COUNTRY PROFILE 2015

UGANDA

United Nations
Economic Commission for Africa

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First printing: March 2016

ISBN: 978-99944-68-09-6

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ACKNOWLEDGEMENTS

The aim of the Economic Commission for Africa country profile series is to produce and disseminate country and region-specific policy analyses and recommendations for economic transformation that will promote sustainable growth and social development, strengthen regional integration and facilitate better development planning and economic governance. They are a joint collaboration of the Commission's Subregional Offices and the African Centre for Statistics, with inputs from the Macroeconomic Policy Division, the Regional Integration and Trade Division and the Social Development and Policy Division.

The lead author of the Uganda country profile was Rodgers Mukwaya of the Subregional Office for Eastern Africa. The country profile was prepared under the overall coordination and substantive guidance of Giovanie Biha, Deputy Executive Secretary for Knowledge Delivery of the Commission, and the direct leadership of Antonio Pedro, Director of the Subregional Office for Eastern Africa.

Valuable contributions and comments were made by the internal review panel, put together by the Commission's Operational Quality Section.

We would also like to thank Prof. Humphrey Moshi, who provided expert critique and review, and Open Data Watch for conducting data review and analysis.

A special mention also goes to the Publications Section for editing, translating, designing and printing the country profile.

UGANDA AT A GLANCE

General Information	
Subregion	Eastern Africa
Official language(s)	English
Currency	Ugandan Shilling
Capital city	Kampala
REC membership(s)	COMESA, EAC, IGAD

Rankings	
Human development index (United Nations Development Programme)	163/188 (2014)
Gender inequality index (United Nations Development Programme)	122/155 (2014)
Ibrahim index of African governance (Mo Ibrahim Foundation)	19/54 (2014)
Ease of doing business index (World Bank)	135/189 (2015)
Corruption perceptions index (Transparency International)	139/168 (2015)

ECONOMIC GROWTH

In 2014, the Ugandan economy grew by 4.7 per cent. Household and government consumption were the main driving forces behind the growth in 2014, increasing in real terms by 8.8 per cent and 15.5 per cent, respectively. The top sectors driving investment were mineral and petroleum exploration (which grew by 14.4 per cent), and non-residential and residential buildings (which grew by 8.7 per cent and 7.6 per cent, respectively). For the 2015/16 financial year, the Bank of Uganda has forecast that growth will reach 5.0 per cent.

FISCAL POLICY

The fiscal deficit is projected to deteriorate from -4.5 per cent of gross domestic product (GDP) in 2014/15 to -7.0 per cent of GDP in 2015/16. The deficit will be financed by borrowing from both domestic (20 per cent of the total) and external sources (80 per cent of the total). Revenue collection remained low at 13 per cent of GDP in 2014, which had negative implications on the Government's efforts to finance major infrastructure projects and other public spending.

MONETARY POLICY

The average consumer price inflation rate was 4.3 per cent in 2014, compared to 5.5 per cent in 2013. The low rate of inflation was driven by the decrease in both food and oil prices. The Bank of Uganda maintained a relatively tight monetary policy in 2014, with the average central bank rate at 11.2 per cent. In response to the depreciation of the Ugandan shilling in 2015 (the shilling depreciated against the United States dollar by 27.6 per cent over the 12 months to July 2015), the central bank rate was raised, to 17 per cent in October 2015.

CURRENT ACCOUNT

The current account deficit increased from -6.8 per cent of GDP in 2013 to -9.7 per cent of GDP in 2014. This was partly a reflection of developments in the services account and the decline in merchandise exports. The service account deficit increased by 162 per cent, from US$ -276.4 million in 2013 to US$ -722.9 million in 2014. Merchandise exports declined by 0.6 per cent in 2014.

CAPITAL AND FINANCIAL ACCOUNTS

The Ugandan financial account balance increased from US$ 1,602 million in 2013 to US$ 2,315 million in 2014. Since 2003, foreign direct investment inflows have risen sharply and, as a recipient of such inflows, Uganda is now second only to the United Republic of Tanzania within the East African Community. In 2014, foreign direct investment inflows increased marginally, to US$ 1,146.1 million, from US$ 1,143.2 million in 2013. The largest contributors to total inflows of foreign direct investment were the mining (mainly driven by investments in oil exploration activities), financial and insurance services sectors.

DEMOGRAPHY

The population of Uganda has grown by 3 per cent every year since the early 2000s, rising from 24.2 million in 2002 to 34.9 million in 2014. While the fertility rate has remained high, it has declined slightly, from 6.9 births per woman in 2001 to 6.2 births per woman in 2011. Population growth in Uganda is still among one of the fastest in the world.

POVERTY

The share of population living under the national poverty line has declined from 50.1 per cent in 1995 to 19.7 per cent in 2012/13. Despite this good performance, a large number of people still face a high risk of falling back into poverty. An estimated 43.3 per cent of the population are classified as being non-poor but insecure, in other words living with an income below twice the national poverty line.

EMPLOYMENT

Officially, the unemployment rate is very low, at 9.4 per cent. In all, 72 per cent of the working population is employed in agriculture, with the proportion of females (77 per cent) higher than that of males (67 per cent).

HEALTH

Life expectancy was estimated at 58.5 years in 2012, up from 50.4 years in 2002. The maternal mortality ratio in Uganda was estimated at 438 deaths per 100,000 live births in 2011. This rate remains high, in spite of the significant increase in the percentage of institutional deliveries and deliveries by skilled health personnel.

EDUCATION

The primary school net enrolment ratio was estimated at 82 per cent in 2012/13, with a higher rate for females (84 per cent) than for males (81 per cent). Secondary school net enrolment was estimated at 22 per cent in 2012/13, with a slightly higher rate for females (23 per cent) than for males (21 per cent).

GENDER SCORECARD OF THE AFRICAN UNION COMMISSION

Uganda has made progress in achieving gender equality, with 26.8 per cent of girls enrolled in secondary education against 30.3 per cent of boys, and labour force participation rates of 86.7 per cent for women against 92.0 per cent for men. There is room for improvement in the proportion of women in the lower house of parliament, although the current percentage (35 per cent) is relatively high compared to other countries. Regarding access to land, high inequalities persist, as indicated by a score of 2 out of 10 in the scorecard.

1

OVERVIEW

The Ugandan economy grew by 4.7 per cent in 2014, mainly owing to the improved performance of agriculture and industry. For the 2015/16 financial year, the Bank of Uganda has forecast growth to reach 5.0 per cent. Inflation remained relatively low in 2014, at 4.3 per cent, below the central bank's target of 5 per cent. However, as a result of the depreciation of the shilling and rising food prices, annual inflation increased to 7.2 per cent in August 2015. Subsequently, the central bank tightened monetary policy and increased the central bank rate to 17 per cent in October 2015. Fiscal policy remained expansionary as the Government continued to invest heavily in infrastructure. The current account balance deteriorated in 2014, from -6.8 per cent of gross domestic product (GDP) in 2013 to -9.7 per cent of GDP in 2014, as exports were negatively affected by the decline in both commodity prices and tourism.

Since 1990, Uganda has made good progress in terms of reducing the number of people living in poverty. The proportion of the population living below the poverty line declined from 50.1 per cent in 1995 to 19.7 per cent (6.7 million people) in 2013. Concerns have been raised, however, regarding the quality of public health and educational provision.[1] The maternal mortality rate is high, at 438 deaths per 100,000 live births, while the HIV prevalence rate has remained static at 7.4 per cent. Progress has been made in primary school enrolment, but challenges remain with regard to secondary school enrolment.

With regard to long-term growth prospects, Uganda faces a number of challenges. One is maintaining fiscal stability despite growing pressures to increase spending on basic infrastructure and maintain social provision. This is particularly pertinent in the context of a country with one of the highest levels of demographic pressures in Africa, resulting in the need for increased financial resources for health care and education. Second, there is a need to revitalize the private sector, which is currently hampered by a non-conducive business environment, with restricted access to credit at affordable rates. A third challenge is the need to increase agricultural productivity. Despite the favourable arable land per capita ratio, to date productivity improvements have been disappointing. Policies that could boost the country's agricultural productivity include reforming the land tenure system, improving farming technologies, enforcing existing regulations on fertilizer standards and creating public-private partnerships to increase investment in irrigation systems. In addition, the development of agricultural value chains would enhance the process of structural transformation and create employment opportunities.

Lastly, while tourism has recently overtaken remittances as the main source of foreign exchange, the tourism industry is still performing below potential. Policies to support the tourism sector should aim to increase investment in skills development and upgrade infrastructure, to allow tourists easier access to the different parts of the country.

[1] According to the 2014/15 Afrobarometer survey, 40 per cent of the people surveyed found it difficult to access medical services in Uganda.

2

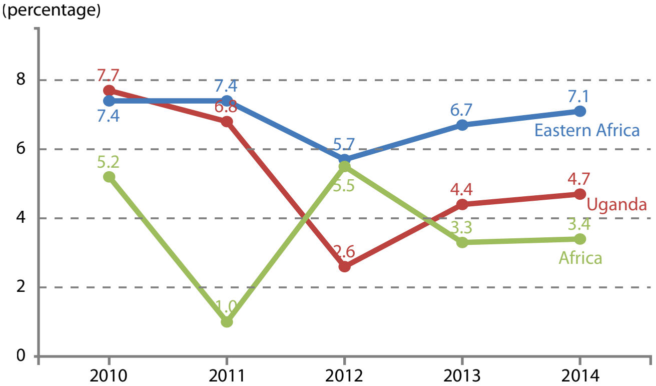
NATIONAL AND SUBREGIONAL CONTEXT

Real GDP grew by 4.7 per cent in 2014, up marginally from the 4.4 per cent growth registered in 2013(see figure 1). This performance was predominantly driven by improved growth in the industry and agriculture sectors. However, Uganda has yet to reach again the strong growth rates experienced prior to 2012. Moreover, while Uganda has been growing faster than the world and African averages, it has not been keeping pace with its East African neighbours.

