period. Government expenditure rose to 22.8 per cent compared with NDP forecasts of 19.2 per cent due to the aforementioned higher spending on defence and security.

Growth in private sector credit slowed in July 2011 when the Bank of Uganda introduced the new inflation targeting lite (ITL) monetary policy framework which uses the Central Bank rate as the operating target and inflation as the nominal anchor. This was introduced in part due to concerns about the effectiveness of targeting base money due to increased volatility in monetary growth. There were some reservations about introducing this new target at this time. The general public, private sector and political leaders in Uganda have a very strong aversion to inflation due to past experience and concerns about the detrimental impact of high inflation on the poor, on competitiveness and longer term growth. For these reasons there was a political consensus that bold action needed to be taken to curb inflationary pressures. As a result the CBR progressively raised interest rates to 23 per cent which slowed growth in credit and aggregate demand and drove down inflation. This combination of relatively loose spending not targeted at the productive sectors, followed by tight monetary policy during a period of instability was not an ideal setting for the NDP implementation.

The balance between rapidly reducing inflation through tight monetary policy and maintaining growth could have been mitigated if progress had been faster on addressing drivers of inflation from the supply side. The rapid increase of the CBR rate contributed to the slowdown of growth during the first two years of implementing the NDP. For instance, given that some of the inflation was driven by supply-side factors, it can be argued that more robust action to address supply side constraints (e.g. setting up the irrigation schemes, action to help farmers enhance productivity etc.) could help to mitigate inflationary pressure. In practice these reforms take time and shocks often require quick decisive action. However, given the NDP's focus on stability and growth it is reasonable to expect that during a period of volatility there should be very strong coordination on policy decisions being taken by the MoFPED and BoU. It has not been possible to ascertain to what extent there were formal high level discussions on the range of short and medium term policy options available to tackle inflation during this difficult period.

However, what is clear is that macro-economic policy coordination procedures have subsequently improved. Since the end of 2012 there are now monthly discussions between the Governor of the Bank of Uganda and the Minister of Finance. This is a positive step forward as it provides a more formal framework to review policy impact, trade-offs and progress on overall macro-economic objectives.

2.4 Macroeconomic outlook

The economic outlook for the remaining period of the NDP implementation is positive although modest compared to what was anticipated in the plan (Table 3). **While growth is anticipated to rebound it is still way below from what was anticipated in the NDP.** Growth in 2012/13 is projected to be 4.1 per cent rising to 5.9 per cent by 2014/15 compared with NDP targets of 7.3 per cent and 7.5 per cent respectively. BoU will continue pursuing monetary policy to contain inflation within single digits broadly in line with NDP forecasts. The fiscal deficit is expected to widen further to 6.5 per cent of GDP and 5.9 per cent of GDP in 2013/14 and 2014/15, respectively. This more expansionary fiscal policy should create greater space for NDP implementation going forward.

Table 3: Macro-economic assumptions and framework for the next 3 years

	National Budget Framework Paper			National Development Plan		
	2012/13	2013/14	2014/15	2012/13	2013/14	2014/15
GDP Growth	5.1 per cent	6.0 per cent	6.9 per cent	7.3 per cent	7.4 per cent	7.5 per cent
Headline inflation	6.0 per cent	6.2 per cent	5.0 per cent	6.9 per cent	6.8 per cent	6.8 per cent
Reserves/months	4.1	4.1	4.1	5.5	5.6	5.7
Fiscal Deficit (Excl. grants) per cent GDP	-5.7 per cent	-6.5 per cent	-5.9 per cent	-5.7 per cent	-5.2 per cent	-4.3 per cent
Expenditure per cent GDP	19.2 per cent	20.4 per cent	20.0 per cent	19.8 per cent	19.8 per cent	19.4 per cent
Domestic Revenue - per cent GDP	13.5 per cent	13.9 per cent	14.2 per cent	14.1 per cent	14.6 per cent	15.1 per cent

Source: MOFPED Budget Framework Paper 2013/14 to 2017/18 and 2012/13 estimates based on the Budget Speech June 2013: Medium Term Macroeconomic Plan.

Fiscal space is constrained by slow progress on domestic resource mobilisation and the recent cuts in budget support by donors. Domestic revenue is projected to increase to 14.2 per cent of GDP which is well below the NDP forecast of 15.1 per cent. The limited increase in domestic revenues is partly explained by the continuation of tax incentives that have undermined the tax base and a large informal sector that is difficult to tax in the absence of a credible identification system to monitor tax payers. This is also partly explained by the weak audit systems available to URA targeting registered tax payers. Higher domestic borrowing was required last year to minimise disruptions to service delivery and the recent budget projections indicate that there will be greater reliance on deficit financing to support NDP implementation. There are concerns that sustained high levels of borrowing will increase interest rates and crowd out private sector activity. It will therefore be important to monitor the impact of higher borrowing on private sector credit.

There are positive developments and opportunities that could help accelerate growth if given the right stimulus. Some NDP related investments are beginning to bear fruit. Progress is being made on implementation of roads projects and national generation capacity has improved from 425MW in 2010 to 778MW in 2011/12[4]. Kenyan elections went smoothly and this has improved the general outlook for the EAC in the coming years. Oil companies have reached agreement with Government on constructing an oil refinery and pipeline which enhances medium to longer term economic prospects. In addition Uganda's debt position is sound. A debt sustainability and risk analysis carried out in 2012 concluded that Uganda's debt is below solvency ratios. This creates space for higher domestic/external borrowing over the medium term.

3 NDP AND ALIGNMENT OF PUBLIC EXPENDITURE MANAGEMENT SYSTEMS

3.1 Overview of public expenditure management systems

Before the implementation of the NDP, the government relied on a number of systems to formulate and execute its budget which included the Medium Term Expenditure Framework, Output-Oriented Budget Tool, Government Chart of Accounts and the Integrated Financial Management Information System (IFMIS). For the budgetary process, this was complemented by the Sector Wide Approach with Sector Working Groups (SWGs). Planning processes are supported by Sector Investment Plans (SIP), District Development Plans (DDPs), Sub-County and District and Sector Work-Plans.

[4] See MOFPED national budget framework paper 2013/14-2017/18 p.26.

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 that those specified within the NDP.

This section reviews alignment of Public Expenditure Management with the NDP including recent and planned reforms. It examines what is working well and what could be improved. The key Economic Management Review question covered in this chapter the extent to which public expenditure and related accountability systems changed to ensure alignment of budgets, spending and financial reporting with NDP objectives.

3.2 Challenges around budget implementation

Despite the fact that the MTEF is prepared for five years, the revenues, expenditures and sector allocations are frequently revised based on recent macroeconomic developments and with limited involvement of the NPA or other MDAs. Typically the budget ceilings for overall expenditure and sector allocations do not match earlier MTEF forecasts. In part this is due to the introduction of supplementary budgets in the course of the budget year that has had knock on effects across the budget. This has undermined the credibility of the budget over the last few years (See Box 2).

Box 2: The Impact of Supplementary Budgets on Budget Credibility

Despite the various PFM reforms, budget credibility and control has not been effective over the past two years of NDP implementation. By comparing the originally approved budget and actual expenditures there are wide divergences especially during the year 2010/11. Owing to various factors, several sectors overspent beyond their budget lines. These included:

- Ministry of Defence (UGX 1,501.5 billion) to buy fighter jets and pay salary shortfalls;
- State House (UGX 94.9 billion) to meet operational shortfalls;
- Ministry of Energy and Mineral Development (UGX 92 billion) to meet shortfalls in payment for thermal power electricity;
- Uganda Police (UGX 81.9 billion) to police the 2011 General Elections among others.

In principal, it is illegal for any vote to overspend more than the approved budget. However, this has usually been legitimised through supplementary authorisation by parliament. Despite the challenge of using supplementary budgets which lead to overspending by some MDAs, government is initiating remedies to enhance the credibility of the budget through the Public Finance Bill.

Under this bill it is a contingency fund will be established that will be equivalent to 3.5 percent of the total budget to cater for supplementary expenditures and emergencies. The bill also proposes stringent conditions to access the fund and for MDAs that overspend with penalties of deductions for subsequent allocations.

In addition, MoFPED has been in discussion with IMF on the introduction of a single Treasury account (STA) arrangement with BoU and the commercial banks. This would enable MoFPED to make cash releases more in line with MDA work plans. Even if MDAs were unable to absorb the releases their bank balances would be consolidated at the close of each working day and debt will be minimised.

There are also challenges with the unpredictable and late release of funds to the MDAs and LGs. This sometimes led to under spending or rushed spending at the end of the financial year. The low absorption rate of funds is also partly explained by the unpredictable budget releases. The Budget Performance Report 2010/11 identifies nine priority roads which could not commence because of delays in the release of funds. These delays also contribute to the MDAs accumulating arrears. In addition the tighter reporting requirements based on performance reporting using the Output Based Budgeting system (OBT) may also have contributed to unnecessary delays. On average it takes about 100 days between submitting a quarterly request and receiving the last instalment of funds. The unpredictability of the budget provides MDAs with justification for not delivering on priorities which undermines the planning process within MDAs. Unpredictability of the budget also affects the district activities and their planning processes.

There are several positive initiatives under way to strengthen the effectiveness of the budget. These initiatives include the introduction of performance contracting, budget reporting and budget monitoring all aimed at improving accountability and service delivery. Performance contracts will ensure accountability in public spending and specify how public funds are going to be used. Budget reports will be used to guide decision making and show areas of underperformance. Spending agencies are required to submit quarterly performance reports showing progress against their work plans.

3.3 Alignment of the budget process with NDP priorities

Engagement of the NPA with MoFPED and sector ministries to link planning and budgeting for NDP implementation has been limited. There were intensive consultations between the

NPA and sectors as the NDP was being prepared. Also the NPA engaged in various consultations with the MoFPED and BoU to agree on the macroeconomic framework for the NDP. However, as execution of the plan and distribution of resources is mainly done by the MoFPED with sector Ministries, the NPA has not played a direct role in influencing resource allocation. In addition, the NDP was approved in 2010 and was introduced too late to significantly influence the budget cycle for the financial year 2010/11. For the subsequent budget cycles, the NPA has not actively or strategically worked with the MoFPED and sector MDAs to ensure the NDP is effectively mainstreamed within the budget. However, the 2012/13 budget documentation does clearly emphasise the need to align sector priorities and resources towards strategic interventions included in the NDP.

There are process challenges around aligning the budget with sector / district and NDP planning and review processes. At present the budget and sector / district planning and review processes are not well aligned. The budget cycle does not put sufficient emphasis on assessing progress over the preceding year. This makes it difficult to modify and adapt budget priorities in line with past performance or new emerging challenges. In addition, NDP district planning processes are carried out every 5 years whereas the budget is developed annually and sector plans timelines are not necessarily aligned with the NDP planning period. At present there is no formal process in place to review district development plans.

Various modelling tools were used by the NPA, BoU and MoFPED to formulate the macroeconomic framework. The analysis of the NDP was underpinned by the MAMS (Marquette for MDG – Millennium Development Goal – Simulations) model which is a dynamic-recursive computable general equilibrium (CGE) model.5. The model comprises the real, fiscal and external sector and its well linked to social sectors to provide policy scenarios of poverty, MDG2, MDG4, MDG5 and MDG 7a and 7b. This framework also differentiates between government activities and private sector activities in education and health. The macroeconomic department of MoFPED and BoU currently use a combination of locally developed models, consultation with key sectors and a financial programming model to develop growth targets and monetary forecasts respectively. While the financial programming model covers all sectors, it does not link with the social sector outcomes which were a key input for the NDP. Despite differences in the modelling frameworks used by the

[5] MAMS has been applied to more than 35 developing countries, primarily in the context of work undertaken to assess the resource requirements for countries to meet their MDGs.

NPA, BoU and MoFPED, efforts were made to reconcile the figures from the various modelling frameworks before the NDP was adopted by the government.

Over the last year progress has been made on improving integration across modelling frameworks. A new macro-econometric-general equilibrium model is being developed that will be used collaboratively between the MoFPED, BoU and NPA. In addition, under the new Public Finance Bill (2012), the Charter of Fiscal Responsibility shall provide a detailed statement of the Medium Term Fiscal Framework which will lay down measureable objectives of government, local government, state enterprises and public corporations for a period of not less than five financial years. Each financial year Ministers will need to prepare a Budget Framework Paper that will need to be consistent with the NDP and the Charter of Fiscal Responsibility.

This new modelling framework will enable greater convergence between the NDP macro-economic strategy and the annual framework used to develop the MTEF. In addition the Charter of Fiscal Responsibility will need to be fully compatible with future NDP planning frameworks. This will require close coordination between NPA, the MoFPED and BoU during preparation of the next NDP.

3.4 Alignment of the MTEF with NDP priorities

Government fiscal policy stance in the medium term is underpinned by the priorities of the five years NDP 2010/11-2014/15. Indeed, the NDP provides guidance over the period on how resources should be mobilised and spent on the various sectors. Based on this framework, the MoFPED prepares a five-year MTEF which forecasts revenues and grants, expenditure (sectoral allocations) and financing. The MTEF is prepared on a rolling annual basis based on the recent economic developments.

Each year's budget has tended to diverge to some extent from the NDP in terms of composition of spending (Table 4). In part this is due to the fact that the NDP is a fixed five year development plan whose projections were based on the premise that growth would continue at 7 per cent and the macroeconomic environment would remain stable. Both of these assumptions were not realised and this impacted on available resources for NDP implementation. While it is implausible to have an MTEF that would directly mirror NDP expenditure priorities, it is reasonable to expect that the composition of spending would be broadly maintained in the MTEF and the NDP. Whilst there has been movement in the right direction in some key sectors, most notably energy, works and transport, many sectors have consistently attracted funding below NDP targets. The ones that have attracted more funding than expected are primarily the enabling sectors like security and public.

The NDP envisaged achieving efficiency gains to create further fiscal space and increase allocations to priority sectors. This was to be achieved through strengthening the link between public spending and outputs/results, increased productivity, eradicating corruption and reducing duplication of functions. Whilst there has been some progress on linking public spending to outputs, duplication of functions across MDAs and corruption continue to be serious problem. In addition spending in areas such as defence and security has limited scope to absorb efficiency savings in other sectors. Efficiency and value for money should be given much greater attention going forward given the growing pressures on the budget. Sectors should be required to identify efficiency savings and these should be reinvested in NDP priorities.

What is currently missing is a direct link between sector plans, the MTEF, the NDP and ultimately to the Vision 2040. Ideally sector plans should reflect NDP priorities and the MTEF should prioritise funding for critical sector NDP priorities. Where sector plans and NDP priorities cannot be fully funded due to overall resource constraints then sectors should only be held to account for delivery of priorities that are fully funded. This should be clearly articulated in Ministerial Policy Statements.

