UGANDA
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UGANDA

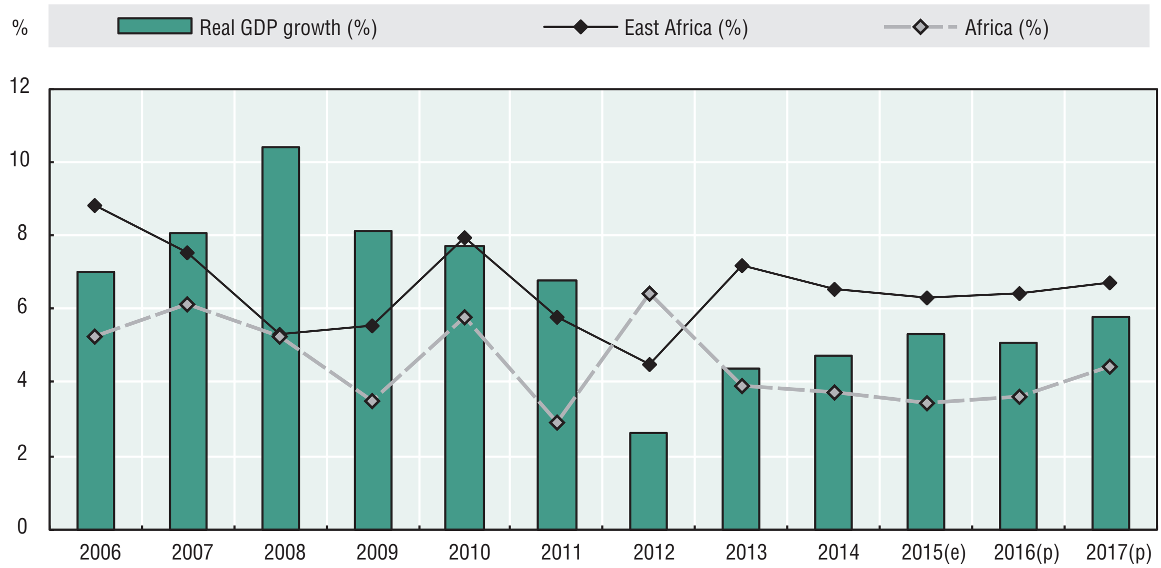
- **Uganda's economy continued to improve in 2015, despite external shocks, with real GDP growth projected to reach 5.1% in 2016, and 5.8% in 2017, driven by industry, services and public infrastructure investment.**
- **Uganda's economic stance remains focused on containing inflationary pressures and on enabling growth by ensuring exchange rate stability and maximising domestic resources mobilisation.**
- **Uganda has made progress in reducing poverty and in enhancing gender equality and women's empowerment.**

Overview

Uganda's economic outlook is positive, with real GDP growth expected to reach 5.1% in 2016, compared to 5.3% in 2015, and 4.7% for 2014. This assumes that the government will maintain macroeconomic stability and tackle corruption. Growth will mainly be driven by strong performances in the industry and services sectors, and also by public infrastructure investment and other investments in priority sectors. Large infrastructure projects will boost manufacturing, as well as services, notably tourism. Rising private consumption will also drive growth. Credit expansion, which increased by 16% in February 2015, more than double last year's growth rate, will boost consumption, as will higher government consumption in the run-up to elections. Investment in the energy sector will also boost growth, although the pace of growth has slowed in the past year as oil prices have fallen sharply. The issue of new licences for further oil exploration in the greater Albertan region will boost much-needed foreign direct investment.

Uganda's Human Development Index (HDI) improved slightly to 0.483 in 2014, from 0.478 in 2013. This still falls below the 0.502 average for the world's least developed countries (LDCs), and the 0.518 average for sub-Saharan Africa. Moreover, earlier progress towards Millennium Development Goals (MDGs) for health and education has stalled, with outcomes underperforming the goals due to insufficient funding. Nonetheless, there has been significant progress in increasing access to anti-retroviral treatment, in preventing mother-to-child HIV transmission, and in reducing the prevalence of malaria, which fell from 43% in 2009 to 19% in 2014. Poverty fell in all regions except the Eastern region, where it increased between 2009/10 and 2012/13. Although the Northern region has witnessed a significant reduction in poverty – from 60.7% in 2005/06 to 43.7% in 2012/13 – this still remains more than twice the national average. Uganda has steadily improved its performance in gender equality and women's empowerment. Nonetheless, women continue to face discrimination, particularly in their access to economic opportunities and ownership of assets.

Figure 1. **Real GDP growth**



Source: AfDB, Statistics Department AEO. Estimates (e); projections (p).

Table 1. **Macroeconomic development**

	2014	2015(e)	2016(p)	2017(p)
Real GDP growth	4.7	5.3	5.1	5.8
Real GDP per capita growth	1.4	2.0	1.8	2.5
CPI inflation	4.3	4.5	5.2	5.3
Budget balance % GDP	-4.1	-4.5	-6.0	-5.5
Current account % GDP	-9.6	-9.1	-9.1	-9.1

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Recent developments and prospects

Uganda's macroeconomic performance has improved. The government has stuck to its macroeconomic goals. These include reining in inflation to around 5%, with single-digit headline inflation, and maintaining foreign exchange reserve cover equivalent to at least 4.5 months of imports. The government also aims to ensure that the real exchange rate continues to be set by the market, and to maintain monetary and economic convergence and compatibility within the East African Community (EAC).