Although the medium-term growth prospects for Uganda are positive, the depreciation of the shilling poses a risk. The shilling depreciated against the United States dollar by 27.6 per cent over the 12 months to July 2015, while the more relevant trade-weighted real exchange rate index depreciated by 13.4 per cent over the same period. In response to the continuing depreciation of the shilling, the central bank tightened the country's monetary policy, which might lead to higher commercial bank lending rates. This would have an adverse effect on credit to the private sector, further undermining economic growth.

Figure 1: Real GDP growth

(percentage)



Source: Uganda Bureau of Statistics, 2015, p.238, and ECA calculations.

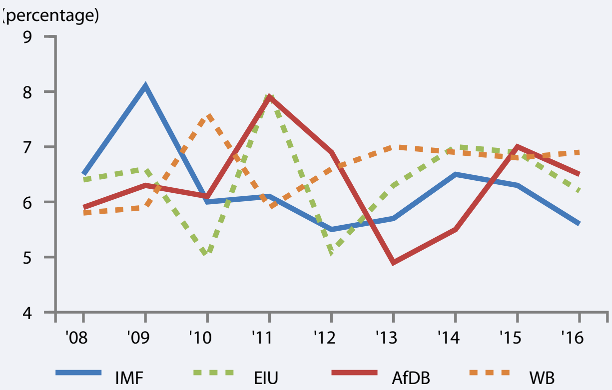
With regard to the external environment, the decline in commodity prices is having a mixed impact: on the one hand, it is reducing the value of the country's export earnings, but on the other it is easing the import bill through the sharp decline in the cost of fuel imports. Exports are also being adversely impacted by the continuing civil war in South Sudan. Together, South Sudan and the Sudan accounted for 17 per cent of the export market of Uganda in 2014. In addition, the civil wars in Burundi, the Democratic Republic of the Congo and South Sudan have led to an influx of refugees. Uganda currently hosts more than half a million refugees, and there are concerns that number could reach 750,000 (East African, 2016). Nevertheless, despite the increasingly difficult external environment, international organizations are generally positive about the performance of the Ugandan economy in 2015 (see box 1).

Uganda is one of the most active partners within the East African Community, of which it is a founding member. The protocol on the establishment of the East African Community Common Market, which entered into force in 2010, is intended to facilitate the free movement of capital, labour, services and goods. The landlocked nature of the country means that Uganda has a special interest in making sure that initiatives such as the Northern Corridor and the rail link from Mombasa move forward. Uganda is also an active member of the Common Market for Eastern

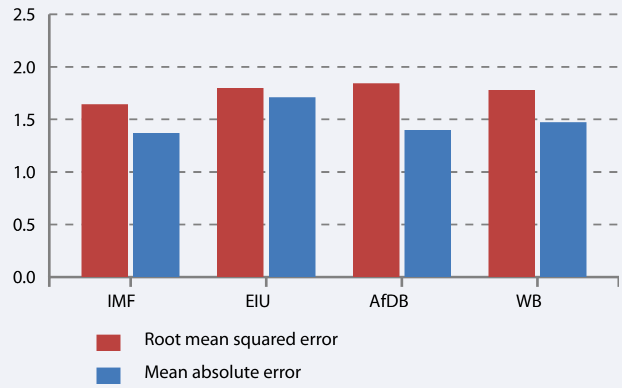
Box 1: Forecasts for the Ugandan economy

A number of organizations produce forecasts of economic growth in Uganda, including the African Development Bank (AfDB), the Economist Intelligence Unit (EIU), the International Monetary Fund (IMF) and the World Bank (WB). Forecasts from these sources for 2016 range between 5.6 per cent and 6.9 per cent (see figure 2).

Forecasted GDP and growth rates by institution



Forecast error



How accurate are these forecasts? The root mean squared error and the mean absolute error are common measures used to evaluate forecasts. Generally speaking, the higher the value of these errors, the less accurate the forecasts.* Between 2008 and 2014, the forecasts produced by the above-mentioned organizations ranged within 2.2 per cent of one other, with the exception of 2010, when the variance was much larger (probably due to greater uncertainty in global economic prospects in that year). Analysis carried out by the Economic Commission for Africa suggests that the most accurate forecasts produced over the period 2008-2014 were those of the International Monetary Fund (see figure3). However, the variances in the error estimates are small, suggesting that the four organizations produce forecasts of similar accuracy.

* The root mean square error is the square root of the average of the square error term generated by the forecasting model. The mean absolute error is the average of the absolute value of the forecast error.

and Southern Africa and the Intergovernmental Authority on Development. In 2007 Uganda sent a major contingent of troops to join the African Union Mission in Somalia, which was mandated to stabilize the situation in the country. Uganda also joined the COMESA-EAC-SADC Tripartite Free Trade Area, which was launched in 2015.[2]

[2] See Mold and Mukwaya (2015) for an analysis of some of the implications of the Tripartite Free Trade Area for member States.

Box 2: Africa regional integration index: Uganda

The Africa regional integration index is designed to measure the extent to which each country in Africa is meeting its commitments under the various pan-African integration frameworks such as Agenda 2063 and the Abuja Treaty. The index, which is a joint project of the African Development Bank, the African Union Commission and the Economic Commission for Africa, covers the following dimensions: (i) free movement of persons; (ii) trade integration; (iii) productive integration; (iv) infrastructure; (v) financial integration and macroeconomic policy convergence. The following section gives highlights on selected indicators. A technical description of the indicator may be found on the ECA website at www.uneca.org.

Overall rank: Second in the East African Community (score: 0.58), third in the Common Market for Eastern and Southern Africa (score: 0.52). Best performer in the East African Community is Kenya with 0.66.*				
Free movement of persons: Joint-third in the East African Community (score: 0.7). Best performers in the East African Community are Kenya and Rwanda with 0.8. Second in the Common Market for Eastern and Southern Africa (0.52).	Trade integration: Second in the East African Community (score: 0.94). Best performer in the East African Community is Kenya with 1. Fifth in the Common Market for Eastern and Southern Africa (0.75).	Productive integration: Second in the East African Community (score: 0.725). Best performer in the East African Community is Kenya with 0.84. Third in the Common Market for Eastern and Southern Africa (0.61).	Infrastructure: Second in the East African Community (score: 0.48). Best performer in East African Community is Burundi with 0.84. Eighteenth in the Common Market for Eastern and Southern Africa (0.30).	Financial integration and macroeconomic policy convergence: Third in the East African Community (score: 0.045). Best performer in the East African Community is Rwanda with 0.5. Sixth in the Common Market for Eastern and Southern Africa (0.43).

Free movement of persons: Uganda scores well (ranked joint-third in the East African Community and second in the Common Market for Eastern and Southern Africa). Uganda allows nationals of all other African countries to either enter without a visa or obtain a visa on arrival. Uganda has ratified the relevant East African Community instrument on the free movement of persons, but not that of the Common Market for Eastern and Southern Africa. The Intergovernmental Authority on Development does not yet have an instrument on the free movement of persons (Economic Commission for Africa and African Union Commission, 2015a).

Trade integration: Uganda (ranked second in the East African Community and fifth in the Common Market for Eastern and Southern Africa) has made good progress towards removing tariff barriers to imports from other countries that belong to the same regional economic communities. As with all other members of the East African Community, Uganda applies zero tariffs to imports from other member countries. It also applies a low average tariff of 0.68 per cent to imports from the Common Market for Eastern and Southern Africa, although most members of the Common Market apply even lower average tariffs. Uganda applies the lowest average tariffs on imports from Intergovernmental Authority on Development countries out of any of the bloc's members, at 0.1 percent (International Trade Centre, 2015). However, Uganda does not score particularly well in terms of ease of moving goods across borders, ranking thirty-sixth in Africa overall.

Productive integration: The country's trade complements that of the other countries that belong to the same regional economic communities, indicating that it may be specializing to fit into regional value chains.** Out of the regional economic communities of which Uganda is a member, only Djibouti, Egypt and Kenya have higher intra-regional trade complementarity scores, according to the merchandise trade complementary index produced by the United Nations Conference on Trade and Development. In 2013, Uganda had the second highest share of exports of intermediate and capital goods to other East African Community countries, at approximately 1 per cent of GDP, behind only Kenya (United Nations Conference on Trade and Development, 2015; Economic Commission for Africa and African Union Commission, 2015b).

Infrastructure: The country's Internet bandwidth of 0.8 megabits per second per person in 2013 ranked it twentieth on the continent (although still much lower than Kenya, the country with the highest bandwidth in Africa, at 20 megabits per second per person). Uganda has the sixteenth lowest net electricity production capacity per capita in Africa.

Information on the performance by Uganda in the area of financial integration and macroeconomic policy convergence can be retrieved from the stand-alone report on the regional integration index and the dedicated companion website.

Conclusion: Overall, Uganda appears to perform relatively well compared to members of the same regional economic communities in all dimensions of the index except regional infrastructure.

* A continent-wide ranking, in which all African countries from all regional economic communities will be compared with one another, is currently under development for the Africa regional integration index and will be added to subsequent updates of the ECA country profiles.

3

ECONOMIC PERFORMANCE

3.1 Economic growth and sectoral performance

Despite the importance of agriculture, services have become the most important sector in the Ugandan economy. In 2014, the share of value added by the services sector was 50.3 per cent, followed by agriculture with 23 per cent and industry with 20.2 per cent [3] (Uganda Bureau of Statistics, 2015, p. 226).

The services sector grew at a rate of 4.5 per cent, mainly driven by the performance of the financial and insurance services subsectors, which grew at a rate of 19.9 per cent. Health services, real estate and education all registered growth rates of over 5 per cent. The information and communications technology (ICT) and public administration subsectors were the worst performing in 2014, with both registering negative growth rates. The decline, which is due to reduced investment, is in stark contrast to 2013, when the ICT subsector grew by 21.6 per cent. ICT growth in 2013 was partly driven by increased inflows of foreign direct investment, with the subsectorreceiving18.1 per cent of such investment (Bank of Uganda, 2015a, p. 19).