Table 4: 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
		NDP	Budget	NDP	Budget	NDP	Budget	NDP	NDP
Agriculture	4.4 per cent	4.7 per cent	4.9 per cent	4.8 per cent	4.5 per cent	5.0 per cent	3.8 per cent	5.2 per cent	5.3 per cent
Water and Environment	2.4 per cent	3.3 per cent	3.2 per cent	3.4 per cent	2.8 per cent	3.4 per cent	3.4 per cent	3.7 per cent	3.7 per cent
Tourism, Trade and Industry	0.7 per cent	0.9 per cent	0.8 per cent	0.9 per cent	0.6 per cent	0.9 per cent	0.5 per cent	0.8 per cent	0.8 per cent

Energy and Mineral Development	9.9 per cent	11.2 per cent	5.4 per cent	11.8 per cent	13.7 per cent	11.8 per cent	13.5 per cent	12.3 per cent	12.6 per cent
ICT	0.2 per cent	0.1 per cent	0.2 per cent	0.1 per cent	0.1 per cent	0.1 per cent	0.1 per cent	0.1 per cent	0.1 per cent
Lands, Housing-Urban Development	0.3 per cent	0.3 per cent	0.3 per cent	0.3 per cent	0.3 per cent	0.2 per cent	0.1 per cent	0.2 per cent	0.2 per cent
Works and Transport	17.2 per cent	15.6 per cent	14.4 per cent	16.0 per cent	13.4 per cent	16.0 per cent	15.3 per cent	16.2 per cent	16.4 per cent
Accountability	6.6 per cent	5.8 per cent	6.4 per cent	5.7 per cent	5.6 per cent	6.3 per cent	5.7 per cent	6.0 per cent	5.9 per cent
Social Development	0.5 per cent	0.5 per cent	0.5 per cent	0.5 per cent	0.5 per cent	0.4 per cent	0.5 per cent	0.4 per cent	0.4 per cent
Health	10.4 per cent	11.0 per cent	8.7 per cent	11.2 per cent	8.3 per cent	11.3 per cent	7.7 per cent	11.4 per cent	11.6 per cent
Education	15.3 per cent	16.2 per cent	15.9 per cent	17.2 per cent	14.7 per cent	18.2 per cent	15.2 per cent	18.9 per cent	19.1 per cent
Defence and Security	6.9 per cent	6.4 per cent	6.8 per cent	6.4 per cent	10.1 per cent	6.2 per cent	8.0 per cent	6.0 per cent	6.0 per cent
Public Sector Management	10.0 per cent	9.5 per cent	10.5 per cent	7.9 per cent	10.2 per cent	7.0 per cent	9.3 per cent	6.4 per cent	5.8 per cent
Justice Law and Order	5.1 per cent	4.7 per cent	6.9 per cent	4.5 per cent	5.5 per cent	4.4 per cent	4.7 per cent	4.2 per cent	4.0 per cent
Legislature	1.7 per cent	1.6 per cent	1.7 per cent	1.5 per cent	1.7 per cent	1.5 per cent	2.1 per cent	1.4 per cent	1.3 per cent
Public Administration	3.1 per	3.2 per cent	4.2 per cent	3.0 per cent	2.4 per cent	2.3 per cent	2.2 per cent	1.8 per cent	1.6 per cent

	cent								
Interest Payments	5.2 per cent	4.8 per cent	5.2 per cent	4.6 per cent	5.4 per cent	4.6 per cent	7.8 per cent	4.6 per cent	4.7 per cent
Unallocated	…	0.3 per cent	4.1 per cent	0.3 per cent	…	0.3 per cent	…	0.3 per cent	0.3 per cent

Source: NDP and BTB.

3.5 Other public expenditure management systems

Output oriented budget tool

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, Budget Framework Papers, 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 (consistent with the MTEF) while the NDP covers five year period. 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.

In line with changing the MTEF to five years, the NDP, OBT system and related sector planning processes need to converge on a set of strategic outcomes and outputs that should be derived from high priority objectives in the NDP. These could cut across sectors. This may be difficult to achieve in the course of the current NDP. However, development of the new NDP provides an opportunity to establish an NDP results framework which can be cascaded more readily to outputs in the OBT and sector plans.

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

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

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

When the NDP was being developed, some MDAs did not have Sector Investment Plans (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 top 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 be have SIPs in place as a basis for informing planning for the next NDP 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.

3.6 Public investment planning and the NDP

For the first two years of implementing the NDP, there was a dis-connect between the Public Investment Plan (PIP) and the NDP. The projects that were identified in the NDP 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. In addition there is no clear link between investment planning and recurrent expenditure requirements in the PIP process. This can lead to disconnect between the recurrent and development budget. The government is planning to review the PIP and this provides an opportunity to improve the process going forward. This review could explore some of the issues below that have come up repeatedly in the course of this MTR. Two recent developments are very positive steps in the right direction. A committee has been set up to scrutinise projects to be included in the PIP and this includes NPA representation. Clearer guidelines have also been developed which include prioritisation of NDP projects.

A number of core and sector projects were included in the NDP without being fully appraised. As a result the technical and financial feasibility of these projects had not been fully tested and they were not yet "investment ready". In addition the NDP did not bring out clearly the planned sequencing of investment projects taking into account technical and financial capacity to design and implement projects. These appraisals take considerable time and cost and require high levels of expertise especially for the more complex and ambitious projects. As a result many projects are running behind schedule and some MDAs are struggling to implement a large number of complex projects simultaneously.

Box 3: Design and approval stages for investment projects

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?

As Box 3 demonstrates, a critical factor slowing project design and implementation is the procurement process. Some of the concerns raised in the course of this Review 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.

Potential ways of improving Investment Planning and links in the next NDP

As the next NDP is developed it is worth exploring how to improve investment planning and links between critical NDP projects, sector investment plans and the PIP. This could draw on other countries experiences in driving forward flagship projects as part of their national planning process (See Box 4).

Box 4: Presentation, coordination and financial planning of strategic flagship projects in comparative NDPs

The Kenyan Vision 2030 (published 2007) identifies around 50 Flagship Projects that are to be implemented in the medium term (2008-2012) in order to meet the long-term strategies and objectives. Both the Vision 2030 and the first medium term plan (MTP) (2008-2012) are organised across 3 pillars – the economic, social and political. These pillars are anchored on macroeconomic stability; continuity in governance reforms; enhanced equity and wealth creation opportunities for the poor; infrastructure; energy; science; technology and innovation; land reform; human resource development security and public sector reforms. The Vision 2030 maps out the Flagship Projects that will be implemented to ensure progression on each of these areas. At the completion of this period another five year MTP will be produced covering the period 2013-2017, 2018-2022 and 2023-2027 up to 2030. Over successive five year terms, the MTPs will implement the Flagship Projects identified under Vision 2030, various programmes and key policies.

The national monitoring framework for The Vision 2030 gives timelines for completion of key outputs associated with the flagship projects. The progress of the Flagships is monitored against these timelines. The framework also links to the budget process including expected outputs for the full period of implementation. Each Flagship Project is broken down into annual implementation components. This allows executing ministries to keep track of progress, the Vision Delivery Secretariat to monitor progress and assist in the mobilisation of resources as appropriate and, the Ministry of Finance to anticipate financial requirements for the projects as they progress. Reports on the Flagship Projects are produced by the Vision Delivery Secretariat on a quarterly basis. The increased frequency of reporting is designed to inform the board and assist in strategic decision making.

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.
- **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.

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)[6].

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.

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[6] 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.

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

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.

3.7 Immediate opportunities to improve public expenditure management

The Public Finance Management bill is before parliament and is being debated. This provides a good framework for improving public financial management. The overall objective of the PFB 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 some positive aspects about the bill as summarized in the Box 5.

Key Highlights of the Public Financial Management Law

i. Consolidate the Public Financial Management Law which is currently 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
ii. Provide for good practices Uganda has developed over the past decade but which are not fully reflected in the current legislation
iii. Address gaps, inconsistencies and weaknesses encountered during implementation of both the Budget Act and the PFAA
iv. Make provisions to operationalise the Contingencies Fund – Article 157 of the Constitution to provide stability of funds released through the Financial Year
v. Establish Institutional Framework for the Petroleum Revenues and make provisions for prudent management and accountability of Petroleum Revenues
vi. Integrates the public financial management cycle (fiscal, budget, treasury and accounts) in one document
vii. Changing in the national budget cycle to rhyme implantation with the financial year i.e. releases are effective July not September as having been the experience
viii. Introducing the Charter of Fiscal Responsibility which is signed by Parliament that coincides with the Presidential Electoral Cycle
ix. Providing a Legal Framework for the prudent management of oil resources that is consistent with the National Oil and Gas Policy (2008) and the Oil and Gas Revenue Management Policy (2012) and ensuring that oil resources benefit both the current and future generations
x. Prescribes a single framework for management of all government revenues both oil and non-oil

Box 5: Summary of public financial management bill

However, the bill could be strengthened by clearly emphasising the role and importance of the NPA in the planning paradigm. The NPA should guide medium term resource plan through the NDP process and this should be used as the basis for setting annual budget priorities. The annual rolling BFP should also be broadly consistent with the NDP to enhance the implementation of the plans. The MDAs / LGs should use the NDP as the basis for their annual plans and budgets rather than engaging in multiple planning processes.

Essentially the NDP should act as the framework for guiding annual priorities and budgets and these should be signed off by Cabinet at the start of the budget process.

4 ENHANCING GROWTH AND PROMOTING COMPETITIVENESS AND PRIVATE SECTOR DEVELOPMENT

As this is a MTR and the NDP has only been operational for a relatively short period of time it is not feasible to assess the direct impact of the NDP on private sector development and competitiveness. However, this section reflects on the performance of some key NDP sectors and prospects for the next two years. It explores issues around competitiveness and ease of doing business and comments on progress to date. It also draws on recent surveys and a consultation with the private sector carried out in the course of this MTR.

4.1 Review of sector performance and growth

Between 1990 and 2007, real GDP growth averaged close to 8 percent, compared with 3 percent in the rest of Sub-Saharan Africa (SSA). The early years of the growth episode was largely driven by significant capital accumulation as the country was recovering from civil strife. More recently growth has decelerated during 2009-2012 due to external shocks including the volatile commodity prices and global recession which has greatly put pressure on the current account and the domestic exchange rate. As shown in Table 5, it was envisaged that agriculture would contribute on average 5.8 percent to overall GDP, while industry would contribute about 6.5 percent and services which is the dominant sector would contribute about 7.5 percent. On the contrary, agriculture performed poorly growing on average at about 1 percent owing to various factors illustrated below. Industry on the other recovered after poor performance in 2011/12, it rebounded in 2012/13 to the growth level that was anticipated in the NDP. There has also been a slowdown in the growth of services particularly in 2011/12 and 2012/13.

The growth that has been witnessed in the past years has been accompanied by some significant changes in the composition of GDP. Uganda's strong economic growth since 1992 has been driven mainly by the services, manufacturing and construction sectors (Table 5). Within the period 2008 to 2012, the share of value added contributed by the services sector has remained almost half of total gross domestic product (GDP) from about 32 per cent in 1990 and that of agriculture diminished steadily from 50.3 per cent to about 23.9 per cent in the same period.

Table 5: Performance of the real economy by sector

	2010/11		2011/12		2012/13		2013/14	2014/15
	NDP	Actual	NDP	Actual	NDP	Estimate	NDP	NDP
Overall GDP	6.7	6.7	7.0	3.4	7.2	5.1	7.4	7.5
Agriculture	5.7	1.2	5.8	0.8	5.4	1.4	5.6	5.7
Of which								
Food crops	5.1	0.7	5.4	-1.7	5.0	0.2	5.1	5.3
Export Crops	4.8	-1.5	5.0	8.2	4.5	3.9	4.7	4.8
Livestock	5.4	3.0	5.6	2.8	5.2	2.8	5.4	5.5
Forestry	5.7	2.8	6.0	3.3	5.7	2.8	5.8	6.0
Fishing	8.2	1.8	7.9	1.9	7.1	1.9	7.1	7.1
Industry	6.0	7.9	6.2	2.5	6.9	6.8	6.7	7.0
Of which								
Mining	6.1	18.6	6.3	5.7	9.0	-1.0	8.1	8.3
Manufacturing	5.9	8.0	5.9	-0.3	6.1	4.2	5.9	5.9
Utilities	7.5	10.7	7.9	7.4	11.4	10.0	10.3	10.8
Construction	5.6	7.8	5.8	3.2	5.7	8.2	5.9	6.1
Services	7.6	8.2	7.8	3.6	7.5	4.8	7.7	7.8
Trade	6.4	4.2	6.5	3.4	6.4	1.7	6.4	6.6
Hotels & catering	26.5	-0.7	24.4	18.0	20.1	4.6	19.3	18.4
Transport	3.7	7.9	3.3	2.8	3.6	4.5	2.9	2.2
Communications	6.8	21.2	6.9	18.9	6.7	14.8	6.8	7.0
Banking	6.2	19.5	6.3	-10.0	6.1	4.5	6.1	6.1
Real estate	6.9	5.7	7.0	5.8	6.9	5.8	6.9	7.0
Community services	7.0	11.4	7.3	13.8	7.1	8.4	7.2	7.3
Public	2.2	11.6	2.2	-15.2	2.1	3.8	2.2	2.3

Source: NDP and UBOS Statistical Abstract.

Agriculture sector performance

Focusing on the period during which the NDP has been implemented, the performance of the agricultural sector has been disappointing. While the sector has been on a recovery path since 2011/12 when it only grew by 0.8 percent, growth in this sector remains very low at an estimated level of 1.4 percent. The key driver to the recent recovery of the agriculture sector is the revival of cash crop farming which is estimated to have grown by 3.9 percent in 2012/13 and 8.2 percent in 2011/12. Coffee which contributes over 60 percent of the cash crop's total value is estimated to have grown by 9.8 percent in 2012/13 and 12.7 in 2011/12. The outlook for coffee production remains positive due to the expected improvement in world coffee prices and the recent efforts to control the wilt disease. Other cash crops including tea, sugarcane and cocoa have also performed well over the review period with an upward trend. The only cash crop which has registered a downward trend has been cotton, due to reduction in acreage following a reduction in farm gate prices. Farm gate prices have dropped from an average of UGX 2300 per kg of seed cotton in 2010/11 to UGX 1,100 in

2011/12. This has also exacerbated with adverse weather conditions specifically drought during planting season and the heavy rains.

For the period 2011/12 and 2012/13, food crops which account for 50 percent of total agriculture and key to the food basket as well as exports especially within the region contracted by 1.7 percent in 2011/12 and only grew by 0.2 percent in 2012/13 respectively. The contraction was largely attributed to the severe draught in 2011/12. The level of agricultural exports, including maize, beans, and flowers, increased significantly during the first half of 2012/13, largely due to higher international prices and increased volume of trade.

Overall the level of growth in the sector has not been enough to compensate for the reductions in growth in other sectors especially manufacturing and services. The recent decline in agriculture partly reflects the fall in productivity of the sector, deterioration in farming methods synonymous with poor technologies and resources especially in form of labour being reallocated to services. Other structural problems include the use of inferior inputs and lack of value addition to raw materials that have limited productivity and profitability of the sector have contributed to the low growth of the sector. Other generic factors constraining growth include lack of coherent land reforms, dysfunctional land market, lack of mechanisation, weak infrastructure, lack of agriculture financing and weak marketing infrastructure.

In order to improve productivity of the sector, the following set of objectives were supposed to be implemented:

- Improved agricultural research and technology development;
- Better delivery of advisory services and improved technology;
- Improved disease, pest and vector control;
- Enhanced productivity of land through sustainable management of soil and water resources;
- Increased use of water for agricultural production;
- Promotion of labour saving technologies and mechanisation;
- Improved agricultural livelihoods in Northern Uganda; and
- Promoting strategic enterprises.

However, to meet these objectives there are various challenges over the last two years that would require to be addressed. Among them highlighted in the recent sector reviews include:

- Low Medium Term Expenditure Framework (MTEF) ceiling relative to the ATAAS project budget provisions resulting into a substantial financing gap for implementing programme activities thereby affecting operational/activity budgets;
- Less than expected pace of flow funds through the financial arrangements leading to late arrival of funds at the sub county level relative to the growing / agricultural seasons;
- High level of expectations and demands from the stakeholders way beyond the available resource (National Technology Fund) at the NAADS secretariat;
- Low commitment and/or inadequate capacity of local governments and farmers to meet their co-funding obligations towards NAADS programme implementation thereby constraining implementation of activities as well as threatening sustainability;
- Inadequate availability of appropriate financial institutions limiting the ability of farmer groups to open bank accounts to facilitate their financial transactions;
- Preference of farmers for technology/material inputs (often received at individual level) compared to advisory services and related joint learning activities;
- Protracted process of filling the positions at the NAADS Secretariat according to the new staffing structure;
- 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;
- 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;
- Climate change has resulted in un-favourable weather conditions during the production period, leading to loss of planted acreage and drop in yields. 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 made weeding and pest control difficult and costly to the farmers since activities had to be repeated at very short intervals;
- Inputs have steadily increased in cost due to 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. This demoralised farmers and made them reluctant to buy pesticides and implement the recommended agronomic practices especially for the late planted crop.

