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# UGANDA COUNTRY POLICY AND INSTITUTIONAL ASSESSMENT 2013/14 - 2014/15

March 2017

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**UGANDA COUNTRY POLICY AND  
INSTITUTIONAL ASSESSMENT**  
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## LIST OF ACRONYMS / ABBREVIATIONS

<b>ACBF</b>	Africa Capacity Building Foundation	<b>MTDS</b>	Medium Term Debt Strategy
<b>AfDB</b>	African Development Bank	<b>MTEF</b>	Medium Term Expenditure Framework
<b>AIDS</b>	Acquired Immunodeficiency Syndrome	<b>MTFF</b>	Medium Term- Fiscal Framework
<b>ANC</b>	Ante Natal Care	<b>MTIC</b>	Ministry of Trade Industry and Commerce
<b>ASYCUDA</b>	Automated System for Customs Data	<b>MTIC</b>	Ministry of Trade Industry and Cooperative
<b>AU</b>	African Union	<b>NAADS</b>	National Agricultural Extension Services
<b>BMAU</b>	Budget Monitoring and Accountability Unit	<b>NBI</b>	Nile Basin Initiative
<b>BMAU</b>	Budget Monitoring and Accountability Unit	<b>NDP</b>	National Development Plan
<b>BoU</b>	Bank of Uganda	<b>NDP</b>	National Development Plan
<b>CBR</b>	Central Bank Rate	<b>NEMA</b>	National Environmental Management Authority
<b>CEDAW</b>	Convention on Elimination of all forms of Discrimination against Women	<b>NEMA</b>	National Environment Management Authority
<b>CET</b>	Common External Tariff	<b>NER</b>	Net enrolment Ratio
<b>CET</b>	Common External Tariff	<b>NGO</b>	Non-Governmental Organisation
<b>CG</b>	Central Government	<b>NHI</b>	National Health Insurance
<b>CID</b>	Criminal Investigation Department	<b>NPA</b>	National Planning Authority
<b>CMA</b>	Capital Markets Authority	<b>NPL</b>	Non-performing loans
<b>COMESA</b>	Common Market for Eastern and Southern Africa	<b>NSSF</b>	National Social Security Fund
<b>CPIA</b>	Country Policy and Institutional Assessment	<b>NTBs</b>	Non-tariff Barriers
<b>DANIDA</b>	Danish International Development Agency	<b>NWSC</b>	National Water and Sewerage Corporation
<b>DFID</b>	UK-Department for International Development	<b>OAG</b>	Office of the Auditor General
<b>DPP</b>	Directorate of Public Prosecution	<b>OBT</b>	Output Budgeting Tool
<b>DSA</b>	Debt Sustainability Analysis	<b>OPM</b>	Office of the Prime Minister
<b>DWRM</b>	Directorate of Water Resources Management	<b>OSBF</b>	One Stop Border Post
<b>EAC</b>	East African Community	<b>OSBP</b>	One Stop Border Post
<b>EAMU</b>	East African Monetary Union	<b>OSC</b>	One-Stop Centre
<b>EAPS</b>	East African Payment System	<b>OWC</b>	Operation Wealth Creation
<b>ECD</b>	Early Child Development	<b>PAYE</b>	Pay as You Earn
<b>EFA</b>	Education for All	<b>PEAP</b>	Poverty Eradication Action
<b>EMHS</b>	Electronic Management Health System	<b>PPDA</b>	Public Procurement and Disposal Authority
<b>EPRC</b>	Economic Policy Research Centre	<b>PPPs</b>	Public Private Partnerships
<b>E-SW</b>	Electronic Single Window	<b>PRDP</b>	Peace Recovery and Development Plan
<b>FDI</b>	Foreign Direct Investment	<b>PSPS</b>	Public Service Pension Scheme
<b>FDS</b>	Fiscal decentralization Strategy	<b>PTA</b>	Preferential Trade Area
<b>FTA</b>	Free Trade Area	<b>REC</b>	Regional Economic Community
<b>GDP</b>	Gross Domestic Product	<b>REPSS</b>	Regional Payment and Settlement System
<b>GER</b>	Gross Enrolment Rate	<b>REPSS</b>	Regional Payment and Settlement System
<b>GoU</b>	Government of Uganda	<b>RH</b>	Reproductive Health
<b>GVM</b>	Gross Vehicle Mass	<b>SADC</b>	Southern African Development Community
<b>HIPC</b>	High Indebted Poor Countries initiative	<b>SAGE</b>	Social Assistance Grants for Empowerment
<b>HIV</b>	Human Immunodeficiency Virus	<b>SME</b>	Small and Medium Enterprise
<b>HSSIP</b>	Health Sector Strategic Investment Plan	<b>STV</b>	Single Tourist Visa
<b>HSSIP</b>	Health Sector Strategic Investment Plan	<b>TIN</b>	Tax Identification Number
<b>ICGLR</b>	International Conference on the Great Lakes Region	<b>TSA</b>	Treasury Single Account
<b>IDA</b>	International Development Agency	<b>TSA</b>	Treasury Single Account (TSA)