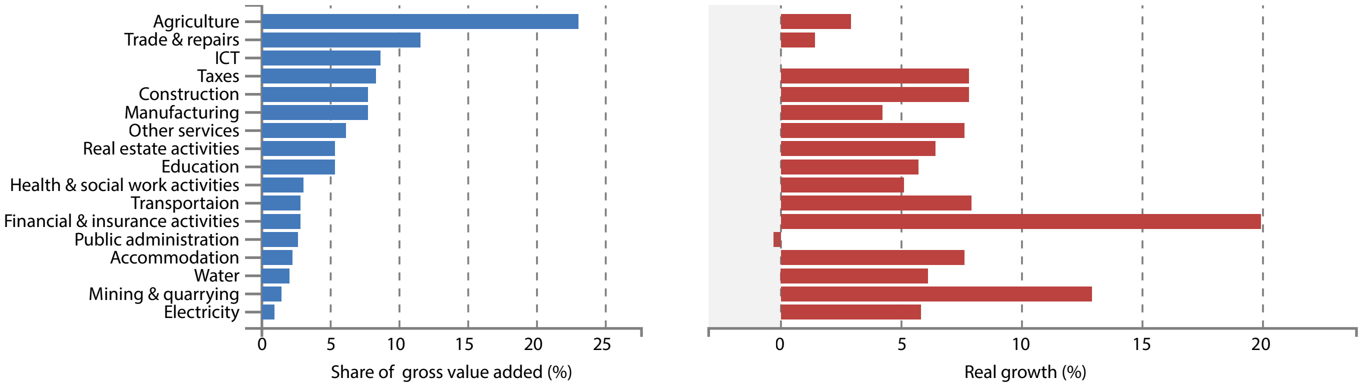
While the services sector has grown to become the most important contributor to GDP, its share of employment remains very low at 15.8 per cent, compared to agriculture's 72 per cent. Uganda must take advantage of the opportunities created by the fast-growing services sector to create linkages to other sectors of the economy. For example, as tourism is the main source of foreign exchange in the country, developing a strong tourism cluster with linkages to agriculture processing, transport and logistics, educational institutions and the hotel industry would boost the quality and resilience of economic growth.

The agriculture sector grew by 2.9 per cent as a result of a relatively good harvest in the second half of 2014. However, the rate of growth of the agricultural sector as a whole was below the population growth rate (3 per cent).Moreover, within the agricultural sector, the rate of growth of cash crops (coffee, tea, cotton and tobacco) fell to -0.9 per cent in 2014, down from 10.5 per cent in 2013. This decline was largely due to lower international commodity prices.

Although highly vulnerable to climate change, Uganda has relatively good weather and fertile soil, giving the country a natural comparative advantage in the production of a diverse range of crops and livestock. The country has diversified its agricultural exports from traditional exports such as coffee and tea to non-traditional ones such as flowers and fish. However, comparative advantage alone will not be enough to transform the economy. Instead, the country needs to implement more effective policies to increase agricultural productivity and value addition within the sector. This will create linkages with the manufacturing sector and drive the process of structural transformation.

[3] Taxes on products make up 7.9 per cent.

Figure 2: Sub-sector shares and real growth (2014)



Source: Uganda Bureau of Statistics, 2015, p.225.

Within the industrial sector, in 2014 the manufacturing and construction subsectors grew by 4.2 per cent and 7.8 per cent respectively, partly driven by cheaper credit (average lending rates declined from 20 per cent in 2011 to 16 per cent in 2014) (see figure 4). However, the positive performance of manufacturing masks weaknesses in the sector as a whole. The manufacturing subsector plays a very limited role in the economy relative to other developing economies. The average share of manufacturing in GDP remained at 6.7 per cent between 2005 and 2014 (United Nations Industrial Development Organization, 2015, p. 1). This figure is lower than both the average for low-income countries (12.7 per cent) and the global average (16.2 per cent). Manufacturing value added per capita stands at just 28.6 United States dollars in Uganda, compared to an average of US$ 57.4 for low-income countries and US$ 1,276.7globally.

There are several supply-side constraints that have had a negative impact on the performance of domestic firms in Uganda. These include energy shortages; the lack of adequate transport infrastructure outside the capital city, forcing firms to relocate closer to consumers; a skills deficit (only 20 per cent of the labour force have a secondary education); and the lack of cheap credit. Useful lessons on how to scale up manufacturing activities could be learned from firms such as Quality Chemicals (see box 3).

Looking at GDP by expenditure, consumption was the main driver of growth in 2014, with household consumption up by 8.8 per cent and government consumption growing by 15.5 per cent (see figure 5). Gross fixed capital formation increased by a much more modest 1.8 per cent. The top three sectors in driving investment were mineral and petroleum exploration (14.4 per cent), non-residential and residential construction (8.7 per cent and 7.6 per cent respectively). Growth in mineral and petroleum sector investment was driven by increased foreign direct investment to the sector, while growth in construction was driven by increased credit to the private sector.

Export values decreased by 18.1 per cent in 2014, while imports declined by 0.3 per cent. The decline in exports was partly driven by the fall in commodity prices and a decrease in exports to the Sudan and South Sudan.

Box 3: Manufacturing and structural transformation: the case of Quality Chemicals

The annual ranking of the top 50 largest firms in East Africa shows that Uganda has only five firms on this list: MTN Uganda (telecommunications), UMEME (energy), Airtel Uganda (telecommunications), Quality Chemicals (pharmaceutical) and East African Breweries (Jeune Afrique, 2015, p. 132). Out of the 50 largest firms in the subregion, Quality Chemicals is the only pharmaceutical company on the list, making it the biggest pharmaceutical company in East Africa and the biggest manufacturing company in Uganda. The success of Quality Chemicals makes it a relevant case study for structural transformation, particularly as it is not a natural resource-based company (the majority of large manufacturing firms in the subregion are resource-based) but an innovation-based company. The success of Quality Chemicals can be attributed to the following factors: success in attracting foreign direct investment; strong linkages with local universities; ability to capitalize on government procurement policies; expansion into regional markets; and utilization of the policy space created by exemptions from the restrictions of the World Trade Organization.

Foreign direct Investment and technology transfer: Initially, Quality Chemicals was a distributor for medicinal products produced by Cipla (an Indian generic drug manufacturer). Quality Chemicals then formed a joint venture with Cipla in 2007, and a new plant based in Kampala began production of two antiretroviral combinations and one antimalarial drug. As a condition for the joint venture, Quality Chemicals received a significant amount of technology transfer from Cipla. Technology was transferred to support the local production of antiretroviral and antimalarial medicines (United Nations Conference on Trade and Development, 2011, p.8).

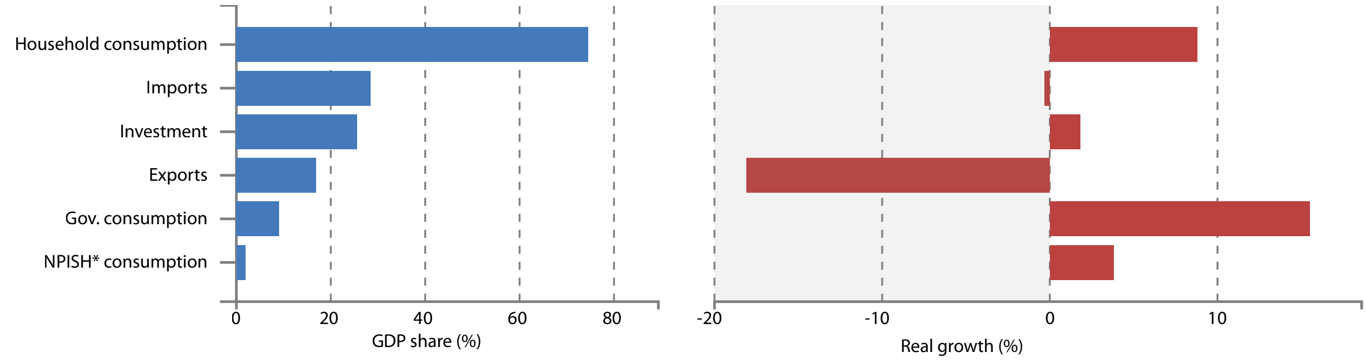
Creating linkages with national universities: The lack of trained chemists and pharmacists was a problem for Quality Chemicals because the company could not find enough skilled workers for its plant. Quality Chemicals formed a partnership with the University of Makerere's medical and pharmacy schools and the chemistry department to generate more awareness among university professors regarding the type of training needed for graduates wanting to enter the pharmaceutical manufacturing industry (United Nations Conference on Trade and Development, 2011, p.285).

Regional integration: Quality Chemicals has taken advantage of regional integration to expand the market for its products. For example, in 2012 the Ugandan Government signed a memorandum of understanding with the Kenyan Government to export antiretroviral and antimalarial drugs produced by Quality Chemicals, a deal worth US $ 60 million annually (Parliament of Uganda, 2012, p.7).

Government procurement policy: The national drug policy of Uganda supports the local drug industry by encouraging the procurement of locally produced essential drugs. The policy seeks to encourage local pharmaceutical companies to produce essential drugs (United Nations Conference on Trade and Development, 2011, p.287).

Exploiting the available policy space: As a least developed country, Uganda was exempted(until 2016) from the Agreement on Trade-Related Aspects of Intellectual Property Rights, which created the necessary policy space for Quality Chemicals to thrive because it was able to produce generic drugs. Other developing countries including India were only exempt for 10 years (up to 2005) and this was probably one of the incentives for the Indian company Cipla to form a joint venture with Quality Chemicals. Going forward, however, the expiry of the country's exemption from the Agreement on Trade-Related Aspects of Intellectual Property Rights represents a serious threat for Quality Chemicals.

Figure 3: Demand shares and real growth (2014)



*NPISH: Non-profit Institutions Serving Households

Source: Uganda Bureau of Statistics, 2015, p.238.