Industry Sector Performance

There was strong recovery of the industrial sector during the period 2012/13. Growth in this sector is estimated at 6.8 percent relative to the growth rate of 2.5 percent in the fiscal year 2011/12. The key driver for this growth was recovery of the construction sector which grew by 8.2 percent and accounted for 61 percent of the value added to the sector. The slow growth of the construction sector in 2011/12 could be attributed to the unstable macroeconomic environment during that financial year that was characterized by high inflation, high interest rates and a slowdown in private sector credit to finance the sector. Manufacturing also recovered in 2012/13 with a growth rate of 4.2 percent during 2012/13 compared to 0.3 percent in 2011/12. This is consistent with the growth in electricity provided which could have helped to unlock one of the key binding constraint for industry. The recent completion of Bujagali Hydropower Dam and other mini-hydropower stations has greatly improved the availability and stability of electricity (See RF).

For 2011/12, the manufacturing sector faced various challenges which included power shortages and higher electricity prices, financing constraints resulting from tighter liquidity, and lower demand from global markets. The low electricity generation which was combined with expensive thermal generators being switched off due to insufficient funding resulted into increased tariffs. This considerably increased the cost of manufacturing.

Services Sector Performance

Overall weak economic growth recorded in 2011/12 is explained by the deceleration of the services, which account for approximately 52 percent of Uganda's GDP. This previously booming sector lost about 5 percentage points of growth. Financial and trade services decelerated due to increasing uncertainty in the business environment and tighter liquidity conditions that led to higher interest rates and more prudent behaviour by commercial banks. Notwithstanding these negative developments, services have since registered some recovery of 4.8 percent, albeit still low compared to previous years. The recovery has been mainly driven by transport, communications and financial services. Financial services have particularly been boosted due to increased loan uptake after a recent reduction of interest rates. In addition, the real estate sector has also rebounded and estimated to have grown by 5.8 percent in 2012/13.

There are various challenges constraining the performance of the services sector. In a recent investment survey, it was found that many businesses are currently operating below capacity due to low demand (40.4 per cent) followed by unreliable supply of production inputs (19.1 per cent) and lack of working capital (13 per cent). The high cost of credit (83.3 per cent) coupled with poor infrastructure (79 per cent) and limited access to credit (77 per cent) was considered the main non-regulatory factors which constrained growth. Over half of the businesses in the survey indicated that interest rates had a negative impact on business operations. Volatility of exchange rates also resulted in payment delays where customers had been negatively affected by exchange rate losses. In terms of quality of services, the survey indicated that electricity, railway transport and health care were the most poorly delivered. The most effectively delivered services were banking services, air transport and insurance services. Electricity, air transport, banking and road transport were all rated to be expensive.

The investment survey concluded that poor infrastructure in the energy and transport sectors are the major constraints to business expansion. Macro-economic and political stability are positive drivers of investment in Uganda. Many businesses indicated that they are not formally registered as the processes are too bureaucratic. Government is encouraged to support investment across the country, not just in Central Region and to promote investment partnerships to boost investment and exports. It should exploit opportunities offered by trade and regional agreements with the EU, EAC and COMESA.

Growth and Socio-Economic Transformation

Uganda's structural changes have not been associated with significant improvement in income levels and social transformation. This is partly because the structural transformation in Uganda is currently taking place through the expansion of non-tradeables especially services at the expense of the tradeables sectors especially agriculture and industry. Economic transformation has been defined as a combination of accelerated growth, rapid growth of exports, economic diversification, and structural change. It also involves the evolution of labour productivity. It's synonymous with transformation from a traditional to a modern one through high capital accumulation, technological change and productivity growth. In the Vision 2040, transformation is defined as changing from peasant economy to a modern and prosperous country. This would involve changing from a predominantly low income to a competitive upper middle income country. Much needs to change to achieve this transformation and to ensure growth delivers benefits across the country and population.

Due to the high population growth rate estimated at 3.2 percent and the modest growth achieved over the past two years, per capita GDP has deteriorated to about US$ 487, a decline from the 2010 when it was registered at US$ 502. The targeted per capita income of US$ 1,000 by 2017 should qualify the country to be of a middle income status. However, given current obstacles to achieving high levels of broad based growth and the pressures of high population growth, it will be very difficult to achieve middle income status by 2017 notwithstanding the expected oil resources. The Vision 2040 goal of increasing per capita income to US$ 9,400 also looks very ambitious.

Growth of exports has been limited over the past two years. Uganda's export basket remains narrow and dominated by primary products (around 85 per cent), including coffee, fish, tobacco, gold, and flowers. Reliance on these exports has made the export sector vulnerable to fluctuations in world market prices and the vagaries of weather. Indeed, Uganda has faced a significant long-run term decline in its terms of trade. This suggests that economic transformation driven by value added export growth is not yet taking place.

Other indicators of socio-economic transformation include the level of urbanisation. Vision 2040 describes the importance of urbanisation and development of regions. Uganda also has one of the lowest urbanisation rates in Africa (16 per cent). Kampala accounts for one third of Uganda's urban population. Even though Ugandans are mobile, most people move from one rural area to another in search of fertile land. More needs to be done to urbanize Ugandan cities by increasing their economic activities so as to attract more labour and related infrastructure and institutions. Action to develop "regional economic hubs" would concentrate services and facilitate trade into new markets. UIA are working on developing industrial parks that could fit into this kind of model. The World Bank Inclusive Growth study[7] includes proposals on how this could be done including: greater focus on equitable provision of services across regions; infrastructure investments to link leading and lagging regions; improved land management systems and institutions including planning and management of urban areas; improved transport services in urban areas to reduce congestion; strategic interventions in lagging regions to improve economic development opportunities e.g. development of transport routes into Southern Sudan in Northern Uganda.

Growth Opportunities

[7] Uganda Promoting Inclusive Growth Synthesis Report, February 2012, World Bank.

More could be done to strengthen governments focus on harnessing growth opportunities offered by regional integration. The recent World Bank Economic Outlook[8] reviews what needs to be done to unleash Uganda's regional trade potential. At present Uganda is under-exporting and over-importing to many countries including its neighbours. The study indicates that more needs to be done to encourage farmers and businesses to make better choices regarding what to produce and how to produce products that meet standards expected in regional markets. The Ministry of Trade and Export Promotion Board have recently been highly fiscally constrained and many businesses are not even aware of trade opportunities on their doorsteps. The concluding recommendations of the WB study are that Uganda should be doing more to leverage its agricultural exports within the region. It should support diversification of the export base with a focus on value addition and its contribution to trade in specific tasks or parts to build regional supply chains. Diversification into services is also recommended.

Greater emphasis on strategic investments focused on linking leading and lagging regions and improving transport corridors to regional markets could also have a strong catalytic effect on facilitating regional trade. For example, development of trade routes into South Sudan would help improve competitiveness, enhance development in Northern Uganda and open up a very large new market.

Many of the policy measures proposed to maximise returns from regional integration resonate with NDP priorities. However, at present this is a treated as a "stand alone" area rather than an integral part of the NDP. Specific areas for action that the WB Review focused on include: (i) action to reduce transportation costs; (ii) a stronger focus on addressing non-tariff barriers including mutual recognition of procedures applied in each member state to ensure products meet agreed EAC standards; (iii) accelerating regulatory reform and action to open up trade in services; (iv) streamlining trade across borders; (v) addressing supply constraints in sectors with significant EAC export potential and facilitating diversification into higher value added production and trade; (vi) more proactive awareness raising to promote opportunities and manage concerns around the negative impacts of integration particularly in

[8] Uganda Economic Update, Bridges across Borders – Unleashing Uganda's regional trade potential, World Bank February 2013.

relation to the small business sector. All these areas could fairly straightforwardly be strategically integrated into current and future NDPs.

Harnessing the potential of Micro Small and Medium Sized Enterprises (MSMEs). The private sector in Uganda is largely driven by growth of MSMEs. According to the Uganda Private Sector Foundation[9] MSMEs employ 2.5 million people and contributes 75 per cent of the country's GDP. Many MSMEs are small, young and informal. Less than 10 per cent of Ugandan enterprises have operated for more than 20 years. In the course of this review many challenges have arisen that are particularly relevant to SMEs (access to finance, access to appropriate skills, technology and inputs) and any focus on agricultural transformation will need to recognise that the majority of agri-businesses are MSMEs.

There are various initiatives across government to support SMEs that are sector based or sit within cross cutting ministries such as the Ministry of Trade and the Uganda Investment Authority. There are also many SME support initiatives operating outside government including Enterprise Uganda and a host of NGO initiatives. The private sector is also active in providing consultancy and business development advice to SMEs. What is lacking is an over-arching strategy to address constraints to SME development and growth. Some of the constraints highlighted include the increasing cost of production especially energy, the lack of financing and its increasing costs and a lack of supporting infrastructure for SME growth. Also of importance is the lack of a policy on SMEs. More recently, the costs of formalising businesses have also tremendously increased and thereby encouraging SMEs to remain informal. Enhancing the competitiveness of MSMEs will help generate inclusive growth and employment across Uganda.

Investment performance

Another indicator of progress is the extent to which Uganda has attracted new investment over the last few years. According to the World Bank Economic Outlook 2013 levels of foreign direct Investment increased significantly. Uganda was the largest recipient of FDI in East African. FDI increased from US$ 719 million in 2011/12 to US$ 1,405 million in 2012/13 which is equivalent to 8.3 per cent of GDP. However, much of this was focused on oil exploration and tourism which will not necessarily have a transformational impact across the

[9] PSFU Private Sector Platform for Action, March 2012.

wider economy. The need to attract investment to support diversification and investment to support value addition particularly in agriculture is still pertinent.

Box 6: Snapshot of Investment Survey Findings (2012)

The Investors Survey presents the results of a survey carried out by the Uganda Bureau of Statistics (UBOS) in collaboration with the Ugandan Investment Authority. Some of the key findings from the 2012 survey were as follows:

- Only 46 per cent of licensed projects actually took off;
- About 888 projects attracted investment worth US$2,861 million at implementation with average actual investment per project estimated at $3.2 million. 53.5 per cent of the licenses projects were foreign and 42.4 per cent domestic and 4.1 per cent were joint ventures. Nearly 46 per cent of foreign investment came from Asia and nearly 22 per cent from Europe. Most projects were concentrated in the Central Region (78 per cent) and focused on manufacturing (29 per cent), wholesale and retail (18 per cent) and accommodation and food service activity (9 per cent);
- Domestic Investors had 375 licensed projects attracting $1,284 million or an average per project of $3.4 million. This compares with an average project size of $3.2 million for foreign projects;
- Total planned employment across the 888 projects was 123,144 of which casual/unskilled labour constitutes about 67 per cent of the workforce;
- Micro-Small and Medium Scale enterprises form the majority of the projects in numbers (653) compared with large scale enterprises (235). Unsurprisingly their average investments were $2.15 million per project compared with $6.2 million for large enterprises. Large scale enterprises generated more jobs (61,069) compared with SMES (12,713);
- Most firms finance their investment through retained earnings and equity finance (71 per cent). The major bottleneck to investment financing was identified as high interest rates which make acquisition of credit very difficult.

Source: Investors Survey Report 2012, UBOS and UIA.

4.2 Competitiveness and improving environment for "doing business" in Uganda

The NDP and government policy place a strong premium on action to enhance competitiveness and improving the business environment. The two benchmark surveys on competitiveness are the World Bank Doing Business Report and the Global Competitiveness Report of the World Economic Forum.

Doing Business Report findings

The Doing Business (DB) report aims to assess the key factors that slow down or inhibit business activity. According to DB 2013 survey Uganda ranks 120th (out of 185) overall in the ease of doing business survey. Uganda has fallen by one place in the overall ranking over the last year. This position places it ahead of Kenya at 121 but far below Rwanda at 52. Areas where Uganda is performing badly relative to a selection of its EAC neighbours include: starting a business, protecting investors and trading across borders. These are also essential elements of competitiveness and will impact on Uganda's ability to attract investors relative to its neighbours. According to the DB report to start a business in Uganda a company has to pass through 15 procedures that take 33 days and cost 76.7 per cent of the income per capita. PSFU[10] suggest that Uganda is ranked to have the highest investment and business operating cost regimes with the EAC region.

Over the last 12 months Uganda's ranking improved considerably (12 places) on ease of access to credit. This suggests that action to address this key binding constraint is beginning to have an impact. However, for all other indicators Uganda went backwards compared with 2012 and there was a significant deterioration in Uganda's ranking in some key areas: paying taxes (down 11 places); resolving insolvency (down 5 places); dealing with construction permits, getting electricity and registering property (down 3 places in each) as shown in Table 6.

Table 6: Uganda's comparative performance on the doing business ranking

Indicator	Uganda	Kenya	Rwanda	Tanzania
Overall Index	120	121	45	127
Starting a business	144	126	8	113
Dealing with construction permits	118	45	98	174
Getting electricity	127	162	49	96
Registering Property	124	161	63	137
Getting credit	40	12	23	129
Protecting Investors	139	100	32	100
Paying Taxes	93	164	25	133
Trading Across Borders	159	148	158	122

10 PSFU Private Sector Platform for Action March 2012.

Enforcing Contracts	117	149	39	36
Resolving Insolvency	69	100	167	129

CICIS Brief – original source WB Doing Business Reports WB 2013.

Global Competitiveness Index findings

The Global Competitiveness Index (GCI) measures the micro and macro-economic foundations of national competitiveness. This has 12 pillars and is published by the World Economic Forum. Uganda's performance this year declined by two places from 121 (out of 142 economies) in 2011/12 to 123 (out of 144) in 2012/13. There were improvements in some areas including business sophistication (82 – up 10 places), macro-economic environment (119 – up 8 places), labour market efficiency (23 – up 3 places), Financial Market Development (62 – up 4 places) and Goods market efficiency (103 – up 2 places). Areas where Uganda's position deteriorated included institutions (102 – down 4 places), Health and Primary Education (123 – down one place), Higher Education and Training (127 – down 2 places) and Technology Readiness (117 – down 6 places). This implies that there is a continued need to improve public sector management, deliver basic services effectively and improve skills and innovation. Openness to drawing in international experience and investment to enhance technology transfer is also likely to be important as the economy diversifies and businesses and investors move into value addition in key sectors.

4.3 Private sector performance, progress and challenges

The private sector remains a key driver to Uganda's economic growth and socio-economic transformation as highlighted by the NDP. The sector is largely dominated by MSMEs. Of these about 1,100,000 are enterprises employing approximately 2.5 million people. It is estimated that the sector contributes about 75 per cent of the country's GDP. Key activities of the sector include agriculture, trade, construction, manufacturing, services such as hospitality and entertainment industry, finance, health, education, professional services and information communication technology related business. Employment by sector reveals that 66 per cent are in the primary Sectors (Agriculture, Fisheries, Forestry et..c), 28 per cent in Services, while 6 per cent were involved in Manufacturing. In addition, 76 per cent of Uganda's labour force is self-employed while 24 per cent are employed by others.

In the course of this MTR a consultation was held with private sector representatives. They provided feedback on the NDP and challenges around doing business in Uganda. The general view was that the NDP is a sound document which achieves a good balance between growth and poverty reduction. The NDP can potentially be "good for business" in Uganda but needs to be implemented effectively. To date progress has been slow. There has been relatively strong formal private sector engagement in NDP development and the Private Sector Foundation (PSFU) has represented the private sector in many high level discussions. However, knowledge and awareness of the NDP in the informal sector is limited.