<b>IFMIS</b>	Integrated Financial Management Information System (IFMIS)	<b>UBoS</b>	Uganda Bureau of Statistics
<b>IFTMP</b>	Inflation Targeting Monetary Programme	<b>UDC</b>	Uganda Development Corporation
<b>IGAD</b>	Intergovernmental Authority on Development	<b>UDC</b>	Uganda Development Corporation
<b>IGAD</b>	Intergovernmental Authority on Development	<b>UFZA</b>	Uganda Free Zones Authority
<b>IGG</b>	Inspector General of Government	<b>UIA</b>	Uganda Investment Authority
<b>IPPS</b>	Integrated Payroll and Personnel System	<b>UIRI</b>	Industrial Research Institute
<b>IPT2</b>	Intermittent Presumptive Treatment for malaria	<b>UNATU</b>	Uganda National Teachers' Union
<b>JLOS</b>	Justice Law and Order Sector	<b>UNDP</b>	United Nations Development Programme
<b>KCCA</b>	Kampala City Council Authority	<b>UNEB</b>	Uganda National Examinations Board
<b>KfW</b>	Kreditanstalt für Wiederaufbau	<b>UNHS</b>	Uganda National Household Survey
<b>LoG</b>	Local Government	<b>UNICEF</b>	United Nations Children Emergency Fund
<b>MDA</b>	Ministries Departments and Agencies	<b>UNICEF</b>	United Nations Children's Fund
<b>MDAs</b>	Ministries, Departments and Agencies	<b>UNRA</b>	Uganda National Roads Authority
<b>MDGs</b>	Millennium Development Goals	<b>UPDF</b>	Uganda People's Defence Force
<b>MDRI</b>	Multi-lateral Debt Relief Initiative	<b>UPE</b>	Universal Primary Education;
<b>MFA</b>	Ministry of Foreign Affairs	<b>UPOLET</b>	Universal Post Ordinary Level Education and Training
<b>MMR</b>	Maternal Mortality Rate	<b>URA</b>	Uganda Revenue Authority
<b>MNCH</b>	Maternal, New-born, and Child Health	<b>URSB</b>	Uganda Registration Services Bureau
<b>MoES</b>	Ministry of Education and Sports	<b>USE</b>	Universal Secondary Education
<b>MoFPED</b>	Ministry of Finance Planning and Economic Development	<b>UWA</b>	Uganda Wildlife Authority
<b>MoGLSD</b>	Ministry of Gender, Labour and Social Development	<b>VAT</b>	Value Added Tax
<b>MOH</b>	Ministry of Health	<b>VEMP II</b>	Lake Victoria Environment Management Project Phase II L
<b>MoH</b>	Ministry of Health	<b>VFG</b>	Vulnerability Family Grant
<b>MoLG</b>	Ministry of Local Government	<b>VHTs</b>	Village Health Teams
<b>MoPS</b>	Ministry of Public Services	<b>WHO</b>	World Health Organisation
<b>MoWE</b>	Ministry of Water and Environment	<b>WTO</b>	World Trade Organisation
<b>MPI</b>	Multi-dimensional Poverty Index	<b>YLP</b>	Youth Livelihood Programme
<b>MTBF</b>	Medium term Budget Framework	<b>YLP</b>	Youth Livelihood Program
<b>MTBF</b>	Medium term Budget Framework	<b>YVCF</b>	Youth Venture Capital Fund