3.2 Fiscal policy

Fiscal policy was expansionary in 2014/15. Government expenditure was estimated at USh 14 trillion (20.4 per cent of GDP) compared to USh 11.7 trillion (16.7 per cent of GDP) in financial year 2013/14. Of this, recurrent expenditure was estimated at USh 7.6trillion and development expenditure at USh 4.9 trillion (Kasaija, 2015, p.9). The 2015/16 budget was revised up from USh 18 trillion to USh 24 trillion, mainly owing to very large domestic debt repayments.

The fiscal deficit is projected to deteriorate from -4.5 per cent of GDP in 2014/15 to -7.0 per cent of GDP in 2015/16. The deficit will be financed by borrowing from both domestic (20 per cent of the total) and external sources (80 per cent). Overall 60 per cent of the country's total debt stock is external and 40 per cent domestic. The depreciation of the currency will lead to a significant increase in the cost of servicing foreign debt repayments. However, despite rising debt levels, Uganda is still perceived as having a low risk of debt distress (International Monetary Fund, 2015, p.3).

Even relative to other low-income countries, revenue collection remained very low in 2014, at 13 per cent of GDP, and this has negative implications for the Government's efforts to finance major infrastructure projects and other public spending. In an effort to increase revenue collection, the Government abolished many statutory value added tax and income tax exemptions in the financial year 2014/15 and as a result tax revenue increased by 19.2 per cent in 2014/15, while non-tax revenue increased by 50.2 per cent (see table below). Development expenditure is budgeted to increase in the financial year2015/16 with the implementation of the second phase of the national development plan. As part of the plan, which will be gradually implemented over the next 10 years, major projects are in the pipeline, including the Karuma and Isimba dams (at an estimated cost of US$ 4.6 billion), oil refineries and oil-related infrastructure (US$ 1.8 billion) and transport infrastructure (US$ 4.7 billion).

Table: Fiscal accounts (in billions of Ugandan shillings)

	2010/11	2011/12	2012/13	2013/14	2014/15
Revenue	7292.5	7,763.4	8277.0	8870.4	10602.3
Tax revenue	5114	6,135.9	7149.5	8031.0	9576.5
Non-tax revenue	1288.0	498.2	191.4	136.9	205.6
Grants	890.5	1,129.3	936.2	702.5	820.3
Expenditure and net lending	8972.5	9273.4	7,454.2	8,582.9	13988.0
Current expenditure	5958.0	5420.9	4,319	4,856	7550.5
of which: wages and salaries	1659.5	1831.8	1,403.2	1,516.3	2668.2
of which: interest payments	423.5	603.3	889.7	970.1	1199.9
Other recurrent expenditure	3875.0	2985.9	2762.1	3350.9	3682.3
Development expenditure	2850.9	3602.9	4236.9	4936.5	4898.5
Net lending/repayments	-30.2	-39.4	409.4	19.4	1346.0
Domestic arrears	193.8	289.0	62.9	20.0	212.3
Over all fiscal balance (including grants)	-1680.0	-1510.0	-2244.4	-2811.9	-3405.0

Source: Ministry of Finance, Planning and Economic Development, 2015, p.34. & 2014c, p. 70.

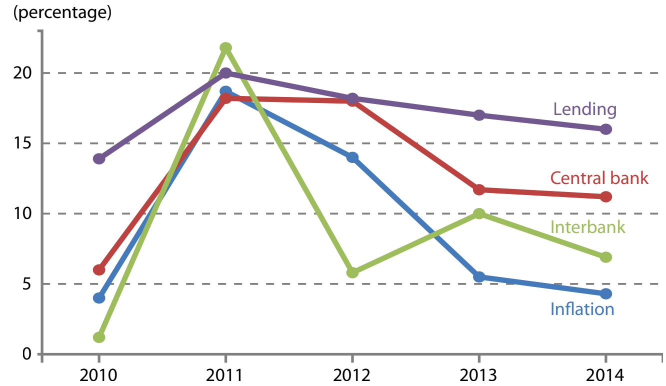
In recent years, China has become an important trading and investment partner. The recent slowdown of the Chinese economy may have a significant impact on the Ugandan economy through three main channels: trade, debt and investment. While only about 2.5 per cent of Ugandan exports are directed to China, imports from China have gradually increased, representing about 10.8 per cent of the country's total imports in 2014 (Bank of Uganda 2015b, p.4). The debt channel remains the most significant because in recent years China has financed the bulk of the country's infrastructure programme. In 2013, Chinese lending to Uganda was estimated at US$ 596 million, including a loan of US$ 350 million from the Export-Import Bank of China, repayable over 40 years at an interest rate of 2 per cent, to finance the Kampala-Entebbe highway. China is also expected to finance the construction of a standard gauge railway and the Karuma dam with a loan estimated at US$ 9.7 billion. The bulk of these loans are denominated in United States dollars, but about 50 per cent of the country's outstanding debt as of June 2015 (US$ 499 million worth) was denominated in Chinese yuan (World Bank, 2015a, p.15). In addition, China pledged US$ 1.5 billion in zero-interest loans to Uganda following the Forum on China-Africa Cooperation held in Johannesburg, South Africa, in December 2015.

3.3 Inflation and monetary policy

The average consumer price inflation rate was 4.3 per cent in 2014, compared to 5.5 per cent in 2013 (see figure 6). The low rate of inflation was a result of the decrease in both food and oil prices. The Bank of Uganda maintained a relatively tight monetary policy in 2014, with the average central bank rate standing at 11.2 per cent, slightly down from 11.7 per cent in 2013. However, annual inflation increased significantly to 7.2 per cent in August 2015 – above the central bank's target of 5 per cent – partly due to the depreciation of the Ugandan currency and the increase in food prices. The depreciation of the shilling has been partly driven by the strengthening of the United States dollar and the large current account deficit. In response to the depreciation of the shilling, the central bank rate was raised, first to 12 per cent in April 2015 and then to17 per cent in October 2015. As a result of the country's tighter monetary policy, lending interest rates are expected to increase. Indeed, as of September 2015, most commercial banks had increased base lending rates to as much as 25 per cent. The central bank has occasionally intervened in the foreign exchange market to control the excessive volatility of the shilling, although it acknowledges that intervening in the exchange market is not a sustainable long-term solution (Mutebile, 2015, p.5).

The private sector credit to GDP ratio is low (14.4 per cent of GDP in 2014, compared to 34.4 per cent in neighbouring Kenya). A comparative analysis of short-term nominal lending rates in East Africa shows that Uganda has the highest lending rates in the subregion. Between 2010 and 2014 the average short-term lending rate for Uganda was 20.7 per cent, followed by Rwanda (17.3 per cent), Kenya (16.8 per cent), Burundi (16.3 per cent) and the United Republic of Tanzania (14.3 per cent) (East African Community, 2015, p. 41). Given that all these countries belong to the East African Community Common Market, one would expect a convergence of interest rates but in fact that has not been the case. The country's high lending rates are the result of a number of factors. First, there is a lack of diversity in terms of financial institutions. Most of the financial institutions operating in Uganda are commercial banks that extend only short-term credit. They are not willing to offer long-term credit facilities because of the associated risks. Second, there are limited numbers of viable borrowers, because most borrowers do not have sufficient collateral. As a result, banks end up with excess liquidity because depositors outnumber the small pool of borrowers. Third, weak bankruptcy codes and inadequate regulations for loan recovery make it harder for banks to recover non-performing loans. Fourth, the cost of

Figure 4: Annual inflation and interest rates



Source: Bank of Uganda, 2015e.

doing business is high for commercial banks, which pushes up operational costs and translates into higher bank charges. Fifth, the high interest rates on government securities crowd out the private sector because banks find it easier to lend money to the Government (Bank of Uganda, 2015c, p. 10).[4] Lastly El Niño weather patterns present an inflation risk because they could result in reduced food production and, as a consequence, higher food prices.

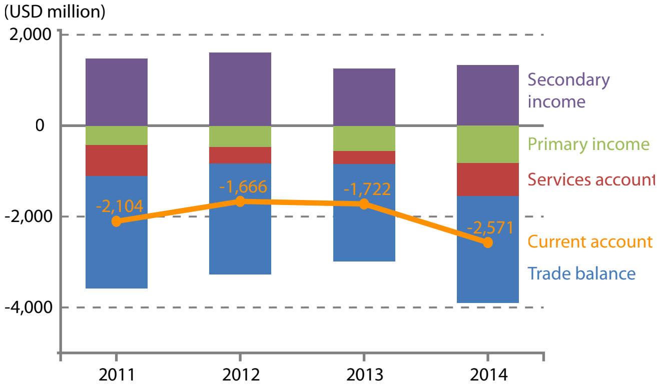
3.4 Current account

The current account deficit increased from-6.8 per cent of GDP in 2013 to -9.7 per cent of GDP in 2014 (Bank of Uganda, 2015d, p. 2). This was partly a reflection of developments in the services account and the decline in merchandise exports. The services account deficit increased by 162 per cent, from -276.4 million dollars in 2013 to -722.9 million dollars in 2014 (see figure 7).The Ebola epidemic in West Africa and the Marburg outbreak in Uganda had a negative effect on the flow of tourists to Uganda, which in turn affected the services account.

The trade deficit increased by 12.4 per cent in 2014. This was partly the result of the decline in the value of merchandise exports, which declined by 0.6 per cent in 2014 owing to the fall in commodity

[4] For a critical perspective on these points, see Mold and Bagiza (forthcoming).

Figure 5: Current account balance (millions of United States dollars)



Source: Bank of Uganda, 2014.

prices and, to a lesser extent, the slowdown in exports to South Sudan. Coffee exports, the country's largest commodity export, declined by 3.6 per cent in 2014 (see figure 8).