The Forum was asked about progress on NDP implementation and there were many positives. The road network has improved considerably and there is greater focus on diversifying sustainable energy sources including hydropower and biogas. There is greater focus on developing the tourism sector (ecotourism and national parks). Support with land acquisition is helping investors. Systems have been introduced to improve access to finance e.g. SACCOs.

Despite these positive developments, the private sector is still faced with several constraints to growth. The general view was that the cost of doing business has gone up due to rising energy costs, relatively expensive communication costs (and mixed availability across the country), high transport costs and punitive taxes due to narrow tax base. The top 3 constraints identified were energy/infrastructure (access and cost), political leadership/lack of public sector accountability and limited access to affordable finance. In the course of our consultations with the private sector during this MTR the following suggestions were put forward by the private sector (Table 7).

Table 7: NDP MTR private sector forum - constraints to growth and potential solutions

Constraints	Solutions
Infrastructure Energy cost, availability and quantity Poor Infrastructure – over reliance on road network. Many parts of the country are cut off. Roads are not properly maintained	**Improve focus on alternative energy sources** including small scale hydro power, renewable energy sources (biomass, solar); improve transparency in procurement and management of large scale projects to speed implementation **Accelerate progress on development of railways** and utilize the waterways to reduce freight costs. Increase financial support for road maintenance

Access to finance e.g. high interest rates, financial illiteracy (people don't know what they need or how to manage financing effectively when they do get it), and availability	**Promotion of micro finance institutions** e.g. SACCOs; and partnerships in financing schemes with donors; extend financial literacy programmes across the country (there are funds and programmes but people don't know how to get involved); strong regulation of commercial banks and action to bring down interest rates
Skills and human resource development - lack of access to skilled manpower. Academia is good but practical skills are poor, people are apathetic about training	**Focused skills development training**; quality improvement training on the job; work ethic needs to improve - particularly in the public sector
Lack of transparency and weak governance	**More practical decisive action to combat corruption**, transparent systems and procedures, strong accountability systems e.g. IGG, auditor general, public accounts committees etc.
Political leadership - there are too many politicians and too many districts. This leads to high expenditure to support public administration. There is not enough sense of serving the "national interest" in the political and public sector sphere	**Privatise elements of the public sector**. Reduce and streamline government structures; engage the private sector more routinely to share ideas and knowledge on how to improve efficiency. "Mindset change" required with the political and public sector. Greater focus on ethics and the integrity of public service
Lack of focus on productive sectors and value addition – high emphasis on agricultural production but not enough focus on value addition	**Place greater emphasis on developing productive sectors** and supporting value addition through supply chain development; reduce the proportion of the budget spent on public administration
Under-utilised land – land tenure policies are heavily bureaucratic and process heavy	**Land tenure system to be restructured**; better land laws and protection of tenants
Lack of access and understanding of opportunities offered by improved communications technology	ICT policies to broaden access; greater focus on dissemination of information

A number of themes surfaced repeatedly on how to improve implementation of this NDP and the next. These included:

- **Role of the Public Sector**: address political patronage and reduce political interference. Government should focus on provision of social services and enhance support to develop the productive sectors of the economy (e.g. agriculture, skills) and infrastructure. Streamline the public sector and improve governance. Encourage mind-set change. The public sector need to do business "unusually" and apply a more "business minded" approach to service delivery which focuses on the customer, efficiency quality and value for money.
- **Enhance Public Private Partnership (PPP) approach**: look for ways to enhance dialogue with the private sector recognising that the private sector is the "engine of growth". Accelerate progress on the PPP Bill. Through a PPP model sectors (public, private, civil society) can work together to enable proper provision of goods and services and effective implementation. Government needs to facilitate this. More examples of effective PPPs are presented later in this report.

Investor Views on Key Constraints

Recent Investors Surveys also provide information on constraints to business operations and growth. The key findings from the 2011 survey are included in Box 7. These reaffirm the importance of improving infrastructure and simplification of the regulatory environment facing businesses.

As PSFU succinctly state in their 2012 Private Sector Platform for Action "*the need for an enabling business environment to boost investment growth cannot be over-emphasised…the Government of Uganda must hence forth give priority consideration to the competitiveness and growth barriers in its distribution of development resources if indeed Uganda is to remain a private sector led economy*".

Recognising the importance of addressing problems identified in the Doing Business Survey the Government established a Doing Business Reform Task force in August 2009 which continues to work on promoting action to improve competitiveness across government. This Task Force has representation across government and the private sector and is mandated to review performance, make recommendations and lobby for appropriate reform action. It monitors progress on reform and coordinates information flows across government agencies.

The Government has also developed a Competitiveness and Investment Climate Strategy (CICS) which has focused on accelerating progress on action to improve the business environment including business registration and land reform. This approach has been supported by the World Bank. CICs work is now beginning to bear fruit in some key areas including business licensing and land registration.

Business registration is getting easier and quicker, but more costly especially to small business owners. The legal framework governing the Uganda Registration Services Bureau (URSB) was established in 1998 but it did not become an operational semi-autonomous body until 2012. According to the Registrar General the time taken to register with the right documentation is now 2-5 days as compared with the 33 days cited in the Doing Business Report. They have taken various measures to speed up the process including partnering with a Bank to speed payment and development of an e-portal for business licenses. This currently only provides information but over time it will become a transactional system. URSB is also setting up regional satellite offices although their operations will be constrained by very limited running costs. Since 2011/12 revenues generated by URSB have increased by 500 per cent and they have potential to increase their outreach with additional running costs for communications and development of regional operations. They have benefited from increased funding already but argue that higher funding would help bring more businesses into the formal sector with positive knock on effects on growth and government revenues. Over the next year the URSB will be working with other parts of government and the World Bank to implement a range business licensing reforms.

Other recent encouraging reforms include computerisation of the land registry and support to improve operations of 6 zonal land offices, approval of the companies act and insolvency act which both come into effect in July 2013.

There are other good examples of where government departments have embraced the competiveness challenge posed in the NDP. The Uganda National Standards Bureau (UNBS) is an example of where they have strongly aligned their policy and practices with the NDP (Box xx). In 2012 they finalised a new National Standards and Quality policy that embraces priorities highlighted in the NDP. They are making progress but face a number of challenges around mainstreaming a “quality and standards” culture both within the private sector and across government.

Overall it is evident that there has been progress on action to improve competitiveness but there have also been some steps backwards and businesses continue to find the operating environment in Uganda very challenging. Progress on developing and implementing the necessary policy reforms is slow and government is not as proactive in supporting private sector development as it could be. The Doing Business Task Force has potential to drive the competitiveness agenda but needs more teeth to have real impact. The NDP could play a more pivotal role in shaping priorities and supporting innovation in this area.

Box 7: Uganda National Standards Bureau and the NDP

For Uganda's private sector to access new markets they need to compete on quality and comply with regional and international standards. This requires a strong regulatory framework and an appropriate infrastructure to support compliance particularly in the small business sector. Following the launch of the NDP UNBS developed a new national standards and quality policy which was launched in September 2012. This aims to improve standards but has to be embraced across government and the private sector to achieve real impact. Standards should be a key concern for every business and government department involved with production or delivery of services. It is also a critical aspect of health and safety and consumer protection.

The New Policy	**Progress to date**
Vision: to have an effective and efficient national quality infrastructure that delivers goods and services that are internationally competitive **Mission**: to develop a Standards, Metrology, Conformity Assessment and Accreditation (SMCA) infrastructure that supports the production and consumption of quality goods and services **Objectives** - To rationalise harmonise and strengthen the regulatory framework - Establish a framework to enhance coordination and collaboration among regulatory and standards development agencies - Develop and improve the national quality infrastructure - Strengthen human resource capacity in the national quality infrastructure	- Development of national standards for key products - Harmonisation and adoption of regional and international standards - Provide support to MSMEs product certification - Setting up Quality Management Systems in local industries - Creation of public awareness on standards and quality issues - Market surveillance and factory inspections to take substandard products out of the market - Verification and calibration of weighing and measuring equipment to enhance accuracy for consumers

Key challenges facing UNBS

(i) Mainstreaming quality issues across all government departments and mandatory adoption of national standards by the private sector

(ii) Resourcing challenges to improve inspection, certification and to support regional and international standardisation activities

(iii) Additional resources to help micro small and medium sized enterprises improve standards and add value to their products – this will help these enterprise to enter new markets

(iv)	A standards awareness campaign across government, industry and consumers to spark mind set change and create a “quality culture” across Uganda[11]

Source: UNBS Briefing Note for Mid Term Review, May 2012 and National Standards and Quality Policy, September 2012.

[11] UNBS briefing note prepared for the NDP Mid Term Review.

5 FINANCING OF THE NDP

This section reviews the financing assumptions underpinning the NDP and looks at the scope for harnessing additional finance to accelerate progress. 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 been harnessed to finance NDP priorities.

5.1 NDP financing strategy

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

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.

Domestic revenue mobilisation would increase through: (i) expansion of the tax base through bringing the informal sector into the tax bracket; (ii) reform of the structure of taxation and (iii) extensive re-organisation of the institutions that administer taxes to improve tax collection efficiency and compliance with a focus on enhancing Vat returns; (iv) expansion of non-tax revenues including a review of all its rates and (v) streamlining existing exemptions and tax incentive policies.

Public Private Partnerships: promoting and encouraging PPP in various forms. Careful analysis will be made in deciding the form of PPP that 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. These will be particularly encouraged and promoted in infrastructure and energy.

Grants and loans: in the long run the government will seek to fund its budget purely from domestic revenues and this will be made more achievable when oil and gas revenues come on stream. However, in the short to medium term government will continue to seek foreign assistance to support budget implementation. The strategy for this will be guided by the Government Aid Policy. Government will also continue to seek out concessional loans and explore the scope for enhancing private sector investment in priority areas working with UIA.

Borrowing from capital markets: a potential new innovation in the NDP was the proposal to seek financing through capital markets. As well promoting and developing capital markets through sound regulation the NDP proposed to develop the appropriate framework to facilitate issuance of sovereign bonds to raise the necessary funds for investment in the priority sectors – particularly infrastructure and energy. The NDP also anticipated that liberalisation of the pension sector could act 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.

5.2 Progress on implementation of financing strategy

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.

The structure of government financing is changing. It is clear from Table 8 is that Uganda is going through a period of fiscal adjustment. This year and in the future there will be an increasing need to finance core expenditure and new investments through own resources. 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 2009/10 budget and project support constituted 2.4 per cent GDP. This is estimated to fall to 1.7 per cent in 2012/13. In addition a higher proportion of funding (1.4 per cent GDP, 77 per cent of grants) will be in the form of project rather than budget support. This compares with project funds amounting to 1.1 per cent GDP and 44 per cent of grant funding in 2009/10. Disbursement rates on projects tend to be lower than budget support and government has less control and influence over where and how these funds are spent. The Development Partnerships thematic report explores more fully what might be done to enhance and align donor funds in support of the NDP. Nevertheless, **government programmes and new investment projects will increasingly need to be financed through a combination of efficiency savings, taxes, higher borrowing and innovative financing mechanisms**.

Domestic revenue mobilisation has performed below NDP expectations. The revenue/GDP ratio in 2012/13 is projected by MoFPED to be 13.6 per cent GDP compared with 14.1 per cent in the NDP. The disparity in the three year forecast is even greater. The MoFPED Budget Framework 2013/14 forecasts a revenue/GDP ratio of 13.6 per cent compared with 15.1 per cent in the NDP. Slow growth impacted on revenue collection in 2011/12. Revenue from trade taxes has been lower than expected and until oil comes on stream international trade taxes are likely to remain relatively constant as a proportion of GDP. Higher growth will bolster tax collection over the next few years and revenues are set to grow at approximately 17 per cent per annum. However, the tax/GDP ratio remains low relative to other similar economies and much more needs to be done to improve tax policy and broaden the tax base over the medium term. Otherwise financing of this, and future NDP's will remain a challenge.

Table 8: Fiscal operations of the Central Government (percent of GDP)

	Actual				Estimate
	2009/10	2010/11	2011/12		2012/13
Total revenue and grants	14.7	18.4	15.6		15.4
Revenue	12.2	16.2	13.3		13.6
Tax	11.7	12.7	12		13.3
International trade taxes	1	1.2	1		...
Income taxes	3.9	4.5	4.2		...
Excises	2.9	3	2.9		...
VAT	3.8	4	3.9		...
Non tax	0.6	0.6	0.5		0.4
Oil revenue	0	2.8	0.8		0.0
Grants	2.5	2.3	2.3		1.8
Budget support	1.3	1.3	1.2		0.3
Project grants	1.1	1	1.1		1.4
Expenditures and net lending	19.6	22.8	18.6		19.4
Overall Balance	-4.9	-4.3	-3		-4.0
Financing	4.4	4.3	2.4		4.0
External	2.2	1.4	2.4		2.4
Domestic	2.1	2.9	0.1		1.6
Bank financing	2.3	1.1	-2.5		...
Non-Bank financing	-0.2	1.8	2.5		...
Errors and Ommissions/financing ga	-0.5	0	-0.6		0.0

The financing of the NDP was underpinned by expected improvements in domestic resource mobilisation at least by 0.5 per cent of GDP annually. Excluding the capital gains tax owing to oil transactions, domestic tax revenues have remained stagnant at a ratio of about 13 per cent of GDP over the last two years (Table 8). The key tax where Uganda continues to underperform compared to its neighbouring countries is VAT despite the uniformity of the rate. The VAT collected in 2011/12 was 3.9 per cent of GDP compared to 5.8, 4.6, and 6.1 for Kenya, Tanzania and Rwanda, respectively.

The poor performance 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 and inputs to agriculture and agro-processing[12]. These incentives have undermined VAT collections and the estimated losses from these exemptions are about 2 per cent of GDP. In addition, there are tax holidays on corporate income tax (CIT) for export businesses and agro-processing firms. There is scope over the medium term to also extend VAT to the retail sector which would significantly boost revenues.

Some effort was made to streamline tax incentives in 2012/13 and the 2013 budget announces a number of areas where VAT exemptions are being eliminated including hotel accommodation, supply of water, wheat and flour. Whilst these exemptions may aim to boost performance of primary and complementary sectors they create distortions, inefficiencies and are subject to abuse. Alternative policy measures need to be explored to boost productivity so these exemptions can be phased out in the very near term. As a general rule tax incentives should be used sparingly and where they are used they should be temporary. Some areas where tax incentives can make sense are tax holidays to support investment in infant industries or presumptive tax measures for start-up businesses to improve their profitability in the early years. 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.

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[12] 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.

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.

The government is taking a number of other measures to improve tax compliance. The Uganda Revenue Authority (URA) has taken action to improve its performance. There is a strong focus in this year's budget around expanding the coverage of audit and giving URA greater powers to determine taxpayers' liability. URA is introducing e-tax modernisation strategies (e-registration, e-filing, e-payment etc.) and other measures to improve tax administration. The establishment of a national identification system will also help to curb tax evasion. Many of these measures will help improve compliance. However, Uganda needs to balance a rigid focus on compliance with measures to broaden the tax base.

Already the Doing Business Report is sending warning signals that the tax regime in Uganda is not as conducive as it could be to "doing business". If companies are taxed too heavily or businesses evaluate that tax compliance comes at too high cost in terms of time spent dealing with the tax authorities, then they may choose to locate their business elsewhere or move below the tax radar.

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 e.g. 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.

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. The Ugandan Registration Services Bureau has seen impressive growth in revenues since it became operational in 2012. It increased revenue by 500 per cent in the course of 2012/13 through a focus on improving services to clients and a strong focus on efficiency. If this performance could be emulated in other agencies then there is scope for NTR to become a growing source of government finance.