Uganda's real GDP growth is expected to reach 5.1% in 2016, from 5.3% in 2015 and 4.7% in 2014 (See Fig. 1). During 2014/15, the Ugandan government pursued an expansionary fiscal policy aimed at financing large infrastructure projects in line with its development plan.

The overall budget for FY 2015/16 is expected to increase by 49% in nominal terms from 15.829 trillion Ugandan shillings (UGX), or around USD 5.3 billion, in FY 2014/15, to UGX 23.97 trillion, or roughly USD 8 billion. The rate of real GDP growth is projected to rise to 5.3% in 2015, from 4.7% in FY 2014, and 4.4% in FY 2013. Although Uganda's economy has experienced several external shocks, which have caused significant fluctuations in growth rates over the past five years, Uganda should continue to experience resilient economic growth.

Key drivers of GDP growth during FY 2016/17 are expected to include a strong performance by Uganda's industry and services sectors, as well as a rise in construction activities as major infrastructure projects take shape. These transport and hydroelectric projects will benefit the manufacturing sector and support activities in the service sector, notably tourism. According to the 2016/17 budget, Uganda's government will increase its spending on agriculture (by 1.1%), on works and transport (by 0.7%), and on accountability (by 0.6%), with further marginal increases for education (0.3%), health (0.1%), and tourism (0.1%).

Strong private consumption should also contribute to growth, supported by a sustained expansion of credit. Credit increased by 16% in February 2015, more than double the rate a year earlier. Higher government consumption ahead of the elections in February 2016 is also expected to contribute to growth. Furthermore, investment in the energy sector, and the oil sector in particular, will also provide a boost, notably thanks to an increase in oil exploration.

It is further expected that efficiency gains, arising from improvements in public financial management and accountability, will lead to savings, and to a better utilisation of resources by government institutions. From FY 2016/17, fiscal policy will be framed by a five-year charter of fiscal responsibility, which is due to be finalised in May 2016. The charter's purpose is to strengthen the accountability, transparency, and stability of the government's fiscal policy framework.

In terms of government revenue, it is expected that, in FY 2016/17, total resource inflows, including aid, will increase by 6.29% due to a rise in domestic revenue and an increase in budget support from outside the country. Indeed, overall revenue should increase, even though the amount of money the Ugandan government disbursed to pay back its debts is set to rise by 21.6% in FY 2016/17 from a year earlier. This will take overall fiscal-year debt repayment from 1.9% of GDP to 2.2% of GDP. The Ugandan government is likely to continue to increase spending in line with its commitment to investing in infrastructure, and to reduce consumption in favour of investment.

According to the 2016/17 budget, only 30% of total expenditure and net lending is expected to be financed by external loans and grants. Alongside other EAC countries, Uganda will continue to implement initiatives aimed at deepening the economic integration of the bloc, as well as enhancing economic co-operation with other regional economic blocs. Uganda has been, and is, increasing its participation in the Common Market for Eastern and Southern Africa (COMESA). The tripartite agreement between the EAC, COMESA and the Southern African Development Community (SADC), signed in June 2015, will enhance the country's trade opportunities along with the signing of an economic partnership between the EU and the EAC, and also with Uganda's continuing participation in the US-led Africa Growth Opportunities Act (AGOA). Uganda's overall competitiveness has continued to be held back by an inefficient business environment, and indeed by flaws in Uganda's regulation of business. Key issues that continue to undermine Uganda's competitiveness include the country's weak institutions, and the corruption that ensues. Other problems include weak infrastructure, poor education and health outcomes, and a lack of the skills required to meet development challenges.

Domestic downside risks to the projected positive outlook for Uganda include the prospect of excessive expenditure in the run up to elections, which could push up inflation. Declining commodity prices present another risk. Indeed, lower oil prices have already resulted in lower investment flows into Uganda's oil sector. The prospect of extra spending on unforeseen contingences represents another risk. Moreover, the local impact of the global disturbance in weather conditions caused by the El Niño phenomenon may harm the agricultural sector. Furthermore, capacity constraints that hamper the timely execution of public infrastructure projects, and the increasing lending rates that have resulted from monetary tightening, may hold back activity in the private sector. External risks facing Uganda during the same period include unrest in neighbouring countries. Another potential risk is slow economic growth of Uganda's key trading partners. Uganda's exports as a percentage of GDP declined to 10.21% in FY 2013/14, from 12.4% of GDP in FY 2008/09. Other downside risks include declining commodity prices, and a low demand for the country's exports more generally. Uncertain global financial conditions, such as the strengthening of the US dollar, and the possible flight of capital in any eventual global liquidity squeeze, may put pressure on Uganda's monetary framework.

Table 2. **GDP by sector (percentage of GDP at current prices)**

	2010	2014
Agriculture, forestry, fishing and hunting	26.2	27.0
of which fishing	1.7	1.9
Mining and quarrying	1.0	0.8
of which oil	…	…
Manufacturing	10.2	10.0
Electricity, gas and water	2.9	2.8
Construction	6.3	8.4
Wholesale and retail trade; Repair of vehicles household goods; Restaurants and hotels	17.0	17.0
of which hotels and restaurants	2.6	3.4
Transport, storage and communication	8.8	6.6
Finance, real estate and business services	13.4	12.4
Public administration and defence	3.5	2.9
Other services	10.7	12.2
Gross domestic product at basic prices / factor cost	**100.0**	**100.0**

Source: Data from domestic authorities.