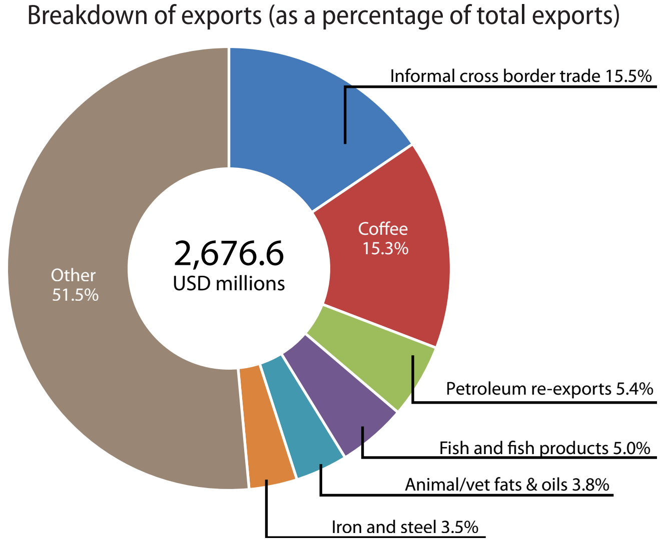
Total merchandise imports decreased by 3.7 per cent in 2014. Oil imports, which constitute the largest share, decreased by 2.3 per cent, while imports of road vehicles decreased by 0.3 per cent (see figure 9). The import price index declined by 4.7 per cent in 2014, mainly due to the decline in oil prices (Bank of Uganda, 2015b, p. 2).

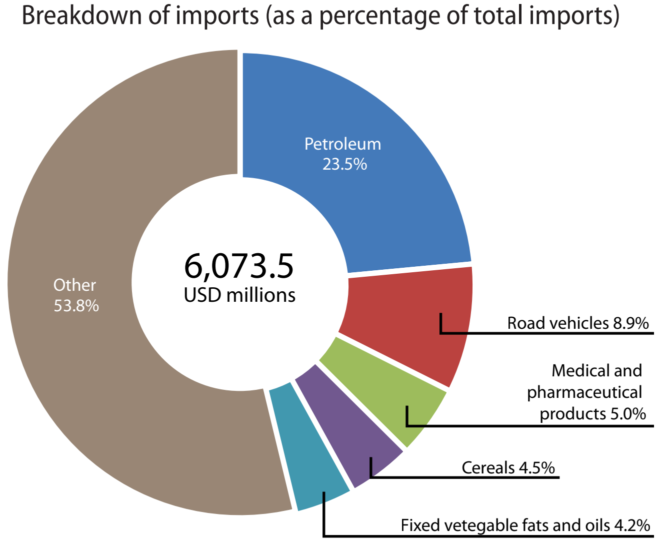
3.5 Capital account

The financial account balance increased from US$ 1,602 million in 2013 to US$ 2,315 million in 2014 (see figure 10). The reserves, expressed as months of imports and services, increased marginally from 4.8 months in 2013 to 4.9 months in 2014. In the first six months of 2015, however, the falling value of the shilling put pressure on reserves and they declined to 4.2 months of imports in June 2015.

Since 2003, foreign direct investment in flows into Uganda have risen sharply and the country is now second only to the United Republic of Tanzania within the East African Community in terms of receipts. In 2014, foreign direct investment inflows increased marginally from US$ 1,143.2 million in 2013 to US$ 1,146.1million. The largest contribution to total foreign direct investment inflows was from mining (mainly driven by investment in oil exploration activities), finance and insurance services. In 2013, 10 countries jointly accounted for

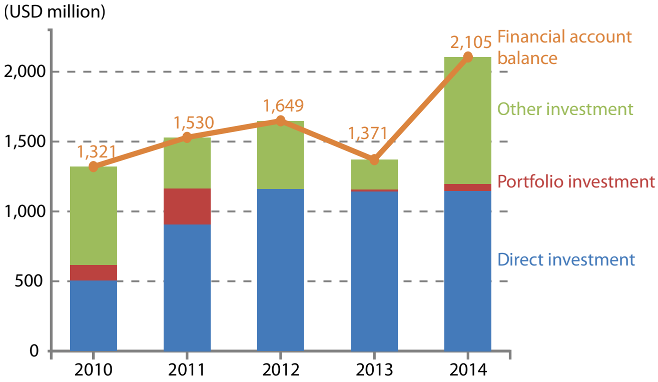
Figure 6: Foreign trade (2014)





Source: Uganda Bureau of Statistics, 2015.

Figure 7: Financial account balance



Source: Bank of Uganda, 2014, p.6.

94.9 per cent and 92.5 per cent of foreign direct investment transactions and stocks respectively. These were Australia, Belgium, Bermuda, India, Kenya, Mauritius, the Netherlands, Switzerland, the United Kingdom of Great Britain and Northern Ireland, and the United States of America (Bank of Uganda, 2015a, p. 20).

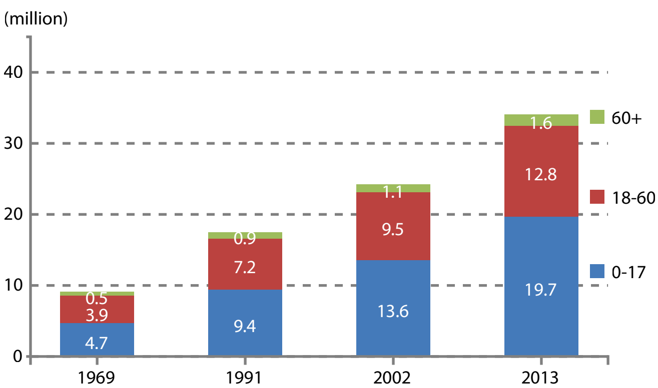
4

SOCIAL DEVELOPMENTS

4.1 Demography

The population of Uganda grew by 3 per cent (almost three times the global average of 1.1 per cent), rising from 24.2 million in 2002 to 34.9 million in 2014 (Uganda Bureau of Statistics, 2014a, p. 6). The high population growth rate was mainly due to high fertility rates – over six children per woman– and the concurrent decline in mortality levels. While the fertility rate remains high, it has declined slightly from 6.9 births per woman in 2001 to 6.2 births per woman in 2011.There is significant variation between rural and urban areas: fertility rates are much higher among rural women (6.8) than urban women (3.8) (Uganda Bureau of Statistics, 2014b, p. 14).The majority of the population – 57.7 per cent (19.7 million) – are under the age of 18. Those aged 18-60 make up 37.6 per cent of the population (12. 8 million) (see figure 11).

Figure 8: Population distribution by age (in millions)



Source: Uganda Bureau of Statistics, 2015.

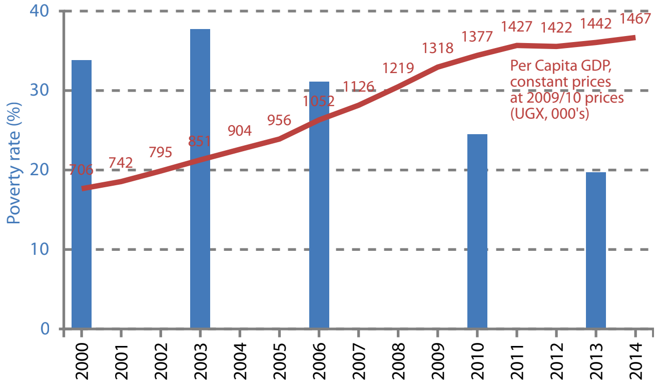
Reflecting the rapidly growing population, Uganda has a relatively high dependency ratio. The proportion of people younger than 15 or older than 64, as a percentage of the working-age population, has been estimated at 119 per cent. This ratio is much higher in rural areas (129 per cent) than in urban areas (91 per cent). Across the country, the northern and east central regions have the highest dependence ratios (134per cent), while Kampala has the lowest at 61 per cent (Uganda Bureau of Statistics, 2014c, p. xi).

These trends present some major challenges. Countries that have experienced rapid economic growth and structural transformation usually have far lower dependency ratios. Uganda must reduce fertility rates in order to benefit from a demographic dividend of the kind enjoyed by China in the 1990s and 2000s and more recently India, whereby the share of working age population is productively utilized and GDP growth is enhanced. More effective policies to reduce the number of teenage pregnancies, keep girls in school and curb early marriages would lower the fertility rates.

4.2 Poverty and employment

Uganda has made good progress in reducing the number of people living in poverty. The national poverty rate declined to 19.7 per cent (6.7 million people) in 2012/13, from 50.1 per cent in 1995 (Uganda Bureau of Statistics, 2014c, p. xiii) (see figure 12). Despite this good performance, however, many people are at high risk of falling

Figure 9: Poverty and economic growth (poverty rate versus GDP per capita, at 2009/10 prices, in thousands of Ugandan shillings)



Source: Uganda Bureau of Statistics, 2015.

into poverty. Ina survey carried out in 2012/13 survey, 43.3 per cent of the population (14.7 million people) were classified as being non-poor but insecure, that is living below twice the national poverty line (Ministry of Finance, Planning and Economic Development, 2014a, p. 74). For example, by 2011/12, 29 per cent of those classified as insecure in2005/06 had fallen below the poverty line. In total, 21.4 million Ugandans (63 per cent of the population) were classified as either poor or vulnerable to poverty.

On a positive note, income inequality has been decreasing. The average Gini coefficient decreased to 0.395 in 2012/13, down from 0.426 in 2009/10 (Ministry of Finance, Planning and Economic Development, 2014a, p. v). However, the degree of income inequality varies a great deal across the country, with reductions observed in central and western Uganda while northern Uganda experienced an increase. Food poverty was estimated at 2 per cent, while food energy deficiency was 38 per cent (Uganda Bureau of Statistics, 2014c, p. 117). The most food-insecure region of the country was north, followed by the east, with the lowest levels of dietary energy consumption (1,999 and 2,011 calories per person per day respectively). Another measure of poverty, the poverty gap (a measure of the income resources required to eradicate poverty), decreased from 8.8 per cent in 2005/06 to 5.2 per cent in 2012/13 (Uganda Bureau of Statistics, 2014b, p. xx).

