

IDA AT WORK

Uganda

Since 1986, Uganda has evolved from a nearly “failed state” battered by violent dictatorships to a country with a track record of growth and institutional reform. Uganda’s GDP growth has averaged 6.8 percent per year between 1987 and 2008. HIV/AIDS dropped from 18 percent in 1992 to 6.4 percent in 2006. Compared to only 10 percent in 1987, close to 63 percent of Ugandans have access to safe water today. Net primary school enrollment rates stand at 95.9 percent for boys and 92.7 percent for girls, indicating the narrowing of the gender gap in primary education access. In 2008, Uganda ranked 7th among IDA countries in Africa in terms of country performance, institutional capacity and management.

Country Indicators	1992	2006	2008
GDP growth	3.4	10.8	9.0
GDP per capita (US\$)	177	320	420
Inflation (consumer prices, %)	42	7.2	12.5
Gross domestic savings (% of GDP)	0.6	13.2	17.4
Exports of goods and services (% of GDP)	7.2	15.5	20.7
External debt (% of GDP)	106	53.9	20
Private sector investment (% of GDP)	6.5	16.6	17.1
Poverty incidence (%)	56	31	31 (2006)
Net primary school enrollment (%)	68 (1995)	91.7	91.7 (2006)
Under-five child mortality (per 1,000)	160 (1990)	137	137 (2006)
Population (millions)	22 (1996)	29.9	32

Sources: Uganda Bureau of Statistics National Accounts; IMF databases (June 2009) and National Household Survey (poverty data for 2005/6).

The International Development Association (IDA), the World Bank's fund for low-income countries, has provided Uganda with more than US\$5.3 billion in loans and credits and over \$600 million in grants for various development programs since 1963. As of July 2009, the IDA portfolio comprised 20 active operations with a total commitment value of approximately US\$1.5 billion. The focus of the portfolio is on critical infrastructure development and rehabilitation and support to institutional reforms.

Strong partnership between the government, the Bank and other development partners, has helped Uganda to record many "firsts". Uganda was the first of the world's poorest countries to prepare a comprehensive, time-bound national strategy for poverty reduction, the first to receive debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative, and the first low-income country to receive general budget support from IDA through a series of Poverty Reduction Support Credits (PRSCs).



COUNTRY ACHIEVEMENTS

Uganda has achieved a slow but sure turnaround since 1986.

A turbulent history. From 1971 to 1985, economic mismanagement, war and brutality under Presidents Idi Amin and Milton Obote reversed Uganda's robust post-independence growth. By the time President Yoweri Museveni's National Resistance Movement took power in 1986, Uganda had suffered a mass exodus of skilled workers, deterioration of infrastructure, and capital flight. Public institutions were largely dysfunctional, the state controlled and mismanaged most enterprises, the currency was overvalued, export earnings had withered, banks were insolvent, and government overspending left large fiscal deficits. Uganda's GDP had fallen by 40 percent from its 1970 peak.

Government commitment to reform.

Beginning in 1987, and more strongly since 1992, the government adopted a wide range of both economic and institutional reforms. These include strengthened fiscal policy with

improved expenditure allocations, civil service restructuring, privatization (with lower subsidies to state enterprises), financial sector reform, modernized marketing of agricultural products, a free exchange system and an open capital account.

Poverty focus with tangible results.

In 1997, the government shifted its focus from post-conflict reconstruction to poverty reduction. Through a consultative process, it developed a national poverty eradication plan and set up a poverty fund to protect poverty-related public spending from unforeseen cuts. The share of its discretionary budget for core poverty programs that was 17 percent in 1997 had risen to 38 percent by 2008. As a result, Uganda has made tremendous progress toward achieving its millennium development and poverty eradication goals. Income poverty declined from 44 percent in 1997 to 31 percent in 2006, on track to meet the target of 25 percent by 2015.

Two Millennium Development Goal (MDG) targets have been met: gender equality in primary school enrollment and reversal

of the spread of HIV/AIDS. Of course, sustaining this remains a constant challenge. Furthermore, only minimal improvements have been recorded with regard to maternal mortality and under-5 child mortality rates, even though policies, institutions and funding have improved the health sector. If progress recorded thus far is sustained and deepened by reforms, Uganda could meet six out of the eight MDGs by 2015.

IDA CONTRIBUTIONS

IDA has helped improve the effectiveness of government spending and foreign aid.