Macroeconomic policy

Fiscal policy

During FY 2014/15, Uganda's government pursued an expansionary fiscal policy, investing to reduce the infrastructure bottlenecks that have continued to hold back economic growth. The introduction of new tax policies significantly boosted domestic revenue as a percentage of GDP, which increased from 11.9% in FY 2013/14 to an estimated 13% in FY 2014/15. In nominal terms, this represents a revenue collection of UGX 9 782 billion in FY 2014/15, up from UGX 8 167.9 billion in FY 2013/13. Despite this improvement, revenue performance still fell slightly short of the revenue target of 13.7% in the budget proposal. Revenue and grants rose to 14.2% of GDP in FY 2014/15, from 13% in FY 2013/14. The approved budget for total grants in FY 2014/15 was UGX 1 290.6 billion (USD 430.9 million), only UGX 820.3 billion of which was disbursed in FY 2014/15. Implementation delays and administrative bottlenecks tend to account for such shortfalls.

The fiscal policy outlook for FY 2015/16 remains expansionary, with total expenditure projected to rise by 49% to UGX 23.972 trillion (USD 8.58 billion) in FY 2015/16, from UGX 15.835 trillion (USD 6.23 billion) in FY 2014/15. An additional 20% or UGX 4.787 trillion of the total budget is allocated for domestic debt repayment as required by the new 2015 Public Finance Management Act.

The fiscal deficit (including grants) rose to 4.1% of GDP in FY 2014/15 from 3.6% (2013/14) due to several factors. Domestic revenue collection only reached 13.0% of GDP in FY 2014/15 (and is expected to reach 14.1% in FY 2015/16), failing to fully finance a total expenditure of 18.6% of GDP. Moreover, the government faced delays in securing external funding for energy infrastructure projects. This pushed up domestic borrowing by 3.4% of GDP. Of the UGX 2 674.2 billion of spending foreseen in the budget, only UGX 1 669.7 billion was released. Furthermore, there was a low rate of disbursement for the part of the development budget financed by donors (only 40% of the programmed UGX 2 801.8 billion), due to the limited capacity of projects to absorb the funds due to delays. Despite the shortfall, public investment grew by 0.7% to reach 6.3% of GDP, which proved sufficient to support GDP growth. The GDP outlook is for a slower increase than previously projected, forecasting a growth rate between 5% and 5.5%. Rising interest rates, and lower corporation tax collections, point to a potential slowdown in private sector activities.

Table 3. **Public finances (percentage of GDP at current prices)**

	2006/2007	2011/2012	2012/2013	2013/2014	2014/2015(e)	2015/2016(p)	2016/2017(p)
Total revenue and grants	**18.0**	**13.1**	**12.9**	**13.0**	**14.1**	**13.9**	**13.7**
Tax revenue	12.4	10.7	11.0	11.4	12.5	12.3	12.3
Grants	5.1	1.9	1.5	1.0	1.1	1.1	0.9
Total expenditure and net lending (a)	**19.8**	**15.6**	**16.5**	**17.1**	**18.6**	**19.9**	**19.2**
Current expenditure	12.2	9.6	9.2	9.8	10.4	10.0	9.9
Excluding interest	11.1	8.6	7.8	8.4	8.8	8.3	8.2
Wages and salaries	4.7	3.1	3.4	3.5	3.5	3.3	3.3
Interest	1.1	1.0	1.4	1.4	1.6	1.7	1.7
Capital expenditure	7.1	6.1	6.6	7.2	6.4	7.1	7.2
Primary balance	**-0.8**	**-1.5**	**-2.2**	**-2.7**	**-2.9**	**-4.2**	**-3.7**
Overall balance	**-1.9**	**-2.5**	**-3.6**	**-4.1**	**-4.5**	**-6.0**	**-5.5**

Note : a. Only major items are reported.
Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Monetary policy

The Bank of Uganda pursued a neutral monetary policy stance up to March 2015, maintaining the Central Bank Rate (CBR) at 11%. However, the bank raised the CBR to 12% in April 2015, and then to 16% in August 2015, in response to the volatility of the Ugandan shilling, and to avert inflationary pressures arising from a 30% depreciation of the currency against the US dollar during FY 2014/15. Depreciation of the shilling is mainly a result of Uganda's fiscal and current account deficits driven by weak export growth, significant spending on large infrastructure development projects, the recent strengthening of the US dollar, and the decline in commodity prices. This latter factor naturally includes the recent decline in global oil prices, which has reduced the flow of investment into Uganda's nascent oil sector.

Inflation decelerated from 4.3% in July 2014 to 1.3% by January 2015. However, the consumer price index (CPI) rose to 3.6% in April 2015, and to 5.4% by July 2015. The depreciation of the Ugandan shilling and a seasonal increase in food prices account for the CPI increase. As a result, the Bank of Uganda shifted to a contractionary monetary policy stance, increasing the CBR from 12% in April 2015 to 16% in August 2015. This contributed to a sustained reduction in inflation, which fell to 4.5% at the end of August 2015, from 5.4% in May 2015. Despite inflation being relatively low, concerns have persisted around the weakness of the Ugandan shilling, which depreciated by 28% since between January and October 2015, primarily on account of weak exports and a stronger US dollar.