Another trend over the last 2 years has been to centralise collection of NTRs. From a budget efficiency and control perspective it makes sense to centralise NTR collections and to allocate resources through the consolidated budget. However, there is a risk that this could reduce incentives for MDAs to maximise NTRs if they see no concrete benefit from improving their performance on NTR collections. Different business models or performance contracts could be considered for agencies that have significant revenue raising potential. They could be allowed to retain some portion of revenues to support expansion of NTRs if the business case is clear. Alternatively incentives could be built into the budget process. Budget allocations could be increased if a clear business case is presented that shows that increased funding will generate additional revenues over and beyond the budgetary cost. In short there is a strong case for exploring further how non tax revenues could be enhanced by increased their scope, or using innovative business models to incentivise higher collection rates.

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 priorities and service delivery have been flagged as problems in districts (see Annex 1) 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 Thematic Paper 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.

As with the overall budget, the first step should be to explore efficiency and value for money savings. If core NDP priorities cannot be financed through efficiency savings then options for increasing local government funding should be explored further as part of the financing strategy for the next NDP. One option could be local taxation including property taxes but this would need to be weighed against other alternatives. However, a clear finding from the district visits is that when District Development Plans were formulated there was insufficient linkage with the budget process and the wider financing strategy for the NDP.

New measures to enhance revenue mobilisation need to go hand in hand with improved service delivery and public sector performance. Every taxpayer has a strong stake in implementation of the National Development Plan. If they are being asked to contribute funds to finance new programmes and projects they need to be convinced that money is being spent on the right things and is achieving tangible results in terms of provision of higher quality services, improved infrastructure, a more responsive and efficient public sector and lower levels of corruption. Individuals and businesses should be kept well informed on how additional taxes are being used to improve livelihoods, economic development and competitiveness. Otherwise tax evasion, avoidance and weak compliance will undermine efforts to increase domestic resource mobilisation.

Scope for increasing domestic and external borrowing

There is still scope to finance the priorities of the NDP through borrowing especially at concessional terms externally and the domestic market. Section 2 explored in some detail the challenges around increasing levels of borrowing to support NDP 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. In May 2012 a joint IMF/World Bank Debt Sustainability Analysis (DSA) was completed. The general conclusion was:

"Uganda continues to be assessed as low risk of debt distress based on the low income country debt sustainability analysis despite recent challenges to the economy from high inflation, weakening external demand and slower growth."[13]

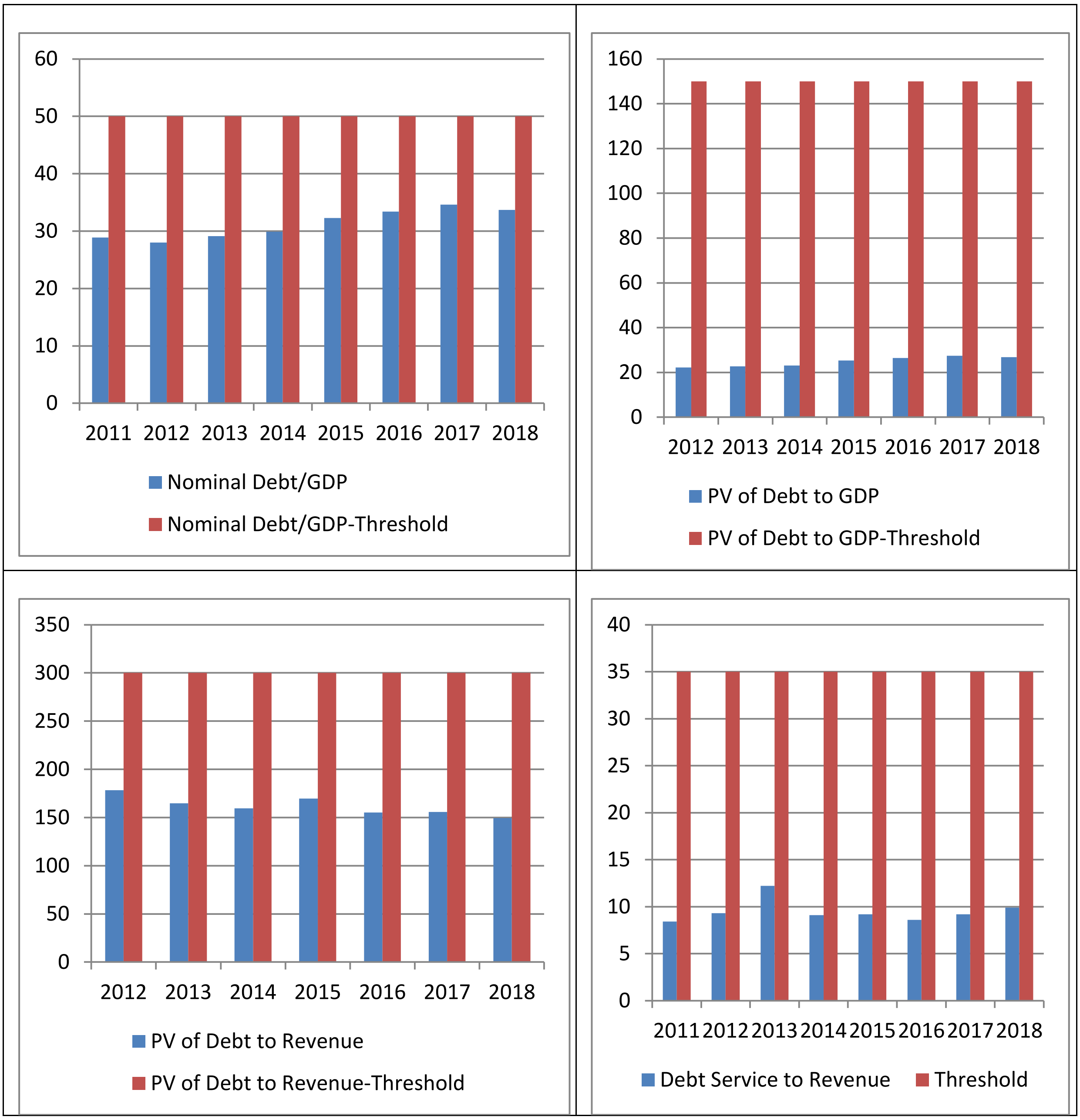
Whilst debt sustainability deteriorated slightly compared to the 2011 DSA, the debt sustainability indicators suggest Uganda is below the required thresholds and that there is

[13] Joint IMF/World Bank Debt Sustainability Analysis 2012 Update – May 18 2012.

room to borrow to complement the domestic resource mobilisation efforts (Figure 5). The DSA estimated the ratio of public and publicly guaranteed (PPPG) external debt/GDP at 19.7 per cent at end 2011/12 and the PPPG debt service to exports ratio remained stable at 2.7 per cent. Domestic debt increased to 13.4 per cent (from 9.3 per cent) resulting in an overall increase in total public debt to 32.9 per cent. The DSA noted that debt management to date has remained cautious and that new borrowing has generally been used to finance infrastructure related projects. Following the DSA the PSI ceiling on external non-concessional borrowing was raised and the study recognised that borrowing on commercial terms is likely to increase over the medium term.

The new budget for 2013/14 has signalled a move in this direction by emphasizing alternative financing options including domestic debt issuance and issuing a Eurobond to finance infrastructure development. However, MoFPED also emphasised clearly that the government would only use new borrowing to finance productive investment. A structured but prudent approach to higher borrowing is therefore a clear option open to government to enhance NDP financing over the short and medium term with the obvious caveats that additional funding is spent efficiently on the right things. However, exactly how borrowing is structured (external vs. domestic, concessional vs. commercial) and potential crowding out effects would need to be explored fully and debt sustainability would need to be closely monitored.

Figure 5: Debt sustainability indicators



Innovative Financing Mechanisms

Public Private Partnerships (PPPs) were expected to be an important source of private sector financing for the NDP. Within the MTEF underpinning the NDP there was an unfunded segment amounting to 18 per cent of the total funding envelope for the NDP – it was expected that some of this funding would come from the private sector. Even more significantly the financing envelope for National 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 Chapter 5 described many of the planned energy projects have proceeded slowly and private sector financing has been hampered by slow progress on establishing the legal framework for public private partnerships.

Other countries, including Kenya and Malaysia have used PPPs to support financing of their National Development Plans. PPPS 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 9 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.

A pipeline of PPP projects was developed with World Bank in 2012 which included some NDP projects. The projects that look most likely to move forward as PPPs include development of Kampala-Jinja Road, construction of an oil refinery, Kigo Prision, Office accommodation for the Ministry of Lands, Housing and Urgan 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.

Strong leadership and commitment is needed at the top of government to drive this forward so PPPs can become a key source of finance for the next NDP.

In addition the right institutions and regulatory framework need to be established quickly. Box 10 describes some of the longer term challenges around extending use of PPPs drawn from emerging experience in Uganda. The PPP policy has already been approved and forms the basis of the bill that is currently with Parliament. Some of the key challenges to be addressed include establishing an institutional lead on PPPs which would most likely be based in the MoFPED. This body would 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 10: 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

However, there are examples of success stories that Uganda can learn from. The recent State of Uganda Population Report 2012 produced by UNFPA and the Population Secretariat provides a summary of progress on developing and implementing PPPs across a range of sectors (see Box 11). Many of these pre-date the NDP but what is clear is that there is an emerging body of good practice on PPPs across a range of sectors. It will be critical to learn from and build on these success stories.

Health is often held up as a PPP success story. A National Policy on Public Private Partnership has been developed and submitted to Cabinet. This establishes the institutional and legal framework to formalise PPPs across the health sector. Approval of this policy needs to be fast tracked and complemented with an innovative health financing strategy that will draw in new sources of finance and service providers. The Uganda Health Care Federation 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 11). These innovative projects are leading to improvements in service delivery efficiency and value for money.

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 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 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 next NDP could potentially make PPPs a centre piece of both its financing and delivery strategy.

Box 11: 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).

Improved coordination and investment promotion to align private investment with NDP priorities and PPPs. At present the Uganda Investment Authority (UIA) provides general advice and support to all investors with a focus on NDP priority sectors including tourism, agriculture, oil and gas and mineral development. UIA promotes Uganda as an investment destination. It has established a one stop centre to support investors. Ideally this will evolve so that all licences and approvals can be obtained from one location. Overtime this could be an internet based service. UIA also leads 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 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.

There is 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 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.

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 implementation

The NDP 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. Progress over the last 2 years has been relatively slow although the Bank of Uganda, the MoFPED and Capital Markets Authority are now beginning to look more closely and how this might be developed. This analysis could usefully be accelerated as part of the preparation of the next NDP. 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.

6 CROSS-CUTTING ISSUES

This section outlines issues related to economic management that have been taken from a series of six cross-cutting reports that were commissioned separately alongside the NDP mid-term review. The section is organised so that there is a sub-section for each cross-cutting theme in which issues relevant to economic management were discussed.

6.1 Social protection

The social protection report states that there have been insufficient resources dedicated to implementing social protection programmes which is reflective of a weak national commitment to the sub-sector. The Senior Citizens Grant (SCG) is currently being piloted with funding predominantly from development partners. For this programme to be a success, it will be critical that government fully engages with interested stakeholders to ensure that the programme is nationally representative and also sustainable over the long term. The most evolved and successful social protection interventions, such as the Old Age Pension in Brazil, are nationally funded and owned. To address this, the report recommends expanding the tax base to make commitments to the Senior Citizen Grant. This is particularly critical at the local level where implementation occurs, as the reduction in local revenues during the NDP period has impacted negatively on the ability of the local governments to fully participate in such programmes.

6.2 Democracy and political governance

The democracy and political governance report finds that weak financial management has been a large constraint to the effectiveness of GoU interventions during the NDP implementation period. This is reflected in the persistent supplementary budget approvals, and more broadly in the way MDAs manage funds. During FY2010/11, it is reported that UGX 7,897.99b were released against an approved budget of UGX 7,036.96b. Public resources amounting to UGX 861.03b were mobilised outside of the original budget resource envelope, while a further UGX 870.35b were reallocated away from their original planned use. Variations in the budgetary allocations resulted in 40 MDAs experiencing reduced financial releases, ranging from -2 per cent to -75 per cent of their approved budget, at an average of 22 per cent less than approved. Among the affected MDAs were those in charge of the public sector management and accountability areas which are critical for governance. Budget variance between allocations and releases in Joint Budget Support Framework sectors is reported as 11 per cent, against a target of not more than 5 per cent. The measures used to assess the Government's compliance with accountability policies, standards and regulations show mixed results, but improved performance compared to FY 2010/11. The percentage of clean audit reports in local governments remained unchanged at 45 per cent, against a target of 45 per cent. At central government level, the percentage was 59 per cent against a target of 55 per cent, some way above the 40 per cent for FY 2010/11. For statutory bodies, the figure was 61 per cent by year-end, against a target of 65 per cent but much improved on 27 per cent in the previous year.

Further, a mid-term assessment for FINAMP (2013) found serious structural and process issues that affect financial management. Central to these problems has been the role of the legislature, which is reported to have not been involved in the budget making process to the optimal degree.

The following are the key recommendations from the perspective of democracy and political governance:

- Ensure effective public financial governance which is key to development and poverty reduction in Uganda. This will require robust implementation of transparent and efficient systems for management of public financial resources. The public financial management bill should be designed with an intention to create strong systems.

- Strengthen the autonomy of the legislature through its increased involvement in the budget making processes. The role of the ruling party caucus is critical as it can undermine the role of the legislature. There is also need to legislate on the qualifications for elective positions to the legislature.
- Support the initiatives intended to reform the constituency demarcation process with a focus on merging constituencies to reduce the number of representatives at the central government level. Further, more representation should be encouraged at the lower council levels.
- Strengthen the overall legislative oversight role in Uganda, by the Executive giving Parliament its budget proposals at least six weeks before debate. Parliament should also be given the legal mandate to amend those budget proposals.
- Initiate and implement measures intended to consolidate the gains made in public financial management system in order to improve efficiency and effectiveness of public expenditure management. This can be through the operationalisation of the e-government initiative which will ensure that all workflow processes are computerized, improve responsiveness and reduce corruption.
- Re-focus the mechanisms for coordination, implementation, monitoring and evaluation systems at national, sector and local government levels involving the participation of all players including the private sector, the media, civil society, cultural leaders, religious leaders and citizens.
- Implement open engagement between government and civil society with flow of information.

6.3 Environment

Uganda is reported to have made some progress with regards to environmental management, particularly in adopting renewable energy. Government's move to cut taxes on solar equipment is noteworthy in this regard and the proliferation of energy efficient stoves and briquettes by the NGOs, the private sector and government is said to have been a success story. During the implementation of NDP 2, Government should invest in bigger and on-going campaigns to educate the people about energy efficient alternatives.

The report finds that traditional crops are being progressively driven to extinction as a result of intensifying commercialisation that focuses on new crop varieties. Therefore, it is said to be critical that strategies and interventions for agricultural biodiversity and indigenous technical knowledge in nutrition, propagation, food security and biodiversity conservation are incorporated in agricultural sector strategies.

The NDP proposes a number of strategies to realise the objective of enhancing forest cover. Restoration of forest cover is premised on greater emphasis on tree planting and forest plantations. Restoration of degraded natural forests is expected to be achieved through preparation of a landscape restoration plan and enforcement of a sustainable forest management regime. Increased protection is also mentioned as one of the strategies to ensure a healthy forest cover. An interesting strategy is the promotion of eco-tourism as a means of ensuring forest protection. Forest loss is happening at time when forest based ecotourism is increasing in volume. Uganda is reported to have a competitive advantage in forest based tourism over its sister nations in the East African region and therefore the government should invest more in forest protection if the country is to realise the full benefits of forest based ecotourism. Unfortunately, wildlife does not feature significantly in the forestry sector discussion; great apes, on which most of the existing eco-tourism is based, are not even mentioned.

