

Uganda: Country Results Profile



Uganda: Maintaining Growth - Moving Towards Structural Transformation

Overview

Thanks to a sustained record of prudent economic management and reform, Uganda has maintained high economic growth and reduction in poverty for more than a decade. However, the fast-growing and youthful population poses serious challenges for sustained poverty reduction and improvement of living standards, through quality and equitable services, productive employment and efficient urbanization. The International Development Association's support for the government work on these issues has helped across a range of fronts, from connecting Ugandans to clean water and sanitation to increasing the speed of the registration of a new business or property.

Challenge

Uganda has a record of prudent macroeconomic management and structural reform. Despite various exogenous shocks, annual growth in gross domestic product (GDP) averaged 6 percent in the 1990s, and accelerated to over 7 percent in the 2000s. Due to high population growth, real GDP growth per capita averaged only 3.4 percent over the 1990s, and just over 4 percent over the 2000s. While exogenous shocks slowed down economic activity in recent years, GDP growth is expected to remain robust, averaging about 7 percent in the medium term. Oil production will change Uganda's economic outlook, but full-scale production is unlikely to begin before 2016. Continued economic prosperity in Uganda will require moving the economy to a higher productivity level and integrating all regions into the development process. Uganda must also invest in alleviating bottlenecks to growth, particularly in energy and transport infrastructure, and in delivering better quality social services through more efficient public sector management.

Uganda's overriding development challenge is to manage its resources, in particular the fast-growing and youthful population and the recently discovered oil fields. To reap the demographic dividend, Uganda must invest in fertility reduction, quality education and human capital formation,

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67,000

Households with access to safe drinking water

and productive employment creation. To reap the oil dividend, Uganda must maximize the social benefits through adequate investment and prudent macroeconomic management of the oil sector, as well as transparency and management of expectations.

Perceived deterioration of governance and an increase in corruption threatens to tarnish Uganda's image as a development model and challenge its future development efforts. Uganda needs to address decisively increasing petty corruption, the perceived growing culture of impunity for grand corruption and pervasive "quiet corruption," such as unchecked teacher and health worker absenteeism.

Approach

In February 2010, the Government of Uganda finalized a new five-year National Development Plan (NDP) spanning fiscal years (FY) 2011-2015. The NDP's main theme is "Growth, Employment and Socio-Economic Transformation for Prosperity," marking a broadening of the country's development strategy from poverty reduction to structural transformation with the aim to raise growth and living standards. The NDP is the first in a series of six plans intended to transform Uganda over thirty years into a modern and prosperous country.

On May 25, 2010, the World Bank Board of Executive Directors discussed a new Country Assistance Strategy (CAS) to support Uganda. Hinging upon four pillars, this new strategy will support government efforts to promote inclusive and sustainable economic growth; enhance public infrastructure; strengthen human capital development; and improve good governance and value for money. It is estimated that during the CAS period, the International Development Association (IDA)—the arm of the Bank that lends to the poorest countries—will commit approximately US\$2 billion to support development projects and programs in Uganda. Key priorities over the CAS period, in addition to continued support for national projects and regional integration in the transport and energy sectors, include: (i) the continuation of the poverty reduction support credit series with focus on improving efficiency and value for money in delivery of core services, (ii) a Municipal Infrastructure Project to improve management and accountability of thirteen secondary cities to support urbanization, and (iii) a Water Sector Development and Management Project to finance investments in water support and sanitation, including several of the cities included in the Municipal Infrastructure Project.

Analytical and advisory services to be undertaken to support the government to address challenges in the medium to long term include analytical work on how to make Uganda's growth inclusive, just-in-time policy notes on petroleum-related subjects and a Country Water Assistance Strategy to identify areas for interventions and reduce water-related vulnerability. Future Public Expenditure Reviews will focus on public investment financing and decentralized service delivery.

Results

- The Northern Uganda Social Action Fund, a community-driven development project, started in 2003 and is now continuing in its second phase. Under its first phase, more than three million people, or 47 percent of the population in northern Uganda, were provided access to improved social services: 67,000 households (336,000 people) have access to safe drinking water; and close to 4,000 households (19,000 people) were able to access improved sanitation facilities.
- Under the Private Sector Competitiveness Project II, the time to register a property was reduced from 225 to 77 days and the time to register a business from 135 to 25 days, thereby reducing the cost of doing business in Uganda.

25

Number of days it now takes to register a business, down from 135

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- Under the Energy for Rural Transformation program, the first project focused on establishing the regulatory and institutional framework for the sector. Additional achievements included installation and operationalization of more than 500 solar systems with a capacity of 117,000 watt-peak hours in health centers across the country, improving service delivery and enhancing safety. Twenty solar water-pumping systems with a capacity of 196,000 watt-peaks were installed and are in operation in 14 districts countrywide. This least cost energy solution has improved water supply in small towns and rural growth centers countrywide.

Bank Contribution

As of March 2012, the Uganda portfolio comprised 15 IDA-financed operations with a net commitment amount of US\$1.3 billion. About one-quarter of IDA support is provided in the form of direct budget support. In addition, there are five regional projects and an IDA guarantee of US\$115 million for the Private Power Generation (Bujagali) Project.