The Bank of Uganda's annual supervision report for 2014, published in March 2015, confirmed that the banking sector remained profitable and well capitalised in 2014, with the aggregate core capital to risk weighted assets ratio standing at 19.7%. This is well above the statutory minimum requirement of 8%. In nominal terms, banks' profit, after tax, increased by 17.2% to UGX 485.2 billion (USD 139.5 million) in 2014, from UGX 414 billion (USD 119 million) in 2013. Furthermore, the banking sector registered credit growth of 14%, while the ratio of non-performing loans to gross loans improved from 5.2% in December 2013 to 4.8% in December 2014.

Another significant aspect of Uganda's monetary policy is the protocol for the establishment of an East African Monetary Union, (EAMU), which the five EAC countries agreed to in 2013, and which maps out economic convergence criteria and the adoption of a single currency by 2024. All

EAC member states had ratified the protocol by 2014. Capacity-building activities and initiatives to hasten monetary convergence are ongoing.

Economic co-operation, regional integration and trade

Uganda, alongside other EAC member states, continued with initiatives to deepen economic integration within the bloc, and to enhance economic co-operation with other regional economic organisations.

Uganda has continued to participate in implementing a customs protocol for the EAC's northern and southern transport corridors. Moreover, the heads of state of the EAC member countries agreed in 2014 to improve the region's infrastructure to facilitate the transit of goods along the bloc's northern and southern transport corridors. There is also a joint protocol covering the development of a standard gauge railway from Mombasa to Kampala, Kigali and Juba. Furthermore, the EAC member states have been implementing one-stop border posts to facilitate trade and integration. These posts have already had a positive impact on reducing the time taken to move cargo from the sea ports to the hinterland, and also on reducing the number of border posts altogether. For instance, it now takes 20 to 30 minutes to clear a large consignment of goods, compared to 3 hours prior to the implementation and harmonisation of the border control regulations. EAC countries remain committed to eliminating non-tariff barriers to trade.

Uganda has increased its participation in the Common Market for Eastern and Southern Africa (COMESA). The tripartite EAC-COMESA-SADC agreement, signed in June 2015, will enhance the country's trade opportunities, as will the signing of the EAC's Economic Partnership Agreement (EPA) with the European Union (EU). Uganda's participation in the United States' AGOA provides another potential source of trade opportunities. Furthermore, it is expected that, during FY 2015/16, the EAC will start negotiating a free trade agreement with the EU, with a view to reaching a deal by 2020. Finally, Uganda and other EAC countries are in the final stages of implementing the World Trade Organization's Trade Facilitation Agreement. According to official estimates, this protocol will cut the cost of doing business by about 14.5%, thereby boosting regional trade.

Table 4. **Current account (percentage of GDP at current prices)**

	2007	2012	2013	2014	2015(e)	2016(p)	2017(p)
Trade balance	-8.7	-10.1	-8.4	-8.6	-8.3	-8.0	-8.1
Exports of goods (f.o.b.)	13.1	11.5	11.1	9.9	11.3	11.5	11.1
Imports of goods (f.o.b.)	21.8	21.6	19.5	18.5	19.6	19.6	19.2
Services	-2.9	-1.5	-1.1	-2.6	-2.8	-2.6	-2.2
Factor income	-1.8	-1.9	-2.5	-2.9	-2.8	-2.9	-2.8
Current transfers	8.7	6.6	5.0	4.6	4.7	4.5	4.0
Current account balance	**-4.8**	**-6.9**	**-7.0**	**-9.6**	**-9.1**	**-9.1**	**-9.1**