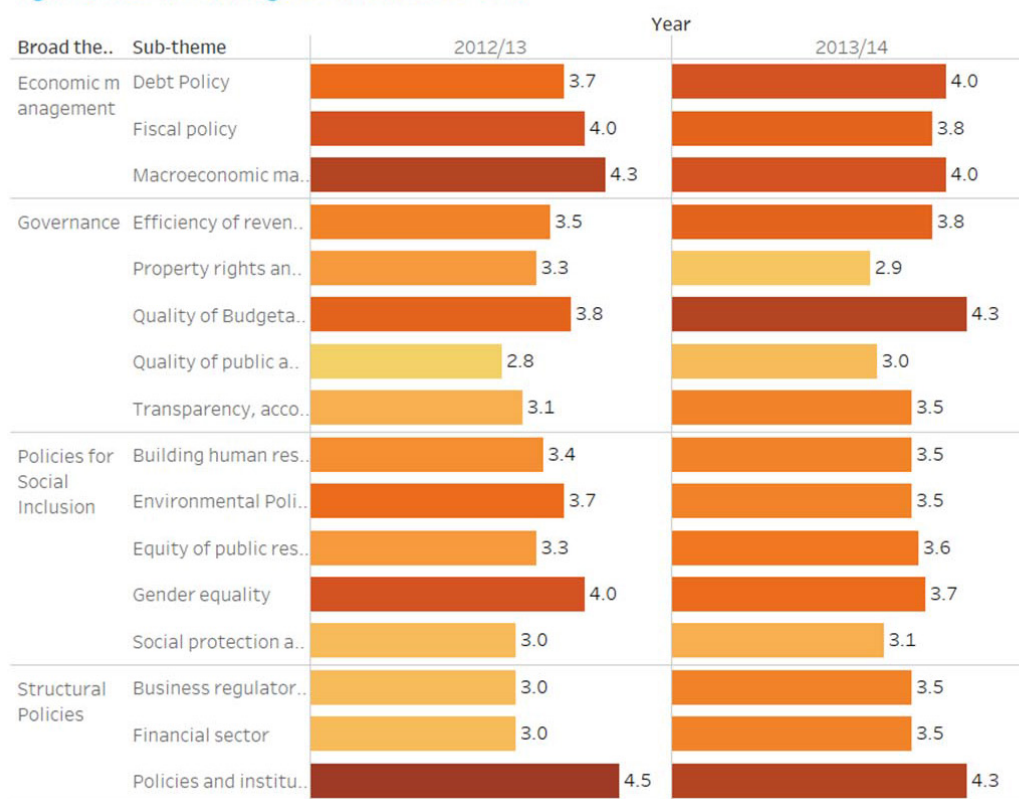
A slash between years indicates an average for the fiscal year period specified e.g. 2014/15 (from July of 2014 to June of 2015). A dash (-) between two periods indicates annualised growth rates between the first and last year indicated.



## EXECUTIVE SUMMARY

The Country Policy and Institutional Assessment (CPIA) evaluates the quality of a country’s present policy and institutional framework. Quality refers to how conducive that framework is to fostering poverty reduction, sustainable growth, and the effective use of development assistance. The CPIA ratings are used in the International Development Aid (IDA) allocation process and several other corporate activities and are consistent with the economic rating of the World Bank and the African Development Bank. This report presents the CPIA rankings for Uganda, as guided by document reviews, with validation and agreement by the key stakeholders. The rankings are based on a number of different criteria, including four major themes divided into various sub-themes that are subdivided into specific economic indicators. The four thematic areas include: Economic Management; Structural Policies; Social Inclusion/Inequality; and Governance focusing on Public Sector Management and Institutions. The summarized CPIA scores by theme and their respective sub-themes are presented in the figure below.