IDA approved more than US\$1.3 billion in development projects and programs for Uganda over the four-year period of the current Country Assistance Strategy (Fiscal Years 2006-2009). Investment operations covered sectors such as agriculture, education, transport, energy, local government,

environment, public service reform, and social development in northern Uganda. The Bank's provision of direct budget support has helped further the ongoing policy dialogue between the Bank and the government and has been particularly effective in improving the predictability of resource flows and reducing transaction costs.

Analytical support and capacity-building.

Besides financial support, IDA's contributions to Uganda's development include technical assistance, analytical work and capacity-building efforts. For example, it was in Uganda that IDA pioneered the Public Expenditure Tracking Surveys (PETS), now a standard tool for improving the effectiveness of public spending across the developing world. During the current CAS period, more than 20 analytical reports were produced. The Country Economic Memorandum (2007) and the annual Public Expenditure Reviews, in particular, have guided the ongoing policy

Pioneering Poverty Reduction Credits

Since 2001, IDA has supported Uganda's poverty strategy through a series of seven annual general budget support and debt reduction operations. As the first recipient of a World Bank Poverty Reduction Support Credit (PRSC) in May 2001, Uganda led the creation of a modality since used in many other countries. The enhanced Highly-Indebted Poor Countries Initiative (HIPC) of 2001 and Multiple Debt Reduction Initiative (MDRI) of 2007 also made additional resources available for poverty reduction. These steps rewarded Uganda's solid track record of macroeconomic stability, commitment to policy reform, and comprehensive poverty-focused strategy.

Budget support and debt reduction contributed, in turn, to Uganda's fast growth (8.3 percent on average in 2005-2009) and subsequent reduction in income poverty. The PRSC program helped make resource flows to the country more predictable, provided a focus for donor dialogue, and created a framework for monitoring results. This led to a rapid expansion of basic public services, fuelled decentralization, and helped bring a wider range of issues and development partners into the dialogue. This has reduced overall transaction costs and boosted public financial management systems.

The ongoing PRSC7 supports Uganda's third Poverty Eradication Action Plan and the transition to a National Development Plan spanning the years 2009/10 to 2013/14. PRSC8, under preparation, is expected to support the budget of 2009/10.

dialogue and shaped government responses to Uganda's challenges. Other analysis focused on areas such as poverty and inequality, natural resource management and sustainable land management. IDA has also been providing macroeconomic advice that is helping shape the government's new National Development Plan.

Harmonizing for aid efficiency.

The Bank's current Country Assistance Strategy for Uganda is the Uganda Joint Assistance Strategy (UJAS) which was finalized in December 2005. UJAS partners initially consisted of five bilateral development partners (Germany, the Netherlands, Norway, Sweden, and the UK), the African Development Bank, and the World Bank Group. Subsequently, in 2006, another five development partners (Austria, Belgium, Denmark, Ireland, the European Commission) signed on. The 12 UJAS partners provided 76 percent of total Official Development Assistance (ODA) to Uganda over the period 2001-2006.

On a day-to-day basis, aid coordination is undertaken by the Local Development Partners' Group (LDPG), which is chaired by the Bank. Monthly LDPG meetings are attended regularly by the heads of more than 31 agencies providing aid to Uganda and serve, among other things, to agree on common positions vis-à-vis the government.

With the UJAS coming to an end and with the imminent launch of the five-year National Development Plan (NDP), development partners have decided to work with the government on an aid effectiveness chapter to be included in the NDP. This would formalize joint aspirations for increased aid effectiveness, providing a guiding framework for deliv-

ery of aid to Uganda (both budget support, on-budget project support, and off-budget project support). In addition, the Bank is the leading partner in developing and managing the Joint Budget Support Framework in Uganda, which will include an annual Joint Assessment Framework.

Building a strong public expenditure and fiscal management system.

The Bank has supported a transparent budget process through two economic and financial management projects, adding up to US\$64 million. Uganda's medium-term expenditure framework, in place for over 10 years, is a key part of this effort. Public expenditure reviews ensure stakeholders review spending priorities and discuss how well programs have been carried out. In 2005, Uganda ranked fifth overall on public financial management among all HIPC countries worldwide. The government is now able to carry out an efficient and transparent annual budget process supported by better tracking of government expenditures and financing needs, which fosters government accountability to taxpayers and development partners.

Stronger public expenditure paved the way for notable results in several sectors and helped move Uganda towards its development goals.