There is rampant poverty particularly around the protected areas. It is reported that this calls for the need to deliver communities out of poverty in order to conserve the protected areas. It is important to note that illegal activities in protected areas cannot take place without the knowledge and support of the local residents and their leaders. Effective conservation will only take place if the two parties change their practices. Government could help achieve this practice through support to alternative livelihoods for the local people to divert their attention from the protected areas. Most of the adjacent communities to protected areas are said to not be interested in enterprises like eco-tourism or bee keeping because they are long-term ventures. Therefore it is important to provide residents with enterprises to help them generate income in the short-term. The Uganda Wildlife Authority is already pursuing such strategies with its revenue sharing scheme with the adjacent communities. This could be built upon to develop more strategies to support communities located within close proximity to wildlife parks to generate alternative sources of income of a short term nature.

In terms of water management, the report finds that water pollution has increased the cost of water for users of piped water in certain urban areas, and further, that the destruction of the wet lands has been linked to an increasing shortage of water in Kampala.

The report articulates the important role of the environment in sustaining Uganda's tourism sector but highlights the challenges to the sector. The report finds that a major challenge facing the tourism sector emanates from incomplete reviews of laws and policies. For example, the Tourism Policy that has been successfully reviewed but cannot be concluded for onward submission to Cabinet due to funding shortfalls; the Tourism Master plan which has been funded by development partners is still work-in-progress; the Uganda Wildlife Policy has been reviewed and now before Cabinet; the first ever Museums and Monuments Policy was formulated and has been in Parliament for some time; the review of the National Wildlife Act was completed in FY2010/11 with a draft amendment bill that was still undergoing consultation during FY2012/13; the Uganda Wildlife Education Centre Bill has been drafted and is before Cabinet; the Review of the Museums and Monuments Act has just been initiated during FY2012/13; domestication of the CITES is on-going and not yet complete; review of the Uganda Wildlife Training Institute Act just commenced in FY2012/13; the review of the Hotel and Tourism Training Institute Act just commenced during the FY2012/13; operationalisation of the Tourism Development Levy and Fund did not commence since FY2011/12 when it was submitted to MoFPED.

The report makes a number of recommendations on how environmental issues related to economic management could be considered during the implementation of the existing NDP and in the development of the next NDP. The report finds that there is a need for new environmental financing mechanisms that are transparent to ensure that funds generated from environment related tariffs are then used to fund NDP-related environmental activities. The report also recommends that more attention be given to PPPs for environmental services payment systems, especially for climate change management (for example, carbon management strategies, hydrocarbon pollution management, and carbon sinks). Lastly, a further recommendation is that eco-tourism be part of a strategy to improve forest cover, and that the next NDP could include a strategy to maintain the fisheries resource base.

6.4 Gender

The gender report finds that the NDP does not adequately consider or address the constraints for women to effectively engage in the economy. For example, within the agriculture sector, the report finds that government support to the sector does not adequately benefit women, who generally engage in less commercial agriculture. The findings indicate that the agriculture sector which is the backbone of Uganda's economy still employs the majority of the labour force, with a large share being women. Despite the challenges highlighted in this report, including lack of markets, lack of storage facilities and high interest rates on loans etc, there is still limited focus on the capacity for increased agricultural production and productivity among women. It is evident in the research that women provide the biggest labour required for agricultural production; however, the possibility of extensive commercial farming is limited among that gender.

It is reported that a deliberate national strategy should be developed to consciously address the slow pace of attainment of women's economic empowerment. The strategy should mainly focus on the key growth sectors of the economy which include agriculture, manufacturing, tourism, ICT business, oil and gas, mineral development and facilitating sectors such as trade and employment services among others. This strategy should be informed by a detailed analysis of women's economic position as compared to men.

7 KEY FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

7.1 Key Findings

7.1.1 Macroeconomic performance and policy

The evidence presented in section 2 suggests that the NDP is not currently on track to achieve its key macro-economic objectives and targets. Many indicators are out of line with NDP targets including growth, revenue/GDP ratios, inflation, interest rates and export performance. Public investment, public expenditure and fiscal policy have been inconsistent with plans in the NDP for much of the period although there was closer alignment in the last year. Key reasons why the strategy went off track were policy choices made at the beginning of the NDP and external shocks in 2010/11. Domestic policies that were pursued and did not fully support the NDP included rapid growth in money supply and increases in public expenditure to finance the elections and defence spending including global recession. External shocks included commodity price increases coupled with rapid depreciation of the exchange rate (influenced by capital outflows). This together caused inflation to escalate to 30 per cent in October 2011.

Following the introduction of new monetary policy instruments in mid-2011 interest rates reached 23 per cent by November 2011. **This policy was very successful in adjusting inflationary expectations and restoring macro-economic stability.** Inflation fell back to 5.5 per cent in 2012 and the Central Bank rate was reduced to 12 per cent but commercial bank lending rates did not follow suit and continue to remain high. Tight monetary policy combined with unplanned fiscal tightening led to growth falling to 3.2 per cent in 2011/12. When donors suspended budget support in 2012 further fiscal adjustment was required. According to the 2013/14 macro-forecasts the economy is set to recover with growth increasing to just under 6 per cent by the end of the NDP period. Inflation is expected to remain in single digits. However, borrowing and the fiscal deficit are projected to be significantly below NDP forecasts. Although general economic prospects for the remainder of the NDP implementation period are now more positive it will be very difficult to make up lost ground during the remaining period.

When the NDP was formulated the assumptions and forecasts included in the macro-economic strategy were deemed ambitious but not wholly unrealistic. The most ambitious assumptions were the expected efficiency gains in government and reallocation of expenditure towards infrastructure development particularly roads. Progress on efficiency gains has however been limited owing to the limited savings attained from sectors like public administration and defence. Policy for much of the period has focused on restoring macro-economic balance. Whilst this is critical to facilitate growth over the medium term, there is scope for greater pragmatism backed up by improvements in Public Financial Management, investment planning and appraisal.

The NDP is premised on the need to strategically balance macro- economic stability and growth. The government's medium term macro-economic objectives reflect this. However, the mix of policy instruments especially in 2010/11 and the corrective measures that followed did not support growth. Relatively loose fiscal policy combined with rapid growth in the money supply and private sector credit in 2011 contributed to rising inflation. The introduction of a new monetary policy instrument in July 2011 and the subsequent increase in interest rates were necessary to bring down inflation but this had a detrimental impact on the real economy.

Fiscal policy has been relatively conservative for much of the period. Although public expenditure increased in 2010/11 this was mainly due to higher than anticipated spending on elections and defence. There is evidence of more expansionary fiscal policy in 2012/13 and for the remainder of the NDP period. It will be critical to structure any additional borrowing to minimise potential crowding out effects. Higher borrowing can only be justified if existing funds are spent efficiently and effectively on high priority growth enhancing projects (e.g. infrastructure). This will require much tighter investment planning and rigid control of public expenditure.

The high level budget process and NDP have not yet been effectively integrated. The development of the NDP was very much a joint process involving NPA, MoFPED, BoU, Sector Ministries and Districts. However, this close cooperation has not been sustained in the course of NDP implementation. Some alignment is occurring at a very high level (e.g. prioritisation of spending on infrastructure). NPA have not been involved at strategic points during the budget preparation process. Spending decisions at the sector level are not routinely informed by progress on NDP implementation and priorities in advance of budget preparation. One underlying reason is the lack of full alignment of budgetary systems including the OBT, SIPs, BFPs, MPSs, Chart of Accounts and DDPs.

There is positive progress on aligning macro-economic modelling frameworks used by NPA, the MOFPED and Bank of Uganda. When the NDP was conceived the model used was very different to the financial programming model used by the Bank of Uganda. There were extensive consultation and agreement on the NDP model and forecasts. However, the annual budget and MTEF continue to be based on the MOFPED and Bank of Uganda models rather than the more complex general equilibrium model used in the NDP. There are plans in place to merge these models and this will make it easier to align NDP and annual macro-economic planning frameworks going forward.

7.1.2 Public expenditure management

For the first two years there was limited alignment of the MTEF and budget implementation with the NDP. Based on an analysis of allocations and actual expenditure in the course of the NDP period there has been mixed progress on alignment of NDP with the budget. Whilst allocations to many key sectors have increased significantly in nominal terms, eight out of sixteen sectors have consistently attracted funding below projected NDP allocations. Supplementary budgets have had a negative impact on budget implementation and credibility. There has been considerable improvement in budget alignment in 2012/13. It should also be noted that the NDP medium term expenditure framework was also largely diverging from the past trends and allocations which greatly complicated the implementation of the NDP.

Expenditure management systems and sector planning systems are not closely aligned with the NDP. At present the output based tool is based on a rolling 3 year planning framework compared with the 5 year fixed NDP framework. This makes it difficult to align the two processes. In addition OBT outputs do not fully map onto the strategic objectives included in the NDP as they are defined differently and sometimes relate more directly to previous sector plans. Sector plans in cases where they are available also often have different time horizons to the NDP which also makes it difficult to fully align them with NDP objectives. In addition, the IFMIS chart of accounts, MPSs and the BFPs are not fully aligned with the NDP.

Weak investment planning and lack of integration of NDP priorities into the annual PIP and SIP process has limited alignment. A large number of core projects were included in the NDP but not all of these were thoroughly assessed prior to their inclusion. NDP core projects are not automatically ranked as the highest priority projects in the annual PIP and SIP processes. The exceptions to this are flagship energy and roads projects. Other factors that influence the decision making process around which project receive funding, include sectors' views of priorities, the MoFPED's view of priorities and higher level political decisions. The lack of a clear framework on the criteria used to include projects in the PIP has contributed to the misalignment of the PIP with the NDP. A planned review of the PIP process led by NPA working with the MOFPED provides an opportunity to reflect on how to improve links between the NDP and routine investment planning going forward.

There was a very high level of ambition regarding the number of core projects that could be implemented in the course of the NDP and many of these projects have not moved forward as planned. This is due to a number of factors: (i) lack of planning, prioritisation and sequencing of investments; (ii) limited technical analysis and appraisal prior to inclusion of projects in the NDP which delayed implementation; (iii) limited analysis of the financing requirements of individual projects in advance of inclusion in the NDP; (iv) weak technical capacity in MDAs to develop, manage and implement complex projects; (v) slow procurement. Notwithstanding these problems, there is also an apparent practice by the GoU to introduce spending activities which are politically influenced that are outside the planning processes. This has compromised on the available resources for the projects that were identified in the NDP.

7.1.3 Growth and socio-economic transformation, promoting competitiveness and private sector development

Sector Growth Performance

Growth outcomes over the past three years have been way below from what was envisaged in the NDP. The poor performance in growth has partly been a combination of external factor and domestic factors. The volatility of commodity prices combined with a reduction in export demand due to the global recession contributed to the slow growth of the economy. On the domestic front, the corrective measures that were put in place to contain inflationary pressures combined with the unpredictable weather conditions also contributed significantly to the slow growth of the economy. The slowdown in growth was largely driven by the services sector which contributes about half of total GDP. Key sectors that contracted within services included financial and real estate. The composition of GDP remains the same with services contributing about 50 percent of total GDP and agriculture and industry contributing 24 and 26 percent respectively.

The agriculture sector continues to face challenges of unpredictable weather conditions, declining productivity and limited mechanization. As a result the sector continues to perform significantly below expectations growing on average at about 1 percent. Agriculture is the major employer in Uganda and has the most potential for value addition in the short to medium term. Growth and productivity in agriculture is highly dependent on climatic conditions. The continued sluggish performance of this sector remains a cause for concern. If it continues to operate below its potential then it will be very hard to achieve inclusive growth or make progress on socio-economic transformation. For the period 2011/12 and 2012/13, food crops which account for 50 per cent of total agriculture and key to the food basket as well as exports especially within the region contracted by 1.7 per cent in 2011/12 and only grew by 0.2 per cent in 2012/13 respectively. The contraction was largely attributed to the severe draught in 2011/12. The level of agricultural exports, including maize, beans, and flowers, increased significantly during the first half of 2012/13, largely due to higher international prices and increased volume of trade.

Overall the level of growth in the sector has not been enough to compensate for the reductions in growth in other sectors especially manufacturing and services. There are many factors that constrain agricultural performance including lack of coherent land reforms, dysfunctional land market, lack of mechanization, weak infrastructure to support and enhance productivity (storage, irrigation etc.), access to high quality inputs, lack of agriculture financing and weak marketing infrastructure.

For 2010/11 and 2011/12, the manufacturing sector faced various challenges which included power shortages and higher electricity prices, financing constraints resulting from tighter liquidity, and lower demand from global markets. The low electricity generation which was combined with expensive thermal generators being switched off due to insufficient funding resulted into increased tariffs. This considerably increased the cost of manufacturing. However, there has been some strong recovery of the sector with growth estimated at 6.8 percent in 2012/13. This is consistent with the growth in electricity provided which could have helped to unlock one of the key binding constraint for industry. The recent completion of Bujagali Hydropower Dam and other mini-hydropower stations has greatly improved the availability and stability of electricity.

The overall weak performance of the economy in 2010/11 and 2011/12 was due to a decline in growth of the most dominant services sector. The under-performance in this sector was partly driven by domestic developments especially the tight liquidity conditions that characterized the period due to the corrective tight monetary policy stance that was being pursued. Financial and trade services decelerated due to increasing uncertainty in the business environment. Notwithstanding these negative developments, services have since recovered, albeit still low compared to previous years. The recovery has been mainly driven by transport, communications and financial services. Financial services have particularly been boosted due to increased loan uptake after a recent reduction of interest rates. In addition the outlook for the real estate sector remains positive with increased financing by commercial banks.

Socio-Economic Transformation

The recent sluggish growth has not been associated with significant improvement in income levels and socio-economic transformation as was envisaged in the NDP. This is partly because the structural transformation taking place in Uganda is through the expansion of non-tradeables especially services at the expense of the tradeables sectors especially agriculture and industry. **Due to the high population growth rate estimated at 3.2 per cent and the modest growth achieved over the past two years, per capita GDP declined to US$ 453 compared to US$ 506 in 2010.** The targeted per capita income by 2017 should qualify the country to be of a middle income status. However, given current the range of challenges to be addressed to accelerate growth and pressures of high population growth, it will be very difficult to achieve middle income status by 2017 notwithstanding the expected oil resources.

The rapid growth of exports as a sign of transformation has also been limited over the past two years. Uganda's export basket remains narrow and dominated by primary products (around 85 per cent), including coffee, fish, tobacco, gold, and flowers. Reliance on these exports has made the export sector vulnerable and Uganda has faced a significant long-run term decline in its terms of trade.

Other indicators of socio-economic transformation include the level of urbanisation. Vision 2040 describes the importance of urbanisation and development of regions. Uganda also has one of the lowest urbanization rates in Africa (16 per cent). More needs to be done to urbanize Ugandan cities by increasing their economic activities so as to attract more labour and related infrastructure and institutions. Action to develop “regional economic hubs” would concentrate services and facilitate trade into new markets.

Competitiveness

Overall it is evident that there has been progress on action to improve competitiveness but there have also been some steps backwards and businesses continue to find the operating environment in Uganda challenging. The global competitive index suggests that there has been some improvement in the competitiveness of Uganda. Improvements include business sophistication, macro-economic environment, labour market efficiency, financial market development and goods market efficiency. Areas where Uganda’s position deteriorated included public institutions, health and primary education, higher education and training and technology uptake. This implies that there is a continued need to improve public sector management, deliver basic services effectively and improve skills and innovation. Other indicators where Uganda has registered slow progress include resolving insolvency, dealing with construction permits, getting electricity and registering property.

There are significant initiatives in place to enhance the business environment. There has been good progress on improving roads, transport and access to ICT. Telecommunications is facilitating development in many ways. It is improving access to information and perhaps even more critically, access to finance. Continued public and private sector investment in these areas and support for innovation around use of mobile technology will continue to generate high returns in terms of economic development and inclusive growth. Steps have been taken to reduce red tape in areas like business and land registration by automating land and business registration. However, challenges remain as key legislation to improve the business environment takes a long time to go through Cabinet and Parliamentary approval processes. In addition, lack of comprehensive land reform remains a large constraint for investors.