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

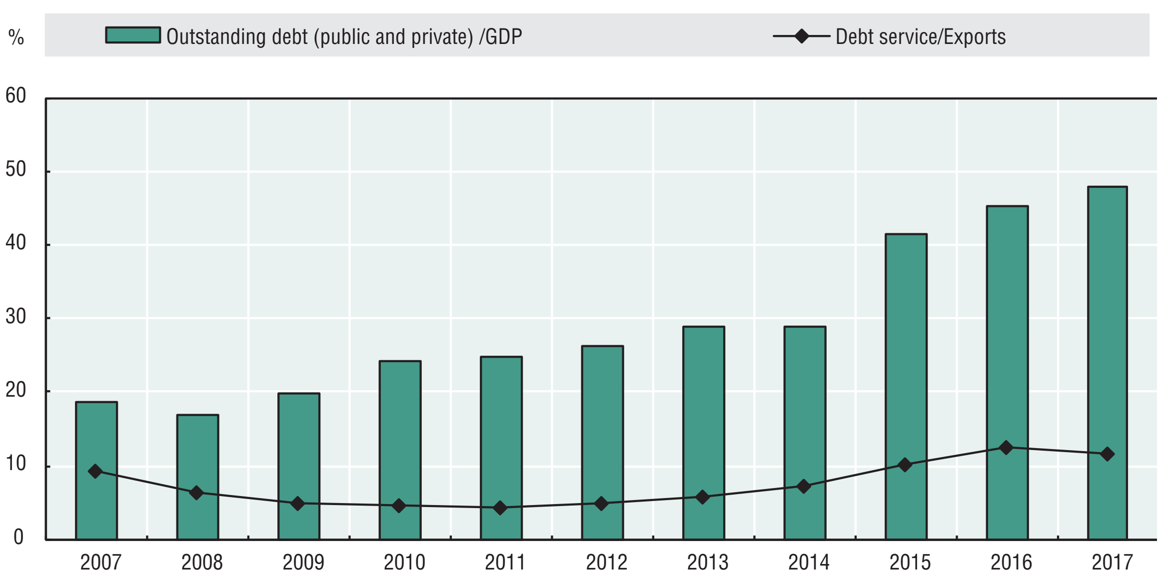
Debt policy

Uganda's current public debt strategy, formulated in 2013, provides a framework for guiding the scaling down of the national debt levels over the FY 2013/14 to FY 2017/18 period. In addition, the government has adopted a medium-term debt management strategy for the five-year period between 2015 and 2020. The aim of this strategy is to guide the contraction and management of the government's debt portfolio, including determining the most appropriate composition of this portfolio in light of the challenging macroeconomic and market environment. A joint International Monetary Fund/World Bank debt sustainability analysis of June 2015 concluded that Uganda remains at low risk of debt distress, notwithstanding significant planned investments in energy and transport infrastructure. The government has taken a cautious stance, limiting the increase in public and publicly guaranteed external debt to 4% of GDP since 2007. That increase now stands at close to 4%.

Uganda's current total stock of debt remains sustainable. The Government of Uganda and the IMF estimate that the debt pile increased to 30.2% of GDP in FY 2014/15, from 28.5% in FY 2013/14. The GDP rebasing exercise of November 2014 resulted in a decrease of the debt-to-GDP ratio of about 4%. During FY 2014/15 the total stock of domestic debt was estimated at UGX 9 548 billion, equivalent to 12.7% of GDP, and external debt in FY 2014/15 was 17.5% of GDP. The cost of servicing domestic debt increased by 26% in FY 2014/15 from UGX 853.4 billion to UGX 1 076.8 billion also equivalent to 9% of the budget. Public gross nominal debt is expected to rise to 34.6% of GDP in FY 2015/16, of which external debt will rise to 20.2% of GDP from 17.5%, while domestic debt is expected to increase modestly. The increase is attributed to the frontloading of key infrastructure projects such as the Karuma and Isimba hydro-power projects, strategic roads, an oil refinery, and the standard gauge railway. Most of the infrastructure projects are supposed to be financed up to 80% from external sources.

The joint IMF/WB debt sustainability analysis of June 2015 concluded that Uganda remains at low risk of debt distress, despite the increase in planned investments in energy and transport infrastructure. Over the medium term, the country has lined up semi-concessional and non-concessional financing, which is largely tied to infrastructure projects. By the end of June 2015, the stock of outstanding public debt was projected to reach USD 7.6 billion, which is equivalent to 30.2% of GDP and representing an increase of 28.7% of GDP at the end of June 2014. Debt as a percentage of GDP is expected to rise from 20.8% in June 2014 to 38.3% in June 2020.

Figure 2. **Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)**



Source : IMF (WEO & Article IV).-

Economic and political governance

Private sector

Uganda's overall competiveness has improved considerably. According to the World Bank report *Doing Business 2016*, Uganda is among the 10 top reformers in the world. Uganda is ranked 122nd, which is 13 places higher than a year earlier, when it came 135th. The report shows notable improvements made in a number of areas. There were marked improvements in the categories of "dealing with construction permits", in which Uganda's ranking rose to 161st, from 166th, and in "getting electricity", for which Uganda rose to 167th place, from 172nd. Uganda also improved in the area of "getting credit", where it climbed to 42nd place, all the way from 128th, and in "resolving insolvency", for which it rose to 106th from 104th. Uganda's performance in terms of "starting a business" and "enforcing contracts" remained stagnant at 186th and 78th places, respectively. However, Uganda slipped to lower positions in the rankings for "registering property", "paying taxes", and "trade across borders".

The improvements observed in these World Bank rankings are the result of a number of reforms implemented in 2014. For example, Uganda now has administrative systems to improve the efficiency of incorporating and registering a business at the Uganda Registration Services Bureau. Further improvements include allowing online self-assessment to facilitate the tax-paying process, promoting transparency in the registration process, establishing a "one-stop-shop" centre in 2014 to simplify the process of starting a business and applying for licences, and decentralising the Uganda Registration Services Bureau (URSB) to bring it closer to businesses.

However, a number of issues continue to hold back Uganda's competitiveness. These include the country's underdeveloped infrastructure, its poor education and health outcomes, and also a deficit of the kind of skills required to meet development challenges. Furthermore, Uganda's private sector continues to suffer from fragmentation, lack of diversification, and low levels of industrialisation.

Financial sector

During the year to June 2015, Uganda's financial sector, which is largely dominated by commercial banks, proved to be resilient and financially sound. Overall, the country's credit institutions were adequately capitalised and liquid as of 30 June 2015. The total assets held by credit institutions grew by UGX 67.8 billion (USD 19.5 million), mainly as a result of an expansion of lending.

Banks' profitability increased, supported by improved financial access and asset growth. As of 31 June 2015, the total number of bank branches stood at 570 compared to 561 as at 31 June 2014. The number of automatic teller machines stood at 834 by 31 June 2015, compared to 803 a year earlier. Total bank lending grew by 19.7% in the year to June 2015, up from an annual growth rate of 14.4% a year earlier. Banks' after tax profits rose by 55.1%, compared to a decline of 27.8% in the year to June 2014. There were 18% fewer non-performing loans in 2014/15, an improvement that translated into lower provisions for impaired assets, boosting profits.