Education. IDA supported the execution of Uganda's Universal Primary Education policy which was launched in 1997 providing for free primary education for all Ugandans. This policy increased primary school enrollment from 3.1 million in 1996 to 7.6 million in 2008. Net enrollment rates stand at 95.9 percent for boys and 92.7 percent for girls, indicating the narrowing of the gender gap

in primary education access. Pre-service and in-service primary teacher development systems have been greatly improved and over 80 percent of teachers in schools have the minimum required qualifications. The primary mass education reform led to initial problems in quality, but sustained efforts to improve learning show steady progress. For example, the percentage of pupils achieving defined levels of competency in literacy in primary level three increased from 19 percent in 1999 to 46 percent in 2006.

While the government has achieved success with primary enrollment rates, additional investment is needed to address the quality of learning in primary education, and to support the newly launched mass education reform for post primary education and training. Tertiary education equally needs support to facilitate the country's realization of the national goals for equitable growth and global competitiveness.

Health. IDA has provided targeted support to the Uganda health sector since 1988 (with four investment projects of US\$193 million), and general budget support since 2000/01 under the PRSC. The prevalence of HIV/AIDS has been reduced from 18 percent of the adult population in 1992 to 6.4 percent in 2006, well below the millennium development goal for HIV/AIDS. Uganda was one of the first countries to establish an effective program to deal with the AIDS pandemic, using a highly successful ABC campaign (Abstinence from sex; Being faithful; and using Condoms).

Improved government collaboration with non-state health providers and the expansion of primary health facilities have improved accessibility of health care services. Utilization and coverage of major interventions

have recorded modest increases. These have improved health indicators: under-five child mortality has decreased from 160 per 1,000 in 1990 to 137 per 1,000 in 2006. Uganda has also pioneered citizen report cards at the community level in health care, resulting in a 16 percent increase in the use of health facilities, according to a recent impact evaluation. Not-with-standing, Uganda is unlikely to achieve MDGs on improving maternal health and reducing child mortality.

Water & Sanitation. IDA supports Uganda's water sector through general budget support. Budget allocations for water increased from 0.5 percent of public expenditure in 1997 to 2.8 percent in 2002 and are currently at about 2 percent. Over the last six years, the government and its sector institutions met all policy benchmarks and service delivery targets, with 90 percent utilization of budgeted resources averaging US\$ 60 million per year. As a result, the total number of water connections jumped from 66,000 in 2000/01 to 252,000 by 2007/08. The government is now delivering new water points each year—3,000 in rural areas resulting in improved coverage for an additional 700,000 rural people per year. Implementation is decentralized to all districts and maintenance is a primary community responsibility. In cities and towns, over 24,000 new connections are made per year. About 80 percent of the towns are currently under private sector management using local Ugandan operators. Uganda is on track to meet the MDG target of 62 percent access to water coverage. With increased resources and efficiency, greater coverage could also be achieved. Sanitation has improved from 52 percent in 2000 to 62 percent in 2008. Establishing a dedicated budget line for sanitation would put the MDG target of 72 percent within reach.

Public-private partnerships. With IDA support, Uganda has sold some or all of its shares in 130 state-owned enterprises since 1992, substantially reducing the exposure of the public sector to private sector risks.

Telephones. IDA supported the privatization of utilities including telecoms. Operating licenses have been issued to two major telephone providers, resulting in a rapid expansion of the telephone network and increased access. There are now five mobile telephone operators with a combined total of about 210,000 fixed telephone lines and 9.8 million mobile subscribers in Uganda. Teledensity

in 2009 is 32 lines per 100. With the recent connection of Uganda's capital, Kampala, to the Mombasa undersea cable, internet connectivity is expected to become quicker and cheaper.

Electricity. IDA has supported the government's strategy to: (i) Promote the efficient operation of the power sector, building on the legal, regulatory and structural reforms implemented by the government, and increasing the role of the private sector in its operations and future development; (ii) Provide adequate, reliable and least-cost power generation to meet urban and industrial demand and increase access; and (iii) Scale up rural access to maximize the impact on poverty reduction. Between 2001 and 2007, electricity connections increased by almost 50 percent but insufficient access and power remain a key constraint.

Financial sector. The banking sector has remained stable and sound despite the on-going global financial crisis. In 2008 the Central Bank of Uganda licensed two new commercial banks. The entry of new banks enhanced financial widening, bringing the total number of banks to 21 with a total network of 325 branches at the end of April 2009, up from 194 branches at the end of December 2007. Mobile money banking has been rolled out with mobile phone companies Mobile Telephone Network (MTN) collaborating with South African giant Stanbic Bank, and Zain collaborating with Standard Chartered Bank. With some support from IDA, the Credit Reference Bureau was also launched last year and is operational. The Mortgage Bill, which has been promoted by IDA, will also soon be enacted leading to structured development of the mortgage industry.