Private Sector Development

The private sector remains a key driver to Uganda’s economic growth and socio-economic transformation as highlighted by the NDP. The sector is largely dominated by micro small and medium Scale Enterprises. Of these about 1,100,000 are enterprises employing approximately 2.5 million people. It is estimated that the sector contributes about 75 per cent of the country’s GDP. Key activities of the sector include agriculture, trade, construction, manufacturing, services such as hospitality and entertainment industry, finance, health, education, professional services and information communication technology related business. Employment by sector reveals that 66 per cent are in the primary Sectors (Agriculture, Fisheries, Forestry etc.), 28 per cent in Services, while 6 per cent were involved in Manufacturing. In addition, 76 per cent of Uganda's labour force is self-employed while 24 per cent are employed by others.

Despite the importance of the sector many businesses are currently operating below capacity due to low demand followed by unreliable supply of production inputs and lack of working capital. The high cost of credit coupled with poor infrastructure and limited access to credit is considered to be one of the main non-regulatory factors which constrained growth of the private sector. Over half of the businesses in the survey indicated that interest rates had a negative impact on business operations. Volatility of exchange rates also resulted in payment delays where customers had been negatively affected by exchange rate losses. In terms of quality of services the private sector also indicated that electricity, railway transport and health care were the most poorly delivered. The most effectively delivered services were banking services, air transport and insurance services.

In summary the private sector is still faced with several constraints to growth. The general view was that the cost of doing business has gone up due to rising energy costs, relatively expensive communication costs (and mixed availability across the country), high transport costs and punitive taxes due to narrow tax base. The top 3 constraints identified were energy/infrastructure (access and cost), lack of public sector accountability and limited access to affordable finance.

7.1.4 Financing of the NDP

Lack of financing remains a problem for the successful execution of NDP. When conceived the NDP had anticipated significant increases in domestic revenue mobilisation as a proportion of GDP which has not been realised. Donor support has reduced and development of new innovative financing instruments such as infrastructure bonds has been slow. Cost of finance and availability of long term finance remains a major problem. The spread between Commercial and Central Bank lending bank rates is very high due in part to high financing, operating costs and an increase in non-performing loans. Small businesses are not fully aware of financing opportunities or are not equipped with the skills or collateral to access loans. A functioning Credit Reference Bureau has reduced risk for banks but perceived risk remains high especially for the small business sector and agricultural businesses.

Domestic revenue mobilisation has been hit by disruptions to growth. The revenue/GDP ratio is forecast to be 13.5 per cent in 2012/13 compared with the NDP forecast of 14.1 per cent. Areas where policy reforms have been slow include: extension of VAT to the retail sector; streamlining and reductions in tax exemptions which distort the current system and greater focus on broadening the tax base and enhancing non tax revenues.

The challenge on domestic resource mobilisation is to balance tax collection with private sector growth and development. A large part of the private sector which is informal remains untaxed. The tax burden therefore disproportionately affects the formal sector firms. A major downward shift in the Doing Business Report ranking on tax suggests that taxation is perceived as a growing problem for businesses in Uganda.

Progress on development of innovative financing mechanisms has been slower than expected. Progress on harnessing private sector finance in support of NDP implementation has been slow partly due to slow progress on finalising the legal framework governing Public Private Partnerships (PPP). However, a policy has been adopted and there is a good understanding of what needs to be done to make the new law effective. There are examples of success on PPPs. Perhaps the most dynamic examples include Bujagali dam and the health sector where a range of pilot projects and partnerships have been developed to improve service delivery and enhance public awareness on health issues. It will be important to learn from PPP success stories going forward. There is potential to harness new private sector financing for NDP implementation. However, this will require strong leadership at the highest level to fast track the regulatory framework for private financing, capacity building in government to ensure PPPs are well managed and regulated and better strategic planning to determine financing requirements and potential sources of finance.

Capital markets have continued to develop despite the slowdown in growth. Capital markets provide new opportunities for long term financing for the private sector and potentially government. However, at present there is no long term strategy to develop capital markets and limited awareness within the private sector of the financing opportunities offered by capital markets. There has been slow progress on developing new instruments such as long term bonds although the Bank of Uganda is now working with the MoFPED and Capital Markets Authority to make this happen. Similar bonds have been used as a source of funding for government investment projects in other countries including Kenya. It is a potential source of funding for PPPs and/or high return infrastructure projects. The regulatory authority that will oversee pension funds is now in place. This improved regulatory framework should improve access to pension funds through capital markets. The Government needs to move quickly to design appropriate financing instruments that meet international standards. It is unlikely that this type of financing instrument will be available to support investment under the current NDP.

7.2 Recommendations

7.2.1 Recommendations for the current NDP

Macroeconomic policy and public expenditure management

The macro-economic framework governing the NDP requires strategic coordination of fiscal and monetary policy objectives to achieve both growth and macroeconomic stability. The monthly coordination mechanism established in 2012 between the Bank of Uganda and the MoFPED provides a strong basis for evaluating policy options and trade-offs going forward. It will be important that this technical committee has focused discussions on striking a balance between maintaining macroeconomic stability and sustaining growth in the year ahead on how to refine and improve the inflation targeting instrument as part of the preparations for the next IMF Policy Support Instrument. The adjustment costs especially for growth of reducing inflation should be balanced properly with the need for macroeconomic stability. It is also important that NPA should be part of this coordination committee.

It is recommended that the MOFPED working with the Bank of Uganda and NPA agree what additional measures need to be taken to justify expected higher levels of spending to support NDP implementation. These additional measures should focus on some of the following areas:

- A strategy to improve domestic resource mobilisation;
- Greater rigour in public expenditure management and enhancing budget discipline at all levels of government to enhance budget credibility;
- Demonstrated improvements in absorptive capacity: this will require decisive action to improve procurement and skills development to improve technical and financial management of large projects;

- More rigorous procedures to appraisal of projects to ensure that projects in the NDP are investment ready.
- Robust financing strategies for any existing and new projects which weigh up the pros and cons of alternative sources of finance including crowding out effects (if financed through higher domestic borrowing).

The budget preparation process should focus more explicitly on aligning resources to support NDP implementation. In particular, the budget process should be fully aligned and guided by the NDP. For the remaining period of the NDP, there should also be some attempt to align the BFP to the NDP. One option would be for NPA liaising with OPM and MOFPED to lead on development of a short position paper that summarises progress and identifies top priorities for the year ahead. This could draw on information on performance from sectors and where possible districts. To have strategic impact it would need to be reviewed by Cabinet in advance of preparation of the Budget Framework paper submitted to Parliament in December each year. NPA could also play a role in scrutinising Ministerial Policy Statements and the PIP for alignment with NDP priorities.

Accelerate action to improve budget credibility, transparency and public financial management. There is a need to establish a “Contingencies Fund” that would essentially replace supplementary budgets. This will improve transparency and control of spending and should halt use of supplementary budgets which currently undermine budget credibility.

Financing of the NDP

The current debt sustainability analysis shows that there is significant room for borrowing especially for productive investments. For the fiscal year 2013/14, the government has already taken a step in this direction by preparing to issue sovereign bonds to finance its development agenda. However, this approach has to be enforced without compromising the sustainability of debt.

Increase efficiency gains. Establish an efficiency and value for money programme across government to ensure scarce public sector funds are being spent effectively on the right things. Ministries should be encouraged to fund a proportion of new spending priorities through efficiency savings. There should be a firm commitment to reduce spending on public administration. This will require decisive action to streamline government structures and reduce duplication of functions. Restructuring of the public sector and scaling back local government senior staff could also enhance efficiency gains.

There is an urgent need to fast track domestic resource mobilisation to finance the development needs of the NDP. This is particularly so given that the financing of the budget from donors continues to decline. Expansion of the tax base would include enhancing the registration businesses especially in the informal sector. In addition streamlining of tax exemptions would help to enhance tax collection and minimize abuse of the tax system.

There is a need to fast track approval of the Public Private Partnership Bill. This would involve developing and implementing an action plan to establish the appropriate institutional and regulatory framework to lead, support and regulate PPPs. There is also need to build awareness and capacity in key sector ministries on PPPs on how to manage contracts and partnerships with the private sector. It might also be beneficial to establish one body that coordinates all the PPPs rather than every Ministry seeking out relevant private sector partners.

7.2.2 Recommendations for the next NDP

Macroeconomic Policy and Public Expenditure Management

Use of the same modelling framework by the NPA and MOFPED and BOU would enhance ownership of the macroeconomic framework across the three institutions. Work is already in place to review and improve the economic modelling framework used by MOFPED and BOU for macroeconomic forecasting. NPA is also involved in the process. Ideally a single model/approach should be developed that is suitable both for annual forecasting and multi-year forecasting so the same model can be used to develop the framework for the next NDP.

For the future NDP, there is a strong need to ensure that the NDP guides and is aligned to the SIPs and the DDPs which are the basis for the BFPs and hence the National Budget Framework Paper. For this to materialize, MDAs and districts should be provided ample time to prepare their SIPs so that these could be used as part of a two way process to inform development of the new NDP.

There is a need to ensure that all expenditure management systems are well aligned to the new NDP. The expenditure management systems that need to be reviewed and used to align more closely to the NDP include the OBT, the IFMS Chart of Accounts and Ministerial Policy Statements. There is need to explore the scope for programme based budgeting and setting priorities that might cut across various sectors. For example a high level objective might be to enhance productivity in primary sectors. Action required would cut across sector ministries and complementary sectors.

After the planned review of PIP, the is need to develop a long term investment planning framework that will help target high priority projects to be included in the next NDP. This should comprise 3 levels of projects. Tier 1 projects will be high priority projects carried over from the last NDP. Tier 2 would be new high priority investment ready projects. Tier 3 would be priority project in the pipeline. This new planning framework should ensure all selected projects are costed and sequenced in line with availability of finance and absorptive capacity.

Growth, Competitiveness and Private Sector Development

Given the high proportion of the population in agriculture, the challenges of the sector need to be addressed if growth is to remain inclusive. Some of the key challenges and constraints that need to be prioritized include coherent land reforms, promote mechanization of the sector, support the infrastructure and enhance the productivity of the sector (e.g. storage, irrigation etc.), provide effective extension services to all farmers and increase necessary inputs (for example seed varieties that can withstand changing weather conditions). In addition, implementation of the fertilizer plant in Tororo through the PPP arrangement would greatly enhance the productivity of the sector.

While there has been some progress in addressing some of the key binding constraints, more effort should be put in addressing some of the key concerns of the private sector identified in this report. Key among them is the poor infrastructure in the energy and transport sectors. Other constraints include the high cost of financing, volatile exchange rates and the overall poor quality of services provided by government. The low capacity utilisation in the industrial sector is also a reflection of low demand and high operating costs linked to weak supporting infrastructure.

Urgent action needs to be undertaken to address the growing concern that Uganda is increasingly becoming a difficult place to do business. Some of the areas identified include: Uganda being one of the most difficult place to start a new business; difficulties in getting construction permits; installing electricity and trading across borders. Progress should be accelerated on streamlining regulations and systems and improving one stop facilities for investors and businesses so they can get all the required documentation and permits quickly to start a business. All institutions and local authorities would closely work with one stop facilities to streamline and simplify doing business in Uganda.

Financing the next NDP

Financing strategies including sources of finance should be specified more precisely in the next NDP. In the short term we have recommended an assessment of the pre-conditions required to increase government borrowing. This should be completed quickly and should inform development of a forward looking strategy for domestic and external borrowing which also ensures debt sustainability over the medium term.

The next NDP should focus on building consensus on a medium term strategy to broaden the tax base which will aim to bring more informal sector businesses into the tax net. This should be backed up with a strong NDP communication strategy which spells out action planned to improve value for money, quality of service delivery, infrastructure development and anti-corruption measures in the public sector. Tax administration should continue to be improved but with a stronger focus on enhancing client services and minimising the burden of tax collection, particularly for small businesses. Specific measures in this strategy might include:

- **Broaden scope and improve incentives to enhance collection of non-tax revenues.** This could be explored further with the MoFPED in the course of NDP preparation. There may be scope to expand user fees or charges for government services in exchange for higher quality service delivery. More research and analysis would be needed on good practice and how best to encourage MDAs to collect non-tax revenues if they cannot retain these earnings directly.
- **Government wide action required to make it easier for businesses to formalise and operate competitively. This could include** embedding improvements to simplify business registration. Review use of presumptive tax measures to reduce the tax burden on small businesses and provide better tax education for small and informal businesses.

- **Explore the feasibility of introducing local government revenue** raising measures to enhance resources for local development e.g. through property taxes

Leadership, oversight and promotion of PPPs. This would build on short term measures to build the institutional and regulatory capacity to manage PPPs. It should ensure this knowledge and expertise is embedded in government. Lessons derived from successful implementation of PPPs should be promoted across government. An investment promotion strategy should be developed with UIA which focuses in particular on promoting potential PPPs as well as wider investments which complement new NDP priorities.

Promotion and implementation of innovative financing mechanisms. This should build on proposed short term measures to liberalise pension funds and to introduce new forms of bond financing to support infrastructure investments and PPPs. These will need to be tightly managed, regulated and actively promoted. These should be linked to the highest return investments to build confidence in these new instruments.

Annex 1. District case studies

Bushenyi District Report

Bushenyi is an old district which has turned out to be one of the model districts in Uganda given that it has excelled in various fronts of its economic development. The district is endowed with high level of literacy rates, good roads through the district, unique landscape with abundant water sources and a competitive labour force. As a result, the district has diversified into various economic activities including livestock, crop farming, agro processing through value addition of crops like matooke, tea and coffee, and increased direct trade with countries like Rwanda. Due to these economic activities in the district the average household income is estimated at 6 million while the expenditure of household is on average about 8 million the difference being attributed to borrowing or under reporting of income. This is relatively high compared to the overall per capita income of the country.

Despite these successes, Bushenyi also has some challenges in implementation of its district development plan (DDP). Key among them is its limitations in collection of local revenue which therefore impedes implementation of its programmes. The second challenge is the poor road network especially for community roads. The flexibility of grants also ties the implementation process of the district.

The DDP identifies various objectives which were fully aligned with the NDP. Key objectives included: (i) reduction of poverty and improving household incomes, (ii) provision of basic social services especially for education and health care, (iii) keeping all roads in motor able condition especially the community roads, (iv) modernizing agriculture by providing advisory services and infrastructure for marketing farm inputs, and (iv) restoring and protecting natural resources and encouraging land owners to acquire land titles. Unfortunately most of these objectives do not have any underlying performance targets.

Successes and Challenges in the District

Successes	Challenges
Agriculture	
• Increased production of tea, honey and banana and their value addition. • Increased technical uptake and use of modern farming methods. • Increased access to financing for farmers	• Outbreak of the banana bacterial wilt which has affected yields. • Land fragmentation which is limiting mechanization and commercial agriculture • Poor and substandard farm and livestock

Successes	Challenges
through farmers groups and SACCOs.	inputs since the liberalisation of inputs business.
Education	
• Improved performance of UPE schools at PLE. • Increased infrastructure in schools with more classrooms built and more classroom facilities like furniture. • Staffing has remained good on average.	• Transport to facilitate routine inspection and spot checking missing. • Lack of formal mechanisms to feed children at school. • Teacher absenteeism is a serious challenge in the district.
Health	
• Adequate supply of essential drugs and improvement in health services. • High institutional delivery i.e. mothers delivering at health centres—63 per cent. • High coverage of immunisation of 93 per cent.	• Poor health infrastructure in terms of facilities equipment and transport. • Inadequate funding of the health sector leading to poor service delivery and monitoring • Low staffing levels due to poor remuneration and other benefits. Only 20 per cent of staff are housed.
Water and Sanitation	
• Coverage of access to safe water has improved from 50 to 57 per cent over last two years. • Community mobilisation component for sanitation is well funded and has been successful. • Past two years disbursements have been received on time with the exception of this year's fourth quarter.	• Funding is not adequate and limited to only 356 million. • Water user communities are bankrupt. People are not willing to pay for the services provided. • Contractors do not have enough financial capacity to implement contracts.
Works and transport	
• With creation of Uganda Road Fund, there has been improvement in disbursement of funds. • Work gangs have helped in maintaining community roads. • The new road equipment has helped to improve works in the district	• Machinery acquired from china is not a full set. It lacks excavator, wheel loader and roller. • Funds provided are still inadequate. For instance, the money going to sub counties is only 3 million. • The manpower to supervise the road gangs is not enough. Roads inspectors are

Successes	Challenges
	required.