Because of the fast growing population, creating enough employment opportunities presents a formidable challenge. Officially, the unemployment rate is very low.[5] Out of the 13.9 million people classified as being of working age (14 to 64 years of age), 84 per cent were working (engaged in an economic activity) while 16 per cent were not (Uganda Bureau of Statistics, 2014c, p. 44). Seventy-two per cent of the working population is employed in agriculture, with the proportion of females (77 per cent) higher than that of males (67 per cent). However, the low unemployment rate cannot be taken as an indicator of economic well-being. The lack of social protection schemes implies that most people cannot afford to be totally unemployed for a long period of time. As a result, most people are self-employed: out of the 7.9 million people in employment (excluding subsistence agriculture), 53 per cent are self-employed, many in the informal sector (Uganda Bureau of Statistics, 2014c, p. 46). The lack of education is one of the factors accounting for the large informal sector. Three quarters of the working population have neither formal schooling nor primary-level education (Uganda Bureau of Statistics, 2014c, p. xii).

The employment to population ratio increased from 70.3 per cent in 2005/06 to 75.4 per cent in 2009/10. The proportion of own-account and contributing family workers in total employment decreased from 80.6 per cent in 2005/06 to 74.4 per cent in 2009/10(Uganda Bureau of Statistics, 2014c). Looking at wage employment, the total number of wage jobs grew by 4.1 per cent annually between 2009/10 and 2012/13 (Ministry of Finance, Planning and Economic

[5] The unemployment rate is very low because of the definitions used for employment and work. An employed person is defined as one who has worked for at least one hour in the reference week. Work is defined as engagement in any economic activity, including temporary jobs and subsistence agriculture. A person who is "without work" or "actively seeking work" is counted as unemployed.

Development, 2014a, p. 37). However, there are differences between the performance of casual wage (temporary) jobs and regular (permanent) wage jobs. The number of casual wage jobs grew by 19.8 per cent annually, while regular wage jobs declined by 1.1 per cent annually, reflecting the precarious nature of the labour market. The contraction in regular wage jobs reflects the slowdown in the economy between 2010 and 2013: in 2010, the economy grew by 7.8 per cent but by 2013 economic growth had slowed to 4.8 per cent (Ministry of Finance, Planning and Economic Development, 2015, p. 105).

4.3 Health

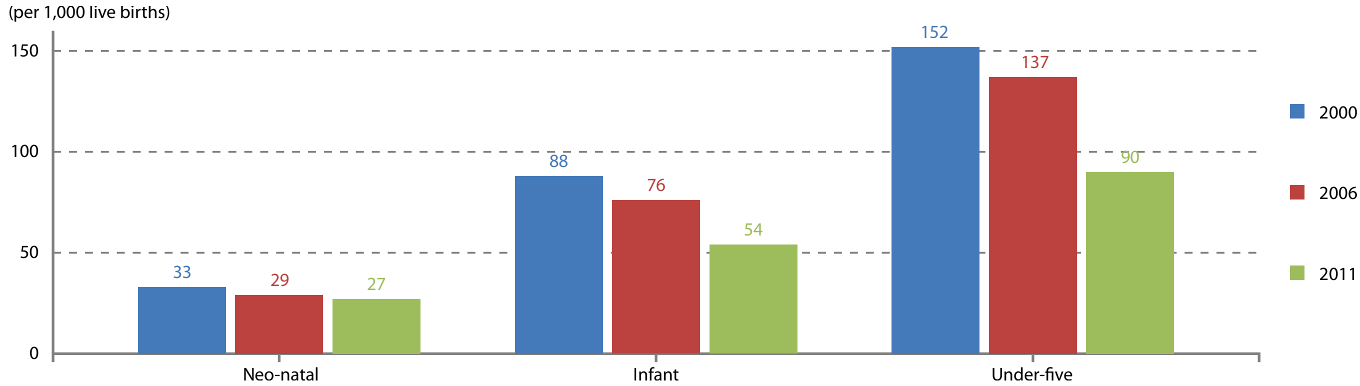
Life expectancy was estimated at 58.5 years in 2012, up from 50.4 in 2002 (Uganda Bureau of Statistics, 2014b, p. 15). The maternal mortality ratio in Uganda was estimated at 438 deaths per 100,000 live births in 2011 (Uganda Bureau of Statistics, 2012, p.240), despite the significant increase in the percentage of institutional deliveries and deliveries by skilled health personnel (Uganda Bureau of Statistics, 2014b). As a result, Uganda is unlikely to achieve Goal 5 of the Millennium Development Goals, which is to reduce the maternal mortality ratio by three quarters between 1990 and 2015. In recent years, the Government of Uganda has increased funding for the reproductive health sector from US$ 3.3 million in 2011/12 to US$ 6.9 million in 2012/13 (Ministry of Finance, Planning and Economic Development, 2014b, p. 1). However, key challenges remain in trying to reduce the maternal mortality ratio further, including inadequate staffing at the district level and poor infrastructure, with some local governments lacking an adequate maternity ward and ambulances. Some of the policy recommendations identified by the Government include increasing staffing, providing more adequate infrastructure and improving the salaries of health workers. But all this must be achieved against a backdrop of general constraints on health spending: spending on the health sector in Uganda has fallen significantly from 6 per cent of GDP in 2010 to 4.3 per cent in 2013.

The under-five mortality rate declined from 137 deaths per 1,000 live births in 2006 to 90 in 2011 (Uganda Bureau of Statistics, 2012, p. i). Figure 13 shows that reduced post-neonatal and child (1 to under 5) mortality are the main contributors to the decline in the under-five mortality rate. The under-five mortality rate varies between rural and urban areas, with lower rates in urban areas. The mother's level of education has an effect on child mortality (Sunder, 2015). They were lower mortality rates among children born to mothers with secondary or higher education (23 deaths per 1,000 live births) compared to children with mothers who had little education (59 deaths per 1,000 live births).

One well-recognized policy success was the control of HIV during the 1990s. HIV prevalence among adults aged 15 to 49 was brought down from a national average of 18.5 per cent in early 1990s to 6.4 per cent in 2005. However, in an alarming reversal, the HIV prevalence rate among adults aged 15 to 49 increased to 7.3 per cent in 2011 (Uganda Aids Commission 2014, p. vii). The 2013 HIV estimates show that prevalence remained almost static at 7.4 per cent in 2012/13 (Uganda Aids Commission, 2015, p. viii). The stable prevalence of HIV could be due to the high coverage of the country's antiretroviral therapy programme. The number of people enrolled in the programme increased from about 330,000 in 2011 to 750,896 in 2014.Another possible explanation for the stagnation in the prevalence of HIV is the reduction in AIDS-related deaths, which declined from 67,000 in 2010 to 31,000 in 2014 (Uganda Aids Commission, 2015, p. viii).

In an attempt to address the previously cited shortfalls in health financing, public health

Figure 10:Trends in child mortality



Source: Uganda Bureau of Statistics, 2012b.*

* Neonatal mortality is the probability of dying within the first month of life; infant mortality is the probability of dying before the first birthday; under five mortality is the probability of dying between birth and the fifth birthday.

expenditure in Uganda was increased by 34.6per cent in nominal terms in the 2014/15 budget, to USh 1.1 trillion from USh 0.8 trillion in 2013/14 (Ministry of Finance, Planning and Economic Development, 2015, p. 43). In per capita terms, expenditure increased from USh 23,017 to USh 30,977 per annum.

Concerns about public health provision go beyond issues of financing; the quality of health services has been much debated. The results of a 2013 survey on service delivery indicators (based on data collected from health workers in 400 health facilities across the country) showed significant gaps in service delivery. Comparable surveys carried out in Kenya and the United Republic of Tanzania highlight the differences in service delivery. Uganda has a high rate of absenteeism among medical staff (52 per cent of staff were absent at the time the survey was carried out), compared to 27 per cent in Kenya and 21 per cent in the United Republic of Tanzania. The rate of drug availability was 40 per cent in Uganda, compared to 67 per cent in Kenya. Diagnostic accuracy was 56 per cent in Uganda, compared to 72 per cent in Kenya and 57 per cent in the United Republic of Tanzania (World Bank, 2013, p. 9).

4.4 Education

Primary school enrolment increased from about 7 million pupils in the 1999/2000 academic year to about 11 million in 2012/13 (Uganda Bureau of Statistics, 2014c, p. 29). The increase in enrolment was partly a result of the elimination of tuition fees under the universal primary education programme introduced in 1997 (Nishimura, Yamano and Sasaoka, 2005).The primary school net enrolment ratio was estimated at 82 per cent in 2012/13, with the ratio higher for females (84 per cent) than for males (81 per cent).

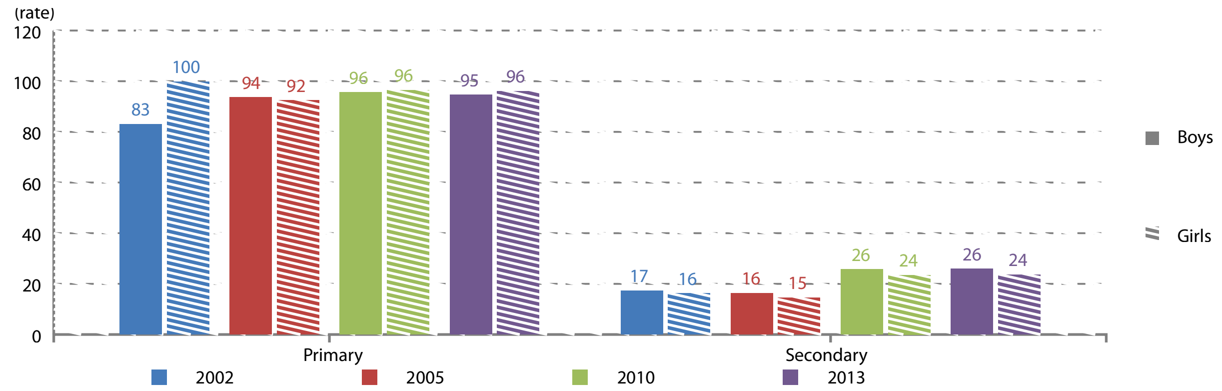
Secondary school enrolment was estimated at 1.9 million students in 2012/13, with a net enrolment ratio of 22 per cent (Uganda Bureau of Statistics, 2014c, p. 33). The low secondary school net enrolment ratio implies that a large proportion of children of secondary-school age are not enrolled in secondary school. The rate was slightly higher for girls (23 per cent) than for boys (21 per cent). The low secondary school net enrolment ratio is partly explained by variations in income. It was lowest for persons in the lowest quintile (7 per cent) and highest in the fifth quintile (41 per cent) (Uganda Bureau of Statistics, 2014c, p. 33).