The insurance sector's total assets were UGX 915.1 billion at the end of December 2014, up from 18.3% from UGX 773.8 billion (USD 222 million) a year earlier. General insurance, a category that encompasses products other than life insurance, accounted for 81.9% of total industry assets during the period under review. The 33.6% growth in the overall sales of life insurance premiums was higher than that for the non-life insurance sector. However, insurance products continue to have a low level of market penetration.

The companies listed on the stock market recorded a combined turnover of UGX 310 billion (USD 89 million) in 2014/15, down from UGX 333 billion in 2013/14. On the one hand, companies' combined revenue fell due to rising interest rates that have incited investors to shift into government bonds, and a weak shilling that has seen offshore investors scale down their activities in Uganda. On the other hand, a positive development occurred at the Uganda Securities Exchange when it switched to a system of electronic trading designed to help increase trading volumes, boost foreign participation, and reduce the settlement period from five days to three days.

Public sector management, institutions and reform

Uganda's National Planning Authority launched the country's second national development plan in June 2015. It is the prime minister's office, however, that will oversee its implementation over the next five years. The mechanism for policy co-ordination has been in place for several years and is enshrined in the constitution.

Uganda's government has been implementing policies to improve property rights, especially with regard to land, as well as the overall business climate. Specifically, the government has undertaken legal and regulatory reforms in land administration, through the launch of the business regulation feedback portal and the computerisation of 21 land registries. Other improvements include the creation of a special unit in the Ugandan police force to protect intellectual property rights. The prime minister's office produces an annual report on the government's performance. The government's half-yearly report for FY 2014/15, which is currently under preparation, provides a comprehensive assessment of the government's performance and that of its programmes.

There have also been improvements in overall co-ordination, specifically in public financial management, with the Public Finance Management Act of February 2015. Further institutional reforms and improvements have boosted competitiveness, despite some persistent weaknesses. For example, the legal basis for secure property and contract rights has improved over the past year. In the World Bank's 2015 report on the ease of doing business, Uganda's ranking improved by two places to 150th out of 189 economies in 2015, from 152nd in 2014. Similarly, the Ibrahim Index of African Governance report for 2015 gave Uganda a score of 54.6 (out of 100) in overall governance, ranking the country 19th out of 54 African nations. Its performance is higher than the sub-Saharan African average of 50.1, and higher than the regional average for East Africa.

Natural resource management and environment

Uganda's environment has undergone persistent degradation. Forest cover fell to 14% in 2014, from 18% in 2009, and 24% in 1990. Population growth has led to deforestation to clear land for farming, grazing, timber, charcoal and other uses. Consequently, the government has bolstered its environment budget and has stepped up its efforts at restoring, protecting and maintaining the country's ecosystems and forest cover.

A comprehensive national assessment of forest cover is currently underway to establish areas which could be restored. Meanwhile, the percentage of natural forest protected in strict nature reserves has stagnated at 12% since 2010/11, while the share of land covered by wetlands improved only marginally from 10.90% to 10.91% during the same period. This performance falls well below the national development plan's targets for FY 2014/15, which foresaw forest cover at 24% and 30% for wetland cover.

The government used various strategies to expand wetland coverage during FY 2014/15. Its achievements included upgrading the country's wetland information system, by connecting 20 pilot districts in Uganda's Eastern region. Uganda's Water and Environment Ministry also completed the preparation of the first volume of its Wetland Atlas (covering Kampala, Wakiso, Mukono), to provide information about which land titles should be cancelled. The next phase of the Wetland Atlas, namely to expand it to the whole country, will be undertaken in FY 2015/16.

According to a 2015 report into the performance of Uganda's water and environmental sector, the government has stepped up environmental inspections. The report also signals some progress in the environmental monitoring of the oil and gas sector. Meanwhile, a ban of usage of polythene carrier bags in Kampala supermarkets has succeeded in reducing their use.

Political context

Uganda remains generally peaceful and politically stable. The country held presidential and parliamentary elections on 18 February 2016. In the elections of five years ago, the incumbent president, Yoweri Museveni, and the National Resistance Movement (NRM) were re-elected with a 68% majority. The president ran again as the NRM candidate in 2016, although the NRM government has faced growing internal dissent since 2011. Some NRM members wanted Museveni, who has been Uganda's president for 30 years, to step down, causing some concern about the potential for a problematic power transition. However, Mr. Museveni was again elected president after a nationwide vote. Following the recent polls, opposition parties have called for the reform of Uganda's electoral commission, which has been criticised for inadequate management of the electoral process. Overall, however, Uganda has registered notable improvements in recent years in terms of stability and the absence of violence, despite the threat of terrorism. Uganda's scores in the areas of personal safety and rule of law, according to the Mo Ibrahim Index of African Governance, have improved by 5.8, and 3.4 respectively over the five previous years.

Social context and human resources development

Building human resources

Uganda's Human Development Index (HDI) improved to 0.483 in 2014, from 0.478 in 2013, and from 0.473 in 2011. However, this still means that the country remains below the LDC average of 0.502 and also the sub-Saharan Africa average of 0.518. There has been an increase in total primary school enrolment to 8.5 million in 2013, from 2.7 million in 1996. The large gap in completion rates between girls and boys has also narrowed, from 41 girls for every 59 boys in 2002 to 67 for every 67 in 2013. However, Uganda's progress in education and health indicators has not been sustained over time. For instance, the net school enrolment ratio increased from 57% in 1996 to 87% in 1997 but has stagnated below the 1997 baseline, mainly due to poverty, long distances to school, and competing household obligations. Education quality still remains a concern as literacy and numeracy slowed between 2009 and 2013.