Uganda's CPIA Rankings 2012/13 and 2014-15



Notes: The ratings for the CPIA Criteria are as follows: 1. Very weak for 2 years or more; 2 Weak; 3 Moderately weak; 4 Moderately strong; 5 Strong; and 6 Very strong for 3 years or more. Intermediate ratings such as 1.5, 2.5, 3.5, 4.5 and 5.5 are also considered where applicable.

Source: Authors' compilation based on summary scores, 2016.

**Economic Management:** The assessment shows that Uganda has continued to pursue prudent macroeconomic policies aimed at ensuring macroeconomic stability in both the short and medium terms. This assertion is evidenced by the Central Bank’s efforts to maintain low and stable inflation as well as the government’s prudent fiscal policies. However, there was a slight drop in the overall average score of this thematic area compared to that of the previous review period. This drop is largely due to the government’s increased borrowing from the domestic financial sector, which has been found to crowd out private investment.

**Structural Policies:** There has been a slight improvement in policies and institutions that cater to the business and regulatory environment, regional integration and trade, and the financial sector. On trade and regional cooperation issues, Uganda has continued to focus on the removal of non-tariff barriers and the development of customs trade facilitation within the East African Community framework to promote trade and improve market access. In the financial sector, a number of initiatives have been undertaken to foster financial sector stability and increase financial intermediation and inclusion. The Central Bank has continued to conduct prudent monetary policy and prudent supervision of financial institutions. However, despite the relative stability in the sector, access to formal financial services has remained low, with private sector credit growth slowing down due to the tight monetary policy. With regard to the business regulatory environment, the Public Private Partnership Act was passed in 2015 to support private sector business competitiveness.

**Social Inclusion/Inequality:** Generally, over the last two years, the government has consolidated its focus on policies for social inclusion compared to the previous review period. The focus of the government has remained on promoting gender equality, the equity of public resource use, building human resources and social protection. The government has continued to promote equal access of opportunities to both men and women through Universal Primary Education, Universal Secondary Education, tertiary and vocational training and health care services. In the same framework, the government has increased its focus on social protection through programmes such as the Youth Venture Capital Fund for youth and Social Assistance Grants for Empowerment for the elderly aged 65 years and above. The challenge in this thematic area, however, concerns environmental policies and regulations, where compliance and enforcement remain a major problem. This challenge has resulted in the continued depletion of wetlands and forest cover, contributing to climate change.

**Governance:** Regarding governance indicators, the scores are low especially for laws relating to property rights and laws affecting economic activity. Uganda continues to be ranked poorly in the World Bank's Cost of Doing Business survey. On a more positive note, there are indications that the crime rate has reduced to approximately 43 percent in 12 years, most likely due to increased policing, outreach by the judiciary and reduced rebel activities. There has also been a noticeable improvement in budgeting and financial management in the last two years due to the implementation of recent public finance management reforms that have created fiscal frameworks and fiscal rules that improve the budgeting, allocation and expenditure of public funds. Uganda is highly ranked among African countries with regard to having a credible budgeting system that is linked to a Medium-Term Fiscal Framework with fiscal objective and targets. Other governance indicators such as the quality of the public administration, transparency in accountability and corruption continue to perform poorly.

# 1. COUNTRY SOCIAL AND ECONOMIC CONTEXT

Uganda's annual growth rate averaged at 5.5 percent between 2010/11 and 2014/15, with the highest being 9.7 percent in 2010/11. This rate is below the 7.2 percent target envisaged in the National Development Plan 2010/11-2014/15 (NDP I) and the 8.0 percent per annum projection in the Vision 2040 estimates. However, this average growth rate is within range of growth rates for Nigeria and South Africa at 7.0 percent and 5.3 percent, respectively, over the same period (NPA 2015), despite the differences in economic structures and level of development. Nonetheless, Uganda's average growth rate for this period was below that of other East African Community (EAC) member states (6.7 percent-Tanzania, 6.0 percent-Kenya, and 7.1 percent-Rwanda). Thus, for Uganda to achieve economic transformation and social inclusion with comparable growth rates that are similar to those of either Nigeria or South Africa, it should aim to harness value addition in both manufacturing and agriculture while simultaneously ensuring the sustainable management of its natural resources. Strengthening institutional coordination across Ministries, Departments and Agencies (MDAs), while ensuring that the macroeconomic fundamentals hold (inflation, security and good governance), is one of the avenues that must be emphasized in this agenda.