Uganda has achieved gender equality in terms of education enrolment. The ratio of girls to boys in primary schools increased from 0.95 in 2006 to 1.0 in 2011, while in secondary schools the ratio increased from 0.81 in 2006 to 1.1 in 2011 (Uganda Bureau of Statistics, 2014b, p. xx). Worryingly, the overall literacy rate for people aged 15 to 24 has remained almost static, at 76.1 per cent in 2011, compared to 76.3 in 2005. This can be explained by the fact that the quality of education is generally poor, as evidenced by a number of surveys on the quality of education in Uganda, and by the fact that net enrolment rates remain low in secondary schools.

In an effort to improve education, the Government has funded both primary and secondary school education. However, challenges remain in the provision of education, especially at the secondary school level. Comparative analysis of net enrolment rates across primary and secondary schools shows a skewed distribution, with the net enrolment ratio for primary schools consistently higher than the ratio for secondary schools (see figure 14). The variation in enrolment rates can be partly explained by the amount of government subsidies received.

Besides the low enrolment levels, as in the case of health-care delivery, the quality of educational provision is also a cause for concern. The country's service delivery indicators survey, which is based on independent surveys of 5,300 teachers in 400 primary schools, showed that Uganda was still very far from achieving optimal performance in schools. Comparable surveys carried out in Kenya and the United Republic of Tanzania revealed that students in Uganda performed worse than students in Kenya in mathematics and English tests, and that there were significant knowledge gaps among teachers in Uganda. Only 19 per cent of teachers in Uganda had the minimum knowledge of the curriculum compared to 39 per cent in Kenya. Absenteeism was also a major issue in Uganda, with 27 per cent of teachers regularly absent, compared to 3 per cent in the United Republic of Tanzania and 15 per cent in Kenya[6]. The student-to-teacher ratio in Uganda (50:1) remains high relative to Kenya (32:1) (World Bank, 2013, p. 9).[7] Reducing teacher absenteeism and improving teacher quality would improve student performance and educational quality significantly in the short term. Over the long term, investing in building additional secondary schools would help to improve access to secondary school education.

Figure 11: Net enrolment ratios



Source: Ministry of Education and Sports, 2015.

[6] Absence is defined as any teacher who could not be found in the school at the time of the random visit for the survey.
[7] The UWEZO 2013 report shows that numerical skills have declined in Uganda relative to Kenya and the United Republic of Tanzania.

4.5 Gender Scorecard of the African Union Commission *

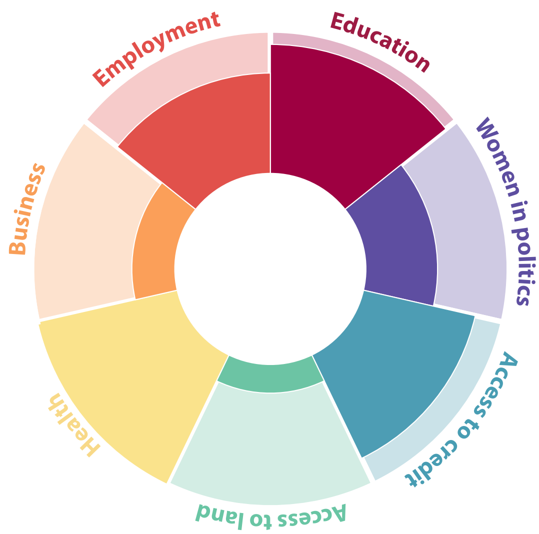
The African Union declared 2015 as the Year of Women's Empowerment and Development towards Africa's Agenda 2063, with a view to building momentum for gender equality and women's empowerment on the continent. Based on this commitment, the African Union developed the African gender scorecard. The scorecard is designed to measure the status of gender equality and women's empowerment in seven core sectors that have a transformative impact on women's lives through their contribution to broad-based, sustainable and inclusive growth. These core sectors are: employment, the business sector, access to credit, access to land, women in politics and decision-making, health, and education at the secondary and tertiary levels.

Interpretation of the pie chart: *The scoring is between 0–10, with 0 being the worst level of inequality, 5 suggesting middle parity, and 10 indicating perfect parity. Perfect parity connotes a situation where the proportion of men and women is equal, irrespective of the developmental level of the variable or indicator being assessed. Some countries go beyond the score of 10, thus showing that women may be more highly empowered in that subsector than men for that country. However, caution is needed when drawing conclusions based only on the scores, particularly when there are large variations in levels of developmental achievements between countries.***

Employment	Score
Employment in non-agricultural sector	5
Labour force participation rate	9

Business	Score
Top management in firms	2
Ownership in firms	4

Health	Score
Under-five survival rate	10
Children under age five who are not stunted	10
Life expectancy at birth	10
Share of population without HIV	7



Education	Score
Youth literacy rate	10
Enrolment ratio in secondary education	9
Enrolment ratio in tertiary education	8

Women in politics	Score
Representation in parliament	5
Ministerial positions - cabinet	4

Access to credit	Score
Account at a financial institution	7
Borrowed from financial institution	8

Access to land	Score
Access to land	2

* The data used in the calculation of the scorecard are drawn from several international databases and sources, including: United Nations, Statistical Division; World Development Indicators, Global Financial Inclusion Database and Enterprise Surveys of the World Bank; the Gender and Land Rights Database of the Food and Agriculture Organization of the United Nations; International Labour Organization; United Nations Children's Fund; Joint United Nations Programme on HIV/AIDs; World Health Organization; International Food Policy Research Institute; United Nations Educational, Scientific and Cultural Organization; United Nations Population Division; United Nations Population Fund; Inter-Parliamentary Union; and some national data sources. Data on access to land were drawn from several sources, with the scoring and harmonization of legislative frameworks done in-house by the African Centre for Statistics and the African Centre for Gender.

** The pie chart is based on the African gender scorecard, which was presented to the Heads of State and Government at the twenty-fifth ordinary session of the Assembly of the African Union in June 2015.

5

MAJOR POLICY CHALLENGES

5.1 Boosting agricultural productivity

Despite the importance of agriculture in Uganda, both in social and economic terms, agricultural productivity remains low, undermining the country's overall productivity and food security. Agriculture employs 71.9 per cent of the 13.9 million people who make up the working population. The value added per worker in the agricultural sector is low relative to other countries in East Africa (see figure 15). From a global perspective, African countries lag behind other developing regions in terms of agricultural productivity (World Economic Forum, 2015, p. 37). The use of fertilizers for better soil management techniques, the adoption of high-yielding seed varieties, the use of irrigation and land reform could significantly boost agricultural productivity.

Regarding fertilizer use, the average household in Uganda spends just US$ 0.58 on fertilizer per cropping season (Kraybill, Bashaasha and Betz, 2012, p. 7). A key constraint to fertilizer use relates to inadequate access to extension services, with fewer than one third of agricultural households in the country receiving fertilizer-related extension advice. Women are less likely to use fertilizers than men, partly because extension workers focus their services mostly on male clients. Access to credit and use of irrigation also have an effect on fertilizer use, with farmers who practice irrigation more likely to use fertilizers (Okoboi and Barungi, 2012, p.17). Market failures (for example, fake products in the input market) also explain the low adoption rate of new technologies, especially among smallholder farmers. One study (Svensson and others, 2015) found that poor quality inputs were found throughout the retail market. Cost-benefit analysis showed that it was not profitable for farmers to use such low- quality inputs because the benefits in terms of increased yield were limited. The rate of return was only profitable if farmers used authentic fertilizer (for example, a farmer purchasing a 50 kilogram bag of fertilizer from an agro-input dealer was likely to get less than the threshold weight of 49.5 kg, and moisture levels above the recommended threshold range (between 0.5 per cent to 1.5 per cent) (Mbowa, 2015, p.15). Government enforcement on the standards of fertilizer would control the problem of poor quality fertilizers on the market.

The Government of Uganda has signed the Abuja Declaration on Fertilizer for an African Green Revolution, which committed African countries to a target of at least 50 kg of fertilizer per hectare per annum by 2015. However, this target will not be achieved in Uganda. Indeed, efforts to implement a national fertilizer policy suffered a setback in September 2015, when the Ministry of Finance rejected the proposed national fertilizer policy on the grounds that it was too expensive (Daily Monitor, 2015, p. 1). The proposed policy would have cost USh 130 billion over a five-year period.

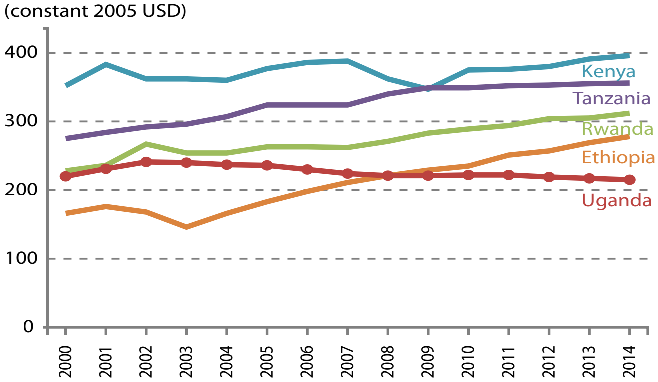
Studies in the country have found a positive effect on household incomes owing to the use of improved high-yield seeds. Adopting improved groundnut varieties has significantly increased crop income and reduced poverty (Menale, Shiferaw and Muricho, 2011, p. 1). The widespread adoption of high-yield rice varieties is also likely to increase incomes and reduce poverty among rural households (Kijima and Sserunkuma, 2008, p. 55). Factors that affect the adoption of high-yield seeds include the presence of extension services, non-farming incomes (which has a positive effect on the adoption of high-yielding seeds) and drought (which has a negative effect). Policy interventions for the adoption of high-yield seed varieties include the strengthening of agriculture extension services and the introduction of crop insurance schemes to manage the risks associated with drought.