EM5 Progress on meeting the Binding Constraints

Despite the challenges above, these are some of the key binding constraints being addressed through the District Development plans and National Development Plan while other challenges there is not much attention devoted to them.

- The roads infrastructure is being addressed through the conditional grants provided by the MOFPED albeit the fact that the resources are very inadequate. For the community roads each sub county receives about 3 million shillings which cannot be enough to maintain roads in good condition.
- Access to finance constraint has been addressed through the proliferation of SACCOs in the district. These are also supported by village banks. The challenge to these SACCOs is that they are not well regulated yet some of them have assets valued at more than UGX 1 billion shillings.
- Access to electricity is being addressed through the rural electrification program. There has been an increase of other activities like welding which never used to exist before.
- Improved education access is being improved through the UPE and USE government programs. The challenge to these programs is that they are not well supervised due to lack of transport by district officials.
- Increased income and employment opportunities in the district have been adequately addressed through value addition programs spearheaded by the NAADS programs. There are various value addition activities especially in the areas of honey, tea and milk.

Despite some progress to address some of these challenges, the district is also faced with some challenges of retaining staff and mobilising local tax revenues.

- The inadequate staffing (human resource) at the district and inability to retain staff after splitting into various districts is a challenge which is not adequately addressed through the current NDP
- The district has very limited local tax revenues to implement its programs. The URA left the district with the hard to tax areas. Yet within the NDP, it’s not clear how domestic revenue mobilisation at the district level was expected. The conditional grants provided from the central government also limit the flexibility of the district authorities.

EM3: Relationship between NDP and Planning Process at the District

The key observation by the district planner is that the egg concept and the sectors in the egg yolk relative to their allocation do not tally. An example is the budget that goes to agriculture and ICT sectors yet they are considered to be the most important core sectors. This implies that what was planned for in the NDP is completely different from what is being implemented by the MOFPED.

Resources should also be allocated based on the importance of sectors and there should be room to readjust the NDP as sometimes activities planned can be overtaken by events.

While there was some effort to align the DDP with the NDP, business continued as usual in terms of allocation of resources and that indirectly affects the implementation of the DDP at the district level. There should therefore be a harmonized NDP with the budget and a clear mandate of the NPA.

The fact that the government is also moving away from outputs to outcome, this should be reflected in the NDP, OBT and sector plans.

EM6: How has NDP implementation so far contributed to improvements in productivity, private sector development and competitiveness?

There has been tremendous growth of the private sector whether in business activities, industry and agriculture. Processing alone is now wide spread in Bushenyi district for tea, coffee, honey etc. This has mainly been driven by two factors. First, the district has been at the forefront of promoting SMEs and building their capacity through training activities. The district has also been at the forefront of promoting access to finance through SACCOs and groups.

For the last two years the district has put much emphasis on value addition to traditional products grown in the area. These products include barley wine, tea, honey which can be done at a small scale. The district has also been working closely with the SMEs to help them get UNBS certification and opening of markets at national and international levels.

Despite some progress, there are still some challenges facing the private sector development in Bushenyi district. These include:

- The cost of production is very high due to high electricity tariffs.

- Cost of borrowing even through SACCOs has limited private sector activities.

EM7: Deregulation and how it is facilitation private sector

Deregulation took effect in the district when all marketing boards especially coffee marketing board and dairy corporation were abolished. All activities in the form of trade and marketing of products in the district are private sector led and the government only comes in to enforce standards. The evidence to show that Bushenyi is largely driven by the private sector is the increasing number of processors involved in value addition of agriculture.

Kayunga District Report

Kayunga is one of the new districts which were curved out of Mukono district. This district is unique as it has various ethnic tribes all engaged in various activities. Part of the district is engaged in farming activities while some counties are involved in livestock farming.

Like other districts the authorities have a District Development Plan (DDP) which underpins its activities in the district. The district has some challenges in implementation of its DDP but key among the challenges is the inadequate resources that are devoted to the district and the limited domestic resource mobilisation at a local level.

The key objectives of the DDP include the following:

(i) To improve agriculture productivity through use of appropriate technology and promoting food security in the district.
(ii) To promote accessible primary health care services.
(iii) To maintain a motor able road network.
(iv) To increase safe water coverage by 10 percent in the five year period.
(v) To complete phase 1 of the district headquarters.

Successes and Challenges in the District

Successes	Challenges
Agriculture	
• Increased production in pineapples, bananas and coffee. • Reduction of banana bacteria wilt to below 40 percent. • Increased value addition as grain stores have	• Unpredictable weather and as a cattle corridor long droughts affect the area. • Emergence of new diseases e.g. maize necerosis. • Farmer's attitude/mind-set about

Successes	Challenges
been set up for storage and modern solar driers for pineapples.	agribusiness is still lacking.
Education	
• Improved UPE intake from around 6000 in 2009 to 9000 students in 2012. • 100 percent staff recruitment • Increased private sector involvement in education. District has over 120 private primary schools and about 19 secondary schools.	• Poor retention for both the UPE and USE especially for candidate classes. • Poor staff accommodation due to inadequate housing facilities. • Low standards of education in terms of performance especially for the UPE schools.
Health	
• Increase in access to essential drugs although the supply is inconsistent and sometimes inadequate. • Increased immunization and vaccination coverage. E.g. 85 percent DPT coverage. However there is still a challenge for poor service delivery of these vaccines. • Improved infrastructure stock of facilities especially accommodation. At least 70 per cent health centres have accommodation facilities.	• Low staff levels due to poor remuneration and high turnover of medical workers. • Lack of proper facilitation for transport which hinders supervision and monitoring of the delivery of health services. • Shortage of water at the district hospital and poor drainage system.
Water and Sanitation	
• 13 new boreholes have been drilled every year and 6 shallow wells. • Access of water has increased to 64 per cent from 60 per cent in 2011. • Sanitation in the district has also improved (data could not be provided).	• Quality of water drilled especially in Baale county is of bad quality • Procurement cycles which are long results into rolling projects into subsequent qtrs. • Increase in population is a challenge to available services.
Works and transport	
• Every year the district rehabilitates about 50 kms—but only spot rehabilitation. • Community access roads have been opened in almost every sub county. • The Road gangs have also been a success as they have improved community roads maintenance.	• Insufficient funds is a constraint to do any good roads in the district. • The manpower in this area is limited with the recent cap on recruitment this has limited supervision activities. • Machines provided are not enough and strong to handle serious work in the district.

EM5 Progress on meeting the Binding Constraints

Kayunga district is attempting to address the various constraints through its DDP as follows:

- The roads infrastructure is being addressed through the conditional grants provided by the MOFED albeit the fact that the resources are very inadequate. The CAAIP project has also helped to improve the road projects in the district.
- The issue of mind-set in the district of Kayunga features in the perspective of low participation of men in any development programmes which has contributed to the low productivity in the district. Most development programs are largely dominated by women and there is not much effort done to address this problem through the DDP or NDP.
- Access to electricity is being addressed through the rural electrification program.
- There is a high dropout rate in the district however; this is being partly addressed through the UPE program.

Despite some progress to address some of these challenges, the district is also faced with some challenges.

- There is a high turnover of health personnel. When the district advertises they get applicants who are appointed but only stay for a short period of time.
- The high output of pineapples in the district has not been well vertically integrated to promote more value addition. Some investors were identified to set up a factory for pineapple processing but the district failed to identify the required land for the investors and the investors relocated.
- Like in other districts, Kayunga has a very limited local tax revenues and this limits their flexibility in the implementation of district programs.

EM3: Relationship between NDP and Planning Process at the District

- Increased allocations should be given to districts since they implement most of the government programs rather than the ministries.
- The government has to innovate on how to enhance the domestic revenue mobilisation efforts at the district level.
- There should also be a link between the outputs expected from the districts and the inputs provided from a resource perspective.

- Each district should forward one project which should be fully implemented in the NDP. Much as there were some consultations, it is not clear whether the district inputs where fully taken on board.
- There is a need for support at district level in writing of the DDP. The district authorities are not even sure whether what was prepared for the DDP was adequate. Planners should therefore be supported by the NPA.
- The next NDP should also take into consideration the high fertility rates which have resulted into high population growth rate in the district. High population growth rate also stretches provision of social services.

EM6: How has NDP implementation so far contributed to improvements in productivity, private sector development and competitiveness?

UNCDF/MOLG has spearheaded the local economic finance initiative to ensure building linkages between the private sector and the district to address issues blocking development and exploitation of opportunities in the private sector. The district investment committee is supposed to take lead in identifying the links and how to strengthen them. This initiative is also linking local investors to sources of finance and sharing information. The key areas where they have succeeded are as follows:

They have been able to enhance local economic development by facilitating PPP. Examples of this include the “Patience Pays” which is involved in pineapple drying using solar technology; Kangulumira area cooperative enterprise which is involved in pineapple wine making, and Katikanyonyi Farmers Produce a marketing association which produces, adds value and markets maize. As a result of these increased private sector activities, there has been reduction in losses by farmers due to increased value addition and improved marketing.

There are also some challenges to enhance private investments in the district. Underfunding within the private sector and cost of financing are some of the hindrances to private sector development. There is also lack of political will in the district where genuine investors are viewed as land grabbers while the tenants are viewed as voters.

Kiruhura District Report

Kiruhura district which was recently curved out as a new district has had some successes and faces challenges in the course of its NDP implementation. The key successes that have been realized recently in the district are the transformation of their farming methods where most livestock has now been converted from the local breeds to cross or Friesian breeds. In addition, the district has also managed to diversify from livestock farming to crop farming through various NAADS programs. The other key success in the district is the tremendous improvement of their health indicators over the past two years. The third success has been the increased market for milk produced which is evidenced by the number of coolers in the district. Notwithstanding these achievements, the district is also constrained by some challenges. The first key challenge in the district relates to being a water stressed district despite some efforts to provide water for production. The second key challenge in the district is the fact that it's sparsely populated and therefore this makes it very difficult to provide social services. A summary of the key successes and challenges in the district is provided in the table below.

Table on key constraints

Successes	**Challenges**
Agriculture	
• Move away from pure Ankole cattle to cross breeds and fresians. • Diversification into crop production which has led into increase in herd sizes. • Increased market for milk due to increase in coolers now estimated at 169.	• East coast fever which is attributed to changes in breeds less susceptible to disease. • Water stress levels in the district remain very high • Close proximity to the park leads to being susceptible to animals.
Education	
• Increased enrolments especially at UPE. • Performance of students at primary level has greatly improved. • Improvement in quality of teachers after abolition of licensed teachers.	• Infrastructure for education is the biggest challenge • Sparse population in the area also hinders enrolments • Retention of teachers is a challenge given that it's a hard to reach area.
Health	
• District was voted the best improved in TB capture in Uganda in 2011/12 • Immunization coverage has been maintained at close to 100 per cent for last two years. • Improvement in EID from 0 to 35 per cent then to 72 per cent.	• Underfunding for the recurrent expenditure. 70 per cent of recurrent needs not funded. • Understaffing at 41 per cent • Inadequate supply of drugs and lack of a district hospital.
Water and Sanitation	
• Increased access to water through construction of 3 valley dams, 5 shallow wells and 64 household tanks. • Increased stability of households with more water accessible. • Sanitation has improved from 70 to 83 per cent especially latrines.	• Expansion of water facilities does not match the scarcity of the population. • Limitations in the use of technologies as using pumped systems require extension of power. • Mind-set of people used to move to start using safe water.
Works and transport	
• Introduction of forced accounts has greatly improved the ability of districts to do their work. • Work gangs have helped in maintaining community roads.	• Machinery acquired from china breaks down often and does not have enough maintenance budget. • Inadequate staffing to supervise work gangs • Inadequate funding from the centre greatly

Successes	Challenges
• The new tarmac road has improved the quality of the road network in district.	undermines work in progress. • PPDA is also a challenge in execution of works.

EM5 Binding Constraints progress towards unlocking them

Despite the challenges above, some of the key binding constraints are being addressed through the District Development plans and National Development Plan.

- The poor infrastructure especially through the sparsely populated areas is partly being addressed through the Community Agriculture Infrastructure Improvement Programme (CAIIP) project. The recent adoption of the use of road gangs has improved the quality of the community roads despite the limited funding.
- Water for production is still a challenge being that the district is one of the water stressed areas and yet it depends a lot on water given that most inhabitants are livestock farmers. To extend water for production is being addressed through various programmes under the water projects through provision of valley dams and water harvesting.
- The limited employment opportunities in the district are being addressed through NAADS and other stakeholders like SAMEER whose diary infrastructure has created employment opportunities.
- The limited access to electricity is being addressed through the rural electrification program. However, this has also been hindered by the costs to use this power and the fact that most people in this area keep on migrating as they search for water.

EM3 Relationship between NDP and Planning Process at the District

There is a complete disconnect between the District Development Plans, National Development Plan and the budgeting process spearheaded by the Ministry of Finance Planning and Economic Development. While there was some effort to align the district development plans with the National Development Plan, there is less attention put on the DDP at the district level while implementing work plans. The resources provided by the MOFPED are the basis used to dictate what is done every financial year. In addition, there is challenge that the DDP or NDP are not living documents which can be changed along the way to accommodate the changing needs of the district.

While the NPA provided some guidance at the beginning for the development of the DDP, there has been no follow up from the NPA since then to ensure the quality of the DDP and the extent to which these documents are being implemented in the district. The monitoring and evaluation aspect of the DDP is still lacking.

The sensitisation of the NDP at the district level by the NPA was also not adequate. This explains why the district authorities until now they don't own the document and largely assume that it is an NPA document.

The district authorities are also of the view that the plan should guide the resource allocation and should be adopted at all levels. There seems to be no link between the sector priorities identified in the plan and the allocations provided by MoFPED. This also affects the districts in the implementation of their DDPs.

There is also limited mentoring provided by the NPA at the district level in preparation of the DDP to ensure that this is fully aligned with the NDP.

EM6: Private Sector Development and Competitiveness

Kiruhura district is a very rural and hard to reach area. The key activity in the area is livestock farming. The recent improvement in the distribution of milk in the area has helped to increase more value added activities especially in the extension of shelf life of milk. However, beyond diary there are very limited private sector activities. The challenge for the private sector to operate in the district is largely due to its remoteness and sparse population. Indeed private sector development was mentioned as one of the key challenges hindering development in the district. In addition, owing to its proximity to two large towns (Lyantonde and Mbarara) private sector players find it more ideal to locate in these two towns rather than a small place like Rushere town. The key driving private sector activities in other towns include trading, banking and telecommunication outlets which all appear to be missing in Kiruhura district. Despite these limitations, there are possible opportunities in the district. One of the areas identified is in the tourism given that part of the district is a park.

EM7: Deregulation and Private Sector Development

The deregulation of milk activities has completely revamped this sector where before there was only one major buyer of milk in the district (formerly Dairy Cooperation now Sameer). However, after deregulation, the numbers of players have significantly increased which has resulted into so many milk coolers being installed in district. It is estimated that they are over 300 milk coolers with capacity of about 3000 litres.