To ensure macroeconomic stability, the Bank of Uganda (BoU) continues to conduct prudent monetary policy using the Inflation Targeting Monetary Programme (IFTMP) on a monthly basis. For instance, during 2014/15, inflation was kept close to the BoU's core inflation target of 5 percent due to prudent monetary policy, subdued food crop prices resulting from good harvests and lower imported inflation (BoU 2015). In addition, the Central Bank Rate (CBR) was maintained at 11 percent from June 2014 to April 2015, when the BoU raised the rate to 12 percent in anticipation of a rise in core inflation above 5 percent. According to the BoU (2015), the major risks that would lead to inflation were increasing food prices and the pass-through effects of exchange rate depreciation on domestic prices.

Uganda's economy has seen modest transformation from agriculture towards services and industry. Although services contributed over 50 percent to GDP, it employed less than 25 percent of Uganda's workforce. In contrast, agriculture contributed approximately 23 percent to GDP but employed approximately 72 percent of the working population (UBoS 2013). Thus, although agriculture's overall contribution to GDP has been low, it remains a critical sector, especially in regard to employment. Within the services sector, trade is key, and in industry, manufacturing is a key important subsector in Uganda's economic transformation agenda.

There has been good progress in poverty reduction and job creation. Specifically, the number of persons living below the poverty line declined from 62 percent in 1999/00 to 24.5 percent in 2009/10 and to 19.7 percent in 2012/13 (UBoS 2000; 2010; 2013). According to the International Labour Organization (ILO), the jobs created for 15+ years increased from 10.1 million in 2010 to 14.5 million in 2014. However, national-level indicators mask the biases in both poverty and job creation at the regional level and within social groupings (UNDP 2015).

From the above perspective, this country assessment report aims to analyse whether the key interventions and policies undertaken up to 2014/15 have set Uganda on a path of economic and social transformation. Specifically, the Country Policy and Institutional Assessment (CPIA) assesses the quality of Uganda's present policy and institutional framework, where "quality" refers to how conducive that framework is to fostering poverty reduction, sustainable growth, and the effective use of development assistance. This assessment is timely as Uganda embarks on the second NDP 2015/16-2019/20 (NDP II), and hence, this report essentially assesses the NDP I performance as of 2014/15. Thus, the CPIA scores Uganda on four broad themes: (i) Economic Management; (ii) Structural Policies; (iii) Policies for Social Inclusion/Equity; and (iv) Governance-Public Sector Management and Institutions. The specific contents of each of the four criteria are presented in Appendix Box A.1. Throughout this

assessment report, for each criterion, Uganda, similar to other countries, is rated on a scale of 1 (low) to 6 (high). A rating/score of 1 (one) corresponds to a very weak performance, whereas a rating of 6 (six) corresponds to a very strong performance. Intermediate scores of 1.5, 2.5, 3.5, 4.5 and 5.5 are also given. Furthermore, in this consultation, the Economic Policy Research Centre (EPRC) team outlines its preliminary assessments to the key informants from various MDAs. , , Government officials had an opportunity to bring to the table information that is material to the assessment but may have been overlooked. The ratings are thus based on scores that have been agreed upon by both parties using the evidence provided.

The rest of this report is organized in line with the four broad criteria/themes. That is, Section 2 analyses Uganda's economic management, Section 3 discusses the structural policies' performance, Section 4 critiques policies for social inclusion/equity, and Section 5 examines public sector management and institutional performance. Section 6 provides a comparative picture of Uganda' CPIA performance as of 2012/13 and 2014/15, and Section 7 provides the conclusions.