The current sector distribution of IDA commitments reflects the government's emphasis on infrastructure. About 59 percent of commitments are allocated to energy, mining, environment, urban development, and transport. About 32 percent are allocated to education, health and social development.

Uganda is also benefitting from a large trust fund portfolio (approximately US\$80 million in grants). Trust funds, most of which are linked to lending operations, have focused mainly on: environment; renewable energy ([Global Environment Facility](#)); demobilization and reintegration of ex-combatants ([Multi-country Demobilization and Reintegration Program](#)); monitoring and evaluation (Institutional Development Fund (IDF)); avian influenza; and piloting output-based aid in health and water supply ([Global Partnership on Output-Based Aid](#)). The United Kingdom's Department for International Development (DFID) has become a key partner in IDA's Uganda program, providing cofinancing to the Northern Uganda Social Action Fund II (US\$39 million) and the Transport System Improvement Project (US\$8 million) and supporting the government's implementation of the National Development Plan through a World Bank-executed partnership trust fund for analytical studies and technical assistance (TA) (approximately US\$12 million). In addition, a Multi-Donor Trust Fund has been set up to fund various activities related to the Joint Budget Support Framework (see Box 1), including funding of a Technical Assistance and Support Unit.

IDA's analytical and advisory activities underpin investment operations and sector strategies, and inform the government's reform path. Recent analytical work includes a series of Public Expenditure Reviews focused on education (FY08), health (FY09), and roads (FY10). The reports *Public Finance Management in Uganda – a Platform Approach* (2008) with an assessment of fiscal decentralization, and the *Public Expenditure and Financial Accountability Report* (2009) have been critical in informing the reform agenda in public financial management.

Partners

More than 40 bilateral and multilateral development partners provide aid to Uganda, but only three partners account for almost half of the country's total Official Development Assistance. IDA, the largest financier, accounted for 19 percent of the US\$7.3 billion disbursed from 2004 to 2008 with the United States and the European Commission (EC) at 18 percent and 10 percent, respectively.

During the current CAS period, the Bank will continue to promote donor harmonization and aid effectiveness. The Bank is the permanent chair of the Local Development Partners' Group (LDPG), which is the apex development partner forum in Uganda. The LDPG and its sector/thematic groups provide a forum for development partner coordination and interfacing with the government. In addition, the Bank is the permanent co-chair of the Joint Budget Support Framework.

The government's National Development Plan includes a section on government-development partner relations, outlining key issues related to aid effectiveness and stating the government's intention to adopt a new Partnership Policy, addressing alignment of aid with national priorities

and systems, transaction costs, coordination issues, predictability of aid flows, mutual accountability for development results, and partnerships beyond aid. The Partnership Policy is expected to play an important role for the management of aid over the medium term, as oil revenues gradually reduce the government's reliance on external assistance.

Uganda's development partners undertake periodic division-of-labor exercises to encourage selectivity. Once the new Partnership Policy is adopted, it is expected that development partners will undertake a new division of labor exercise under government leadership. During the CAS period, the Bank will continue to encourage the use of Sector-Wide Approaches (SWAPs) and joint supervision missions where relevant.

Toward the Future

The Bank will continue its close dialog with the Ugandan government on the three issues seen as the biggest constraints and challenges to achieving the structural transformation envisioned in the National Development Plan: oil, population growth and governance. In the emerging Ugandan oil sector, the Bank will provide policy advice on petroleum-related subjects and the experience of other countries, including revenue/public investment management, establishment of a petroleum training center, oil production in environmentally-sensitive areas and development programs for local communities in affected areas. On population, IDA will strengthen national capacity to deliver essential health services, support expanded access to post-primary education and assist the government in developing a comprehensive vocational training strategy. Lastly, on governance, IDA is engaging through analytical work and across the portfolio to achieve good governance and value for money.

Beneficiaries

Alice Okolimong is a deputy head teacher at Awoja Primary School, in Soroti District, one of the 41 districts in Northern Uganda which has experienced economic stagnation arising out of two decades of instability and conflict.

*"I joined this school in 2001 when there was only one building which was the administration block for the school. Classes were being conducted under the tree at that time and a teacher would have about 10 pupils in a whole class. When we heard about the **Northern Uganda Social Action Fund Project** in 2003, we submitted a proposal requesting for support to construct classroom blocks and teachers' houses. In 2007, three classroom blocks and three teachers' houses were constructed. The presence of classroom blocks has attracted more than 200 pupils per class as of today. I now live in a teachers' house, which is located within the school premises. I no longer worry about walking 12 kilometers to and from school like I used to five years ago."*

The Northern Uganda Social Action Fund is a community-driven development project, started in 2003 and is now continuing in its second phase. As part of the government's broader Northern Uganda Reconstruction Program, the project empowered communities in the 18 (now 41) districts of northern Uganda by enhancing their capacity to identify, prioritize and plan systematically for their needs within their own value systems and, ultimately, to improve economic livelihoods and social cohesion.