The under-five mortality rate fell from 137 per 1 000 live births in 2006 to 90 in 2011, while the infant mortality rate fell from 76 in 2006 to 54 in 2011 against the MDG targets of 56 and 31 respectively. This is attributed to increased universal access to micronutrient supplementation, malaria prevention and treatment, immunisation, prevention of mother-to-child transmission of HIV, and improved water and sanitation. Malaria remains the leading cause of child fatalities, although these have fallen significantly, from 27.2% in 2010/11 to 19.9% in 2013/14. The second-biggest cause of child deaths is pneumonia, which accounts for 12.4% of them, and then anaemia, which causes 12.2% of infant deaths. The maternal mortality rate stood at 360 per 100 000 births in 2013, higher than the MDG target of 131.

Malaria prevalence among children under five more than halved from 43% in 2009 to 19% in 2014, reducing child mortality due to malaria. This has been attributed to the increased proportion of children sleeping under treated mosquito nets. Tuberculosis prevalence and mortality rates have also been reduced by more than 50%. There has been increased access to anti-retroviral treatment and prevention of mother-to-child transmission of HIV. Earlier successes in controlling HIV/AIDS have been reversed, however, with prevalence rates increasing to 7.4% in 2012/13 from 6.4% in 2004/05.

The current debate in these areas is about how to sustain the progress Uganda has made. However, the debate is also about how the country can accelerate its progress towards the MDGs that it has had the greatest difficulty in delivering. This is especially the case as the country transitions from the MDG era to that of the UN's Sustainable Development Goals (SDGs).

Poverty reduction, social protection and labour

Robust economic growth over the past two decades has resulted in falling poverty rates. The national poverty headcount declined from 24.5% (7.5 million) in 2009/10 to 19.7% (6.7 million) in 2012/13, outperforming the MDG poverty reduction target. Rural poverty also declined from 27.2% in 2009/10 to 22.8% in 2012/13, while the rate slightly increased in urban areas from 9.1% to 9.3% in the same period. The proportion of the middle class (those whose income is more than double that of the poverty line) grew from 32.6% (10 million) to 37.0% (12.6 million) between 2009/10 and 2012/13. This is mainly attributed to sustained economic growth rates over the past two decades, to infrastructural development, to trade, and to an increase in non-farm household enterprises in rural areas. However, the proportion of people whose economic position is precarious but who live above the official poverty line has been increasing over time. It now stands at 43.3% of the population, or 14.7 million people, which implies a high vulnerability to shocks. All regions had falling poverty levels except the eastern where poverty increased between 2009/10 and 2012/13. Although the northern region has seen a significant reduction in its poverty levels, from 60.7% in 2005/06 to 43.7% in 2012/13, the level there remains more than twice the national average.

Uganda's existing social protection instruments are limited to formal-sector workers only, but the government is trying to expand their reach. To avoid the exclusion of the most vulnerable people, that is orphans and the elderly, from accessing services, the Ministry of Gender, Labour and Social Development has been piloting a "social protection" cash transfer programme to citizens of 65 years and over. The Social Assistance Grant for Empowerment, or SAGE, was initially rolled out to eight districts, and has gradually expanded to cover 15 districts out of 112. These grants have improved welfare in the pilot districts. However, sustaining these programmes remains challenging, because these grants have been financed by development partners, with limited government commitment. In response to the alarming rate of youth unemployment, which is currently estimated at 78%, the government introduced, in 2011, the Youth Venture Capital Fund and, in 2013, the Youth Livelihood Programme, with the goal of creating jobs. Although the fund has had some positive effects on business expansion, it has not contributed significantly to sustainable job creation. The existence of, and compliance with, labour-related laws and regulations is still weak due to a shortage of administrative personnel. Issues of inadequate occupational safety and health, as well as child labour, limited insurance cover and low job security remain problematic in Uganda.

A large share of the 2015/16 budget went to the two priority areas of human development (18.2%), and infrastructure (33.3%), as stipulated in the country's current national development plan. Agriculture, in which over 72% of Uganda's workforce is engaged, received only 3% of the budget, down from 3.3% in 2014/15. This decrease confirmed a downward trend over the past five years. Consequently, the agricultural sector has grown at an average of about 2%, less than half the growth rate of the economy over the past ten years.

Gender equality

In terms of gender equality and women's empowerment, the ratio of girls to boys enrolling in primary school stood at 100% in 2014, meaning one girl enrolling for every boy. Uganda is also one of only eight countries in the world to have more than 30% of the national parliamentary seats (currently at 35%) held by women. However, more still needs to be done at the local government level. Significant progress has also been achieved at secondary and tertiary education levels, with the ratio of girls to boys now close to 90% and 80% respectively. Nonetheless, socioeconomic factors and cultural and religious practices still have a significant impact on girls' enrolment. The government has put in place a positive discrimination policy for women applying for government sponsorship in public universities, but gender biases have not been entirely eliminated, especially in science and technology. The National Gender Policy has been successful in raising awareness of gender inequalities at all levels of government, and within society more broadly. Most government departments have resident gender experts who support making gender equality a mainstream objective. Nevertheless, gender inequality persists, and women continue to face discrimination, particularly in their access to economic opportunities and to the ownership of assets.