A Successful Privatization Process

By June 2009 a total of 130 divestiture transactions with a sale value of about US\$206 million had been concluded in Uganda. Following the divestitures, subsidies to state owned enterprises fell from US\$66 million in 1994 to about US\$8 million in 2007. Subsidies are currently estimated at about US\$6 million and are only provided for social purposes and utilities. Only in the electricity sub-sector has government maintained high levels of subsidy to mitigate consumer costs.

Funds raised from the sale of public enterprises are currently channeled into further reform and restructuring of the balance of unsold entities in order to attract more private sector participation and investments that help Ugandans. Privatization has improved efficiency, profitability, labor productivity as well as distributional impact on workers and employees, agricultural producers and urban and rural consumers. The development of the capital markets (current market capitalization is US\$3.75 billion), the broadening of local participation and ownership of businesses and the creation of labor safety-nets are among the other attributes of a successful privatization process in Uganda.

Private sector development. IDA has supported Uganda's efforts to improve the business and investment climate. The cost of opening a business has declined from 117.8 percent of income per capita in 2005 to 100.7 percent in 2009. In terms of getting credit, Uganda ranked 109 out of 181 countries in 2009, up from 158 in 2008. According to the *Doing Business* rankings compiled by the World Bank Group, Uganda's low performance in the rankings on several topics indicates that there are numerous opportunities for further reforms in Uganda. Uganda currently ranks 111th out of the 181 economies on the overall ease of doing business. IDA has also supported the creation of the Presidential Investor Roundtable which meets regularly under the chairmanship of the President of Uganda, to gain strategic advice on how to improve investments in the country.

Agriculture. Uganda's agriculture is growing at a rate of approximately 2.6 percent per year. With a good cereal crop in 2008, Uganda increased exports of maize and weathered the price shock well. The government's main emphasis now is on increased commercialization, and will require significant increase in productivity. Presently, agriculture employs three-quarters of the work force and produces a quarter of GDP. Recent IDA support to the sector has focused on agricultural research and advisory services combining public funding of extension services with private delivery and control by farmers of the quality of service. The program saw the establishment of 39,600 farmer groups benefitting a total of 715,000 farmers. IDA has also supported agricultural research for 15 years through the National Agricultural Research Organization (NARO), and now through a diversified national system including NARO and universities, NGOs, and the private sector. The Bank leads a group of

development partners active in agricultural policy dialogue, some of which is supported through direct budget support.

CHALLENGES AHEAD

Moving the Ugandan economy beyond recovery will require addressing the binding constraints to further growth. Infrastructure is chief among them. The country must also increase opportunities for secondary and tertiary education while addressing the emerging skills gaps and managing a fast-growing population. Uganda must also secure a lasting peace in the north, where one quarter of the population is beginning the process of reconstruction. These challenges, as well as exogenous shocks, including the current global financial crisis, will test the government's ability to transform Uganda into a middle-income country by 2025.

Based on Uganda's long track record of macroeconomic and fiscal stability, commitment to poverty reduction, and development results to date, IDA continues to support the execution of Uganda's home-grown poverty strategy. IDA's ongoing program supports governance, local government capacity and service delivery, transport, natural resources management, private sector development, financial sector reform, health, education, and water, among others. However, there is scope to enrich and expand IDA's support in key areas which will emerge as vital for sustaining growth and poverty reduction.

To continue to reduce the burden of extreme poverty, Uganda must redress governance.

Although enhancing the quality of governance has been an important part of the develop-

ment agenda in Uganda for the last 15 years, including the pioneering of new approaches to enhance citizen monitoring, there are continuing concerns about corruption and poor governance in Uganda. Results from the 2006 and 2007 Public Expenditure Reviews show that governance challenges exist in key service delivery sectors like health and education. Furthermore, the third National Integrity Survey established that 43 percent of households regard health workers as corrupt, and 51 percent of the people are not aware of the systems and procedures they can use to report these corrupt practices.

Together with other development partners, IDA supports government action in these areas: law enforcement; procurement; public sector pay reform; financial accountability and transparency; coordination of key central ministries and anticorruption agencies; the legal framework; ethical standards; public accountability; and civil society. Significant progress has been made in putting in place appropriate systems like the Integrated Financial Management Information System and laws to ensure independence of the Auditor General. However compliance and enforcement remain a major issue and continue to undermine progress. The prospect of oil revenues in the near future also poses a major challenge to the limited system of accountability and enforcement. The government's renewed call for accountability and results and setting up of new institutions like the Anti Corruption Division of the High Court in March 2009 are encouraging next steps.