The Ugandan agricultural sector is dependent on the amount of rainfall received and the timing of the rainfall seasons. Fluctuations in rainfall increase the risk to farmers. In 2010, Uganda experienced extreme drought. Consequently, food headline inflation increased, contributing to the high inflation rates observed in 2011. The total financial loss due to changes in rainfall patterns was estimated at US$ 1.2 billion in 2010 (Mwaura and others, 2014, p. 8). Losses to the crop sector were estimated at US$ 434.3 million, while losses to the livestock sector were estimated at US$ 472.8 million. The Government has recognized the need for improved irrigation in the country: government expenditure allocated to irrigation increased from USh 8 billion in 2006/07 to USh 75 billion in 2012/13. Under the country's agriculture sector development strategy and investment plan, the Government is planning to promote small-scale irrigation at two levels: at the household level, aiming to promote water harvesting and small-scale irrigation; and at the national level, with large-scale irrigation projects targeting specific crops. A public-private partnership approach would enhance access to sustainable irrigation for smallholders. The Government would be involved in the construction of medium-sized water harvesting facilities (such as valley dams) and then invite private sector actors to maintain the facilities and pump the water to smallholders for a fee.

The country's land tenure systems have restrictions on land rental markets, especially the fixing of nominal rents. These affect land productivity adversely because the rents are fixed at very low rates, which means that land owners do not have an incentive to participate in the rental market. Landowners are not willing to rent their land to tenants at the low prices fixed by the Government and would rather sell the land because that is more profitable. This gives landowners an incentive to evict their tenants and sell the land. The lack of security for tenants means that they do not invest in long-term technologies, such as irrigation, or apply fertilizer to the soil (World Bank, 2015a, p. 73).

Besides boosting productivity, agricultural value chains are important for Uganda because they allow the country to add value to its agricultural exports. With the country's traditional exports, such as coffee, value chains are relatively developed, but this is not the case with non-traditional exports, such as bananas and pineapples, where value chains are less developed, even though non-traditional exports have steadily increased in importance as a share of the country's total exports. There are two major challenges faced in the development of value chains for non-traditional exports. First, there is a lack of quality and standards. Whereas quality and standard specifications exist for traditional exports to European markets, such specifications do not exist for non-traditional exports. As a result, the country's non-traditional exports do not conform to international standards. Second, the structure of the market for the non-traditional export sector is not competitive in the sense that there is a concentration of market power. Firms with market power have the ability to set the prices, which means that pricing is not as competitive in the non-traditional market, which acts as a disincentive for farmers.

Figure 12: Agriculture value added per worker in selected countries in the subregion (constant 2005 United States dollars)



Source: World Bank, 2015b.

5.2 Strengthening the tourism sector

Tourism is the main source of foreign exchange in the country. In 2014, tourism's direct contribution to the economy was estimated at US$ 1.355 billion (World Tourism Organization, 2015, p.11). This was nearly three times the earnings brought in by coffee (US$ 407.4 million), which is the country's biggest commodity export. The tourism industry contributed 247,100 direct jobs in 2014, but the overall contribution to total employment (including indirect jobs created in other industries owing to higher incomes and demand from the tourism sector) was estimated at 592,700 jobs. This represents 8.6 per cent of total employment in Uganda. This shows the importance of the linkages between tourism and other sectors of the economy. Tourism development projects generated significant foreign direct investment in flows for the Ugandan economy, with capital investment reaching US$ 300 million in 2014. Regarding the origin of tourists to Uganda, the top three sources in 2013 were Africa (78 per cent), followed by Europe (10 per cent) and North America (6 per cent). Within Africa, tourists from neighbouring countries – including Kenya, Rwanda, the United Republic of Tanzania, South Sudan and the Democratic Republic of the Congo – accounted for 68.5 per cent of all visitor arrivals (Ministry of Tourism, Wildlife and Antiquities, 2014, p.4).

The tourism industry could potentially play an even greater role in accelerating the development of the economy, if measures were taken. The 2015 travel and tourism competitiveness index ranked Uganda 114 out of 141 countries, and 14 out of 28 within East and Southern Africa (World Economic Forum, 2015, p. 20), not a particularly good performance. In order to improve the ranking of Uganda, key measures should be taken.

First, the country needs a sustainable marketing and branding mechanism to overcome negative perceptions. Perceptions of insecurity are increasingly influencing tourist flows. Tourists understandably expect to travel safely and will avoid any destinations that expose them to risks. The Ugandan tourism industry experienced severe repercussions following the outbreak of the Ebola virus disease in West Africa and the Marburg virus disease in Uganda. In 2014, 32.5 per cent of all cancellations were attributed to the Ebola outbreak. Terrorism is another factor that has a negative effect on tourism, with fears over terrorism reportedly responsible for 21.3 per cent of cancellations in 2014 (Ministry of Tourism, Wildlife and Antiquities, 2014, p. 24). Such risks are of course difficult to control, but greater efforts could be made in some areas. Marketing the country better and providing more information would help to mitigate some of those fears. The Government could also act directly to improve the health and safety of visitors. For instance, in the 2015 travel and tourism competitiveness index, Uganda got a score of 2.72 for health and hygiene (on a scale of 1 to 7), compared to the sub-Saharan Africa average of 3.32.[8]

Second, Uganda needs to improve and expand its infrastructure. The travel and tourism competitiveness index ranks countries on three

[8] The Ugandan Government has successfully developed a rapid response mechanism to handle outbreaks of diseases such as Ebola, Marburg, yellow fever and cholera (Ministry of Finance, 2015, p. 9). As a result, Uganda has been able to control outbreaks of viruses such as Ebola. However, it is difficult to control the perceptions of international tourists.

infrastructure indicators: air transport infrastructure; ground and port infrastructure; and tourist service infrastructure. In 2015, Uganda was ranked 123 out of 141 countries, with a score of 2.36. From the country's poor scoring on these indicators, it is clear that infrastructure investments (airport development, roads, railways and communication technologies) are not growing fast enough to meet the demand. As reported earlier, the Government is already taking measures to step up infrastructure investments. Plans are underway to expand and modernize Entebbe International Airport, with the Government planning to spend US$ 81 million on rehabilitating the airport in 2015 and 2016. Access to Entebbe from Kampala is, however, poor: the journey of 52 km can often take 2 to 3 hours at peak times. In aspects like this, the appropriate investments in transport infrastructure are clearly urgent.

Lastly, Uganda needs a more skilled workforce in the tourism sector. The country currently has one hotel and tourism training institute that offers training in hospitality-related management. It is the only government-aided hospitality training institution in the country. In the academic year 2013/14, just 489 students were enrolled in the institute (Ministry of Tourism, Wildlife and Antiquities, 2014, p. 53). The institute lacks modern facilities and equipment, and the number of staff is not adequate. Consequently, foreign workers are filling the skills deficit in the sector. Kenyans already constitute a large proportion of general managers, head chefs and other high-earning positions in the hotel industry in Uganda (World Bank, 2012, p.9). The Government could invest more in the development of hospitality and tourism vocational skills by setting up more hospitality schools that cater to people from low-income households.

6. NATIONAL DATA QUALITY EVALUATION

Methodological note on data quality evaluation

The quality of national data sources for key indicators in the country profiles was evaluated. The result is presented in colour codes, with green indicating a "good" data source, yellow for "satisfactory", and red for "needs improvement".

The evaluation focused on the transparency and accessibility of each national data source. The evaluation took into consideration the timeliness and periodicity of data publishing, based on the punctuality of publication and frequency of data updates in accordance with international standards. It also measured the comparability of the data series, based on their length, definition and standard units of measurement. It evaluated database accessibility, specifically whether the data were open and freely available to the general public, the format of the data, and the ease of downloading and sharing. Data citation, together with references to primary or secondary sources, was also assessed. Finally, the evaluation checked the completeness of metadata for data release and the completeness and clarity of documentation and notes.

Demography	Value	Evaluation
Population (millions)	34.9 (2013)	1
Children (0-17 years)	19.7 (2013)	1
Adults (18-60 years)	12.8 (2013)	1
Elderly (60+ years)	1.6 (2013)	1
Urban population (%)	18.4 (2014)	1
Growth rate (%)	3.03 (2014)	1
Total fertility rate	6.2 (2011)	1
Life expectancy at birth (years)	58.5 (2012)	1

Key macroeconomic and sectoral performance indicators	Value	Evaluation
Real GDP growth rate (%)	4.7 (2014)	3
GDP, current prices (billions of USh)	72,051 (2014)	1
GDP, constant prices (billions of Ush)	51,742 (2014)	1
Inflation rate (%)	6.9 (2014)	1
Current account balance (million of US$)	-2,666 (2014)	1

Economic trends and performance indicators	Value	Evaluation
Inward flows of foreign direct investment (millions of US$)	1,146.1 (2014)	4
Total exports (millions of US$)	2,676.6 (2014)	1
Total imports (millions of US$)	6,073.5 (2014)	1

Education and employment	Value	Evaluation
Literacy rate (15-24) (%)	76.1 (2011)	1
Net enrolment rate in primary (%)	96.0 (2013)	2
Ratios of girls to boys in primary	1.0 (2011)	2
Ratios of girls to boys in secondary	1.1 (2011)	2
Employment to population ratio total (%)	75.4 (2011)	1
Population below national poverty line (%)	19.7 (2013)	1
Unemployment rate (%)	9.4 (2013)	1

Health	Value	Evaluation
Under-5 mortality rate (per 1,000)	90 (2011)	1
Maternal mortality ratio per 100,000 live births	438 (2011)	1
Prevalence of underweight children under-five years of age (%)	13.8 (2011)	1
Infant mortality rate per (per 1,000 live births)	54 (2011)	1
Proportion of births attended by skilled health personnel	58 (2011)	1
Contraceptive prevalence rate	30 (2011)	1

Data sources code index

1. Uganda Bureau of Statistics
3. Ministry of Finance
2. Ministry of Education and Sports
4. Bank of Uganda

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