Thematic analysis: Sustainable cities and structural transformation

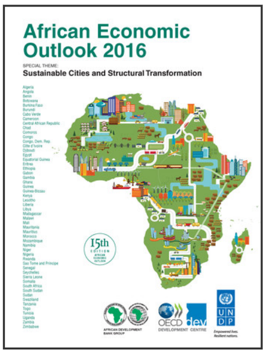
About 19% of Uganda's 35 million people live in urban areas. However, this population has grown rapidly during recent decades. It is expected to rise to 30% by 2040, from 11.4% in 1991. The definition of urban centres has been inconsistent over time. During the 1969, 1980 and 1991 censuses, they fell into two categories. On the one hand, there were the urban centres (cities, municipalities and town councils) that were officially recognised in the government gazette. On the other hand, there were urban centres that, despite their existence, did not feature in the gazette. Current categories include gazetted urban centres and also town boards, an administrative unit below the level of town councils. The number of urban centres increased from 64 in 1991 to 197 in 2014. Urbanisation has been driven by three main factors: natural population growth, migration from rural areas, and an increase in the number of urban centres. Some of these new urban centres have resulted from the creation of new districts. Government has seen urbanisation as an opportunity to bring services closer to the population. Due to an expansion of road infrastructure and communication technology, an improved interconnectivity of urban and rural areas is beginning to break supply bottlenecks. However, the increase in the urban population is putting pressure on service delivery. For instance, the failure to meet the MDG target on water and sanitation was a result of deficiencies in urban, rather than rural, areas. Targeted investments in the urban areas will be critical for attainment of SDGs. Big cities rely both on food imports (especially processed foods), and food from rural hinterlands. Supply has been made easier by improving transport infrastructure.

About 9.3% of the urban population lives below the poverty line, compared to 23% in rural areas, but a bigger proportion (about 27%) is still poor, albeit above the official poverty line. Income inequality declined from a Gini coefficient of 0.432 in 2005 to 0.410 in 2012/13. However, the urban level of income inequality has consistently remained above that of rural areas, and, indeed, above the national average. The proportion of the urban population with access to an improved source of drinking water is 87%. Government investment in urban water systems has improved access, connection time and the regularity of flow. However, water systems have continued to face contamination from human activity in a number of towns. For instance, only 8.4% of Kampala City is linked to the sewer network. Thus, dependence on latrines, septic tanks and open sewer systems pollutes freshwater and groundwater sources. The population depends on various sources of energy, including electricity (40.5%), wood fuel (36%), and charcoal 54%. An increase in the use of biomass is putting more pressure on forest cover in the country.

Uganda has one primary city, Kampala, which houses key national administrative institutions, and is a hub of economic activity in the country and the bedrock of the private sector. The city hosts about 23% of the total urban population. Population growth in the city is largely attributed to the concentration there of social services and employment opportunities. Some of the challenges that Kampala faces include the inability of the infrastructure to accommodate the growing population. Another major challenge is an ineffective regulatory mechanism that has contributed to the proliferation of unplanned developments. Moreover, improper land use patterns, wetland reclamation, and the degradation of natural vegetation have increased the city's susceptibility to sporadic flooding, water-borne diseases and malaria infections. It is imperative to spread out service delivery to other urban areas and transform them into engines of growth in order to ease the strain on the capital. There are plans to review the Kampala City Authority Act, in part to set up a metropolitan planning authority for the whole of greater Kampala. This will provide an opportunity to increase funding for, and to plan for, neighbouring localities. Secondary cities include Arua, Jinja, Kabale, Mbale and Mbarara. With the creation of new districts, towns that have remained largely rural have depended on these hubs for economic activity, but also for access to services. By virtue of their positioning, secondary cities increasingly tend to face similar challenges as Kampala, mainly as a result of unplanned infrastructure development and limitations in service delivery.

Urban centres, just like all the other levels of local government, rely heavily on support from the central government, which funds more than 80% of their budgets. Government funding comes in three categories. Firstly, there are conditional grants, whose purpose is dictated by the central government, and which account for about 90% of the funds. Secondly, there are unconditional grants, which local governments spend as they wish across priority sectors. Thirdly, there are equalisation grants for areas that lag behind in their development indicators. Government funding is complemented by local revenue, which is, however, negligible. Local revenue accounts for less than 10% of local-government funding. The suspension of the graduated tax, which applied to all adults, is among the factors that have kept this level low. Other resources are provided through donor support. For instance, 14 municipalities have benefitted from the World Bank project to expand urban infrastructure, to enhance revenue-generation, to improve urban planning, and to strengthen financial management, procurement, and environmental and social systems. While the private sector is growing, and is expected to provide a potential source of financing, the capacity to negotiate these partnerships will remain a critical challenge. The land market is growing, but is not sufficiently formal for authorities to reliably track it in order to generate revenue.

Uganda's new National Urban Policy, which is currently in the final stages of preparation, is expected to provide a framework for the management of urban areas. Urban development is vested in the Ministry of Lands, Housing and Urban Development, which provides policy direction and national standards and co-ordination for land, housing and urban development. With decentralisation, the Ministry of Local Government is also a crucial player. The National Planning Act mandates the National Planning Authority to develop planning capacity within local government, and to monitor the performance of the decentralised system of development planning. Local governments are guided by their 5-year Development plans, which should be aligned to the National Development Plan and sector plans. Physical planning is guided by the physical planning Act of 2010, which requires integration of physical planning with social and economic planning. Unlike other urban cities, Kampala, the primary city is accorded the status of an authority, with a director possessing executive powers. The Lord Mayor remains a ceremonial position.



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