Uganda must work hard to meet challenging demographic needs.

At 6.7 live births per woman, Uganda has the third highest fertility rate in the world.

This high population growth is increasing pressure on the delivery of services, the land and the environment through soil degradation. Furthermore, Uganda's youthful population requires enormous resources to meet public provision of services including education and health, and calls for careful policy formulation for the economy to create employment. The workforce will more than double in the next 15 years. The dependency ratio currently stands at 1.12 (1.12 dependents per worker), and is expected to rise to 1.16, compared with 0.84 for Kenya, 0.85 for Tanzania, and 0.87 on average for sub-Saharan Africa. These population dynamics figure prominently in the Bank's analytical and advisory work (including poverty and growth diagnostics). The statistics also inform project design, particularly in planning appropriate investments in human development.

Uganda continues to face huge infrastructure needs, particularly when it comes to roads.

Uganda's roads are adequate in number but of particularly poor quality. Less than a third of national and urban roads are paved. Road access is particularly important as Uganda is landlocked and has only limited access to marine transport: up to 97 per cent of the passenger and freight traffic in Uganda is carried by road.

The energy crisis has dampened economic growth and harmed competitiveness.

Almost half of all firms indicate lack of electricity as a severe constraint to production or service delivery. Although 36 percent of firms either own or share a generator, running a generator is two to four times more expensive

Better roads

Only 3,000 km out of 10,538 km of national roads and roughly 1,000 km out of 4,300 km of urban roads were paved as of June 2009. The Uganda National Roads Authority (UNRA), a government agency, was formed with IDA support in July 2008 to tackle this challenge by overseeing roads planning and management in the country. In its first year of operation, UNRA has concentrated on the import and export transport corridors, as well as the internal road links, to interconnect the country. As of May 2009, UNRA had awarded a number of road development contracts, including over 70 road maintenance contracts. UNRA has also embarked on feasibility studies to design a total of over 1,200 kilometers of new road upgrading projects in various parts of the country.

than obtaining electricity from the public grid for a manufacturing firm. Unreliable power supply has disrupted production, increased costs and affected corporate profitability.

Uganda's generation capacity, since the start of the late 1980's economic recovery program, has been unable to meet the ever-increasing demand, apart from the short period of 2002-2005. The current generation capacity shortfall of about 100 Megawatts is attributed to a combination of factors including the low Lake Victoria water levels, caused both by the recent regional drought as well as water over-abstraction for hydropower generation; and significant delay in power infrastructure development. Currently Uganda only uses 150 Megawatts of the total installed hydropower capacity of 380 Megawatts.

In the short term, IDA is supporting government procurement of additional thermal generation, policies for energy efficiency, financial sustainability of the power sector, and accelerating rural electrification. In the

medium term, with IDA support, the government is pursuing development of a 200-250 MW power plant at Bujagali Falls under a public-private partnership to provide a more viable, long-term solution to its energy crisis. The government is pursuing other renewable energy generation projects which IDA may also be asked to support. In addition, the government recognizes that the integration of Uganda's power sector within the East African Power Pool is necessary to lower costs and increased reliability and efficiency. To this end, the strengthening of Uganda's existing transmission link with Kenya is planned.

Post-conflict development for Northern Uganda.

About one-fourth of the Ugandan population lives in conflict-affected areas in Northern Uganda where violence has lasted more than 20 years and resulted in massive loss of life, maiming, trauma, and large-scale displacement. (By late 2005, more than 1.8 million people were displaced in Northern and Eastern Uganda.) In sharp contrast to the national drop in poverty, Northern Uganda's poverty levels have climbed to over 60 percent. Starting in 2006, peace talks between the government and the rebel Lord's Resistance Army led to optimism and the return of people to their original homes, a process that continued even when official talks broke down. By February 2009, about 62 percent of the IDP population had returned to their villages of origin, while 15 percent lived in so-called transit centers. A substantive effort to shift from humanitarian assistance to more regular rehabilitation and development assistance through national institutions is underway. Implementation of the government's Peace, Recovery and Development Plan (PRDP) for Northern Uganda started fully in Fiscal Year 2009/10.

IDA supports poverty reduction, vulnerability mitigation and community reconciliation efforts in Northern Uganda through a community development fund, the Second Northern Uganda Social Action Fund. The Bank also supports the rehabilitation of local government systems and infrastructure, specifically in the war-affected areas. More generally, the Bank

supports the mainstreaming of the specific challenges in the war-affected areas through its regular IDA sector support, such as in water and sanitation, education, healthcare, energy and transport.

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