

## Uganda: Maintaining Growth—Moving toward Structural Transformation

**T**hanks to a lengthy record of prudent economic management and reform, Uganda has maintained high economic growth rates for more than a decade. However, strong population growth and remaining economic challenges pose serious challenges to the government in reducing poverty. The International Development Association's support for the government work on this front has helped across a range of fronts, from connecting Ugandans to clean water and sanitation through to speeding the registration of a new business or property.

### **Challenges**

Uganda has a record of prudent macroeconomic management and structural reform. Despite various exogenous shocks, annual growth in gross domestic product (GDP) growth averaged 7 percent in the 1990s, and accelerated to over 8 percent from 2001 to 2008. Due to high population growth, real GDP growth per capita averaged only 3.4 percent over the 1990s, and just over 4 percent over the 2000s. GDP growth is expected to remain robust, averaging about 7 percent from FY2012 to FY2014. Oil production will change Uganda's economic outlook, but full-scale production is unlikely to begin before 2016.

Continued economic prosperity in Uganda will require moving the economy to a higher productivity level and integrating all regions into the development process. Uganda must also invest in alleviating bottlenecks to growth, particularly in energy and transport infrastructure, and in delivering better quality social services through more efficient public sector management.

Uganda's overriding development challenge is to manage its resources, in particular the fast-growing and youthful population and the recently discovered oil fields. To reap the demographic dividend, Uganda must invest in fertility reduction, quality education and skills development, and job creation. To reap the oil dividend, Uganda must maximize the social benefits through adequate investment and prudent macroeconomic management of the oil sector, as well as transparency and management of expectations.

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

## Approach

In February 2010, the Government of Uganda finalized a new five-year National Development Plan (NDP) spanning FY2011-2015. The NDP's main theme is "Growth, Employment and Socio-Economic Transformation for Prosperity," marking a broadening of the country's development strategy from poverty reduction to structural transformation with the aim to raise growth and living standards. The NDP is the first in a series of six plans intended to transform Uganda over thirty years into a modern and prosperous country.

On May 25, 2010 the World Bank Board of Executive Directors discussed a new Country Assistance Strategy (CAS) to support Uganda. Hinging upon four pillars, this new strategy will support government efforts to promote

inclusive and sustainable economic growth; enhance public infrastructure; strengthen human capital development; and improve good governance and value for money. It is estimated that during the CAS period, the International Development Association (IDA)—the arm of the World Bank that lends to the poorest countries—will commit approximately US\$2 billion to support development projects and programs in Uganda.

Key priorities over the CAS period, in addition to continued support for national projects and regional integration in the transport and energy sectors, include (i) the continuation of the poverty reduction support credit series with focus on improving efficiency and value for money in delivery of core services, (ii) a Municipal Infrastructure Project aimed at improve management and accountability of 13 secondary cities to support urbanization and (iii) a Water Sector Development and Management Project to finance investments in water support and sanitation, included several of the cities included in the Municipal Infrastructure Project.

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

## Results

- The Northern Uganda Social Action Fund, a community-driven development project, started in 2003 and is now continuing in its

second phase. Under its first phase, more than three million people or 47 percent of the population in northern Uganda were provided access to improved social services: 67,000 households (336,000 people) got access to safe drinking water; and close to 4,000 households (19,000 people) were able to access to improved sanitation facilities.

- Under the Private Sector Competitiveness Project II (FY06), the time to register a property has been reduced from 225 to 77 days and to register a business from 135 to 25 days, thereby reducing the effective cost of doing business in Uganda.
- Under the Energy for Rural Transformation program (FY01), the first project focused on establishing the regulatory and institutional framework for the sector. Additional achievements included installation and operationalization of more than 500 solar systems with a capacity of 117,000 watt peak hours in health center across the country, improving service delivery and enhancing safety. Twenty solar water-pumping systems with a capacity of 196,000 watt peaks have been installed and are in operation in 14 districts countrywide. This least-cost energy solution has improved water supply in small towns and rural growth centers countrywide.