## 2. ECONOMIC MANAGEMENT

This section analyses the three sub-components of economic management: macroeconomic management together with exchange rate policy; fiscal policy; and debt policy. The score within each sub-theme is guided by an analysis of specific indicators (not necessarily related) that, when averaged, contribute to the overall rating of the sub-theme.

### 2.1 Macroeconomic Management

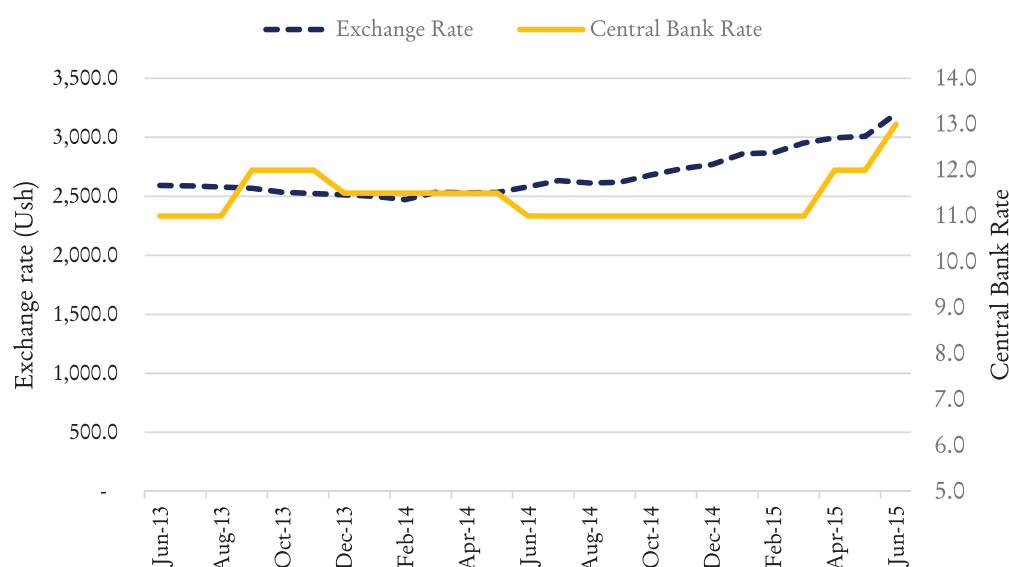
#### Monetary/exchange rate policy with clearly defined price stability objectives – (Score 5.0)

Uganda's primary monetary policy objective has consistently been and continues to be maintaining low and stable inflation at an annual core inflation rate target of 5 percent. The secondary objective is to ensure that real output is as close as possible to the economy's potential output level. Following the adoption of Inflation Targeting Lite in July 2011, the BoU sets the CBR once a month<sup>1</sup> at a level that is consistent with moving core inflation towards the policy target of 5 percent over the medium term. The CBR is publicly announced (e.g., in the press, through major newspapers as the monthly release of monetary policy statement by the BoU), and it clearly signals the monetary policy stance during the month.

With regard to the exchange rate policy, Uganda pursues a flexible exchange rate policy regime and operates liberalized current and capital accounts of the balance of payments (BoP). The exchange rate is thus determined by the market forces of demand and supply. However, the central bank occasionally intervenes to dampen excessive volatility in the foreign exchange market.

During 2014/15, due to a number of factors including a high appreciation of the United States (US) dollar against other major reserve currencies, weak exports performance, less favourable terms of trade, and tight global financial conditions, the exchange rate depreciated against the US dollar from US\$ 2,581 in June 2014 to US\$ 3,120 in June 2015. In an effort to stabilize the currency, the BoU raised the CBR from 11 percent to 13 percent in June 2015 (Figure 1). The raise in the CBR was followed by an increase in commercial bank lending rates.

Figure 1: Movements in the Monthly Exchange Rate and the Central Bank Rate (CBR)



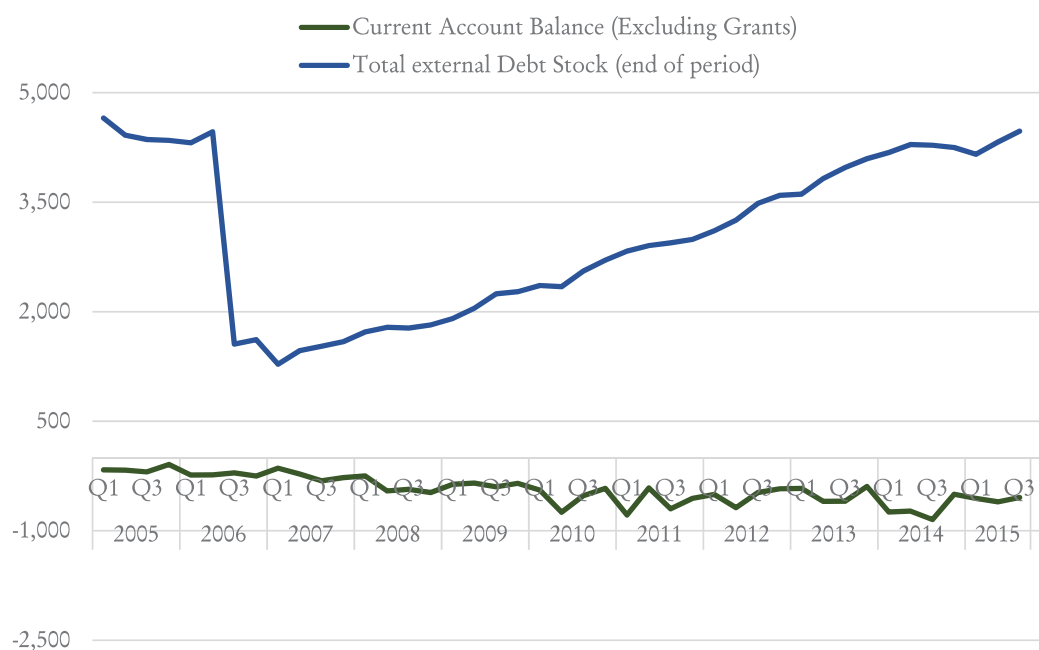
Source: BoU 2015.

1 Source [https://www.bou.or.ug/bou/monetary\\_policy/framework.html](https://www.bou.or.ug/bou/monetary_policy/framework.html).

### Aggregate demand policies that focus on maintaining short- and medium-term external balance (under the current and foreseeable external environment) – (Score 4.0)

The government has continued to pursue prudent monetary and fiscal policies to ensure overall macroeconomic stability. The government continuously relied on domestic revenue mobilization to finance its budget priorities, and any deficit that was warranted was largely funded using aid and other forms of concessional external financing. Uganda carried a large stock of external debt of approximately US\$4,464 million up to 2006. Owing to debt forgiveness through the High Indebted Poor Countries initiative (HIPC) and the Multilateral Debt Relief Initiative (MDRI), Uganda's external debt stock was reduced to manageable levels of approximately US\$1,280 million in 2006/07. However, due to increased government expenditure on infrastructure and social services, Uganda's stock of external debt steadily increased from US\$1.3 billion in 2007 to US\$4.5 billion in 2015 (Figure 2).

Figure 2: Current Account Balance and External Debt Stock (millions of US\$)

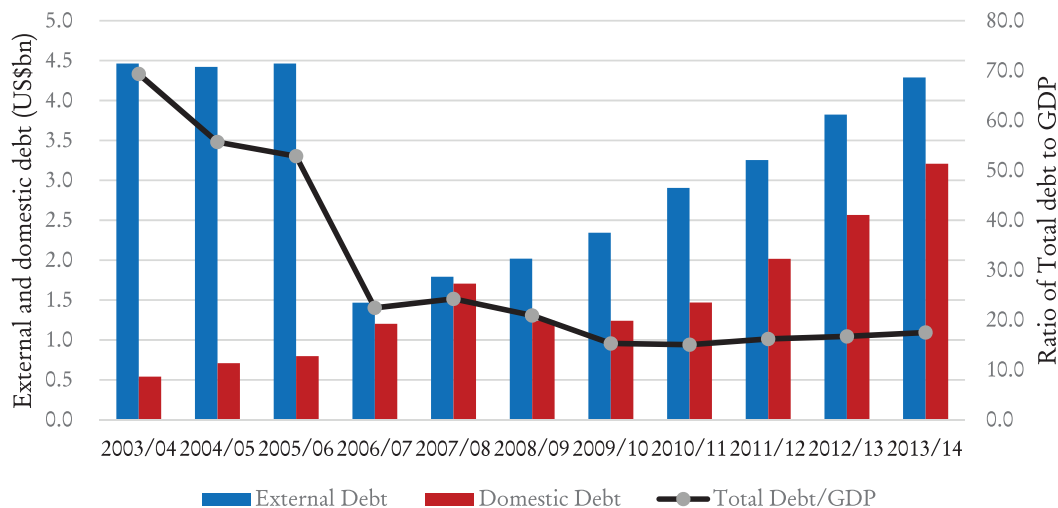


Source: BoU 2015.

### Avoiding crowding out private investment – (Score 3.0)

Since the early 1990s, the government has avoided borrowing from the domestic financial sector to maintain financial stability and to avoid crowding out the private sector. However, the government has recently started to steadily increase domestic borrowing (Figure 3). This increase is largely due to increased government spending on both recurrent and development activities. The increased recurrent expenditures are due to the government's decentralization policy, which has seen an increase in the number of districts (increasing the public administration bill) and increased spending on social sectors such as education following the implementation of Universal Primary Education (UPE) and Universal Secondary Education (USE) (Lwanga and Mawejje 2014). The increase in development expenditure has been due to increased spending on infrastructure, i.e., roads and electricity. In addition, the government has resorted to domestic borrowing due to the suspension of aid to Uganda by a number of development partners, citing corruption and political mismanagement. The evidence has shown that increased domestic borrowing by government crowds out private sector borrowing and investment through its effects on interest rates, in addition to widening the current account deficit (Ibid).

Figure 3: Uganda's trends in public debt stock



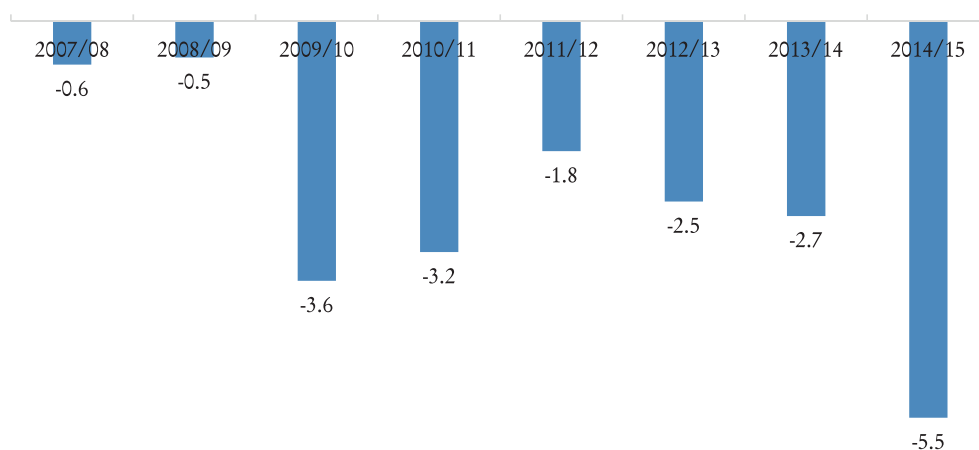
Source: MoFPED 2015.

## 2.2 Fiscal Policy

### Extent to which the primary balance is managed to ensure the sustainability of public finances – (Score 3.5)

Uganda's primary balance has continued to widen in the last five years from -1.8 percent in 2011/12 to -5.5 percent of GDP in 2014/15. This change is attributed to increased expenditure on infrastructure (both roads and energy) and the reduced inflow of foreign aid following donors' suspension of aid in 2012, as noted above. The widening of the fiscal deficit has consequences in terms of domestic interest rates, current account deficits and debt servicing (Lwanga and Maweje 2014).

Figure 4: Uganda's Primary Balance (% GDP)