## IDA Contribution

As of end March 2011, the Uganda portfolio comprises 20 IDA-financed operations and an IDA guarantee for the Private Power Generation (Bujagali) Project with a total commitment amount of US\$1.76 billion. About one quarter of annual IDA support is provided in the form of direct budget support. In addition, there are four regional projects.

The current sector distribution of IDA commitments reflects the government's emphasis on infrastructure. About 64 percent of commitments are allocated to energy, mining, environment, urban development, and transport. About 24 percent are allocated to education, health, and social development; 6 percent to finance and private sector development; and 7 percent to economic and public sector management.

Uganda is also benefitting from a large trust fund portfolio (approximately US\$80 million in grants). Trust funds, most of which are linked to lending operations, have focused mainly on: environment; renewable energy (Global Environment Facility); demobilization and reintegration of ex-combatants (Multi-country Demobilization and Reintegration Program); monitoring and evaluation (Institutional Development Fund (IDF); avian influenza; and piloting output-based aid in health and water supply (Global Partnership on Output Based Aid). The United Kingdom's Department for International Development (DFID) has become a key partner in IDA's Uganda program, providing cofinancing to the Northern Uganda Social Action Fund II (US\$39 million) and the Transport System Improvement Project (US\$8 million) and supporting GoU's implementation of the National Development Plan through a Bank executed Partnership TF for analytical studies and TA (approximately US\$10 million). In addition, a Multi Donor TF has been set up to fund various activities related to the Joint Budget Support Framework, including funding of a Technical Assistance and Support Unit.

IDA's analytical and advisory activities underpin investment operations and sector strategies, and inform the government's reform

path. Recent analytical work includes a series of Public Expenditure Reviews focused on education (FY08), health (FY09), and roads (FY10). The report “Public Finance Management in Uganda—a Platform Approach” (2008), including an assessment of fiscal decentralization and the Public Expenditure and Financial Accountability Report (2009) has been critical in informing the reform agenda in public financial management.

## Partners

More than 40 bilateral and multilateral development partners provide aid to Uganda, but only three account for almost half of the country’s total Official Development Assistance. IDA, the largest financier, accounted for 19 percent of the US\$7.3 billion disbursed

from 2004 to 2008 with the United States and the European Commission (EC) at 18 percent and 10 percent, respectively.

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

The government’s National Development Plan includes a section on government-development partner relations, outlining key

### A New Joint Budget Support Framework

The government and development partners approved, for the first time, a Joint Budget Support Framework (JBSF) in October 2009, to reduce the transaction costs of budget support for the government, increase the predictability of disbursements, and create a stronger and more consistent policy dialogue that fosters mutual accountability in line with the Paris Declaration on Aid Effectiveness.

**JBSF partners.** There are 12 JBSF partners, three multilateral development partners (the African Development Bank, European Commission, World Bank), and nine bilateral partners (Austria, Belgium, Denmark, Germany, Ireland, the Netherlands, Norway, Sweden and the United Kingdom). JBSF partners combined are expected to disburse over US\$300 million per year, with IDA accounting for about one third of the total.

**The JBSF governance structure** is two tiered:

- A Development Partners Policy Committee meets regularly and engages with the government at an annual high-level forum;
- At the technical level, the JBSF Technical and Policy Dialogue Taskforce meet frequently to coordinate the design and implementation of the JBSF and conduct an annual assessment of performance.

A multi-donor trust fund managed by IDA will be used to establish a Technical and Administrative Support Unit, to provide administrative support and generate high-quality technical and analytical work.

**Joint Assessment Framework.** The Framework is developed and agreed by the government and JBSF partners, and they apply it to assess the government’s performance in agreed areas. The assessment of performance will form the basis for development agencies’ disbursement decisions. The JBSF also ensures timely disbursements by the development partners.

issues related to aid effectiveness and stating the government's intention to adopt a new Partnership Policy addressing alignment of aid with national priorities and systems, transaction costs, coordination issues, predictability of aid flows, mutual accountability for development results, and partnerships beyond aid. The Partnership Policy is expected to play an important role for the management of aid over the medium term, as oil revenues gradually reduce the government's reliance on external assistance.

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

## **Moving Forward**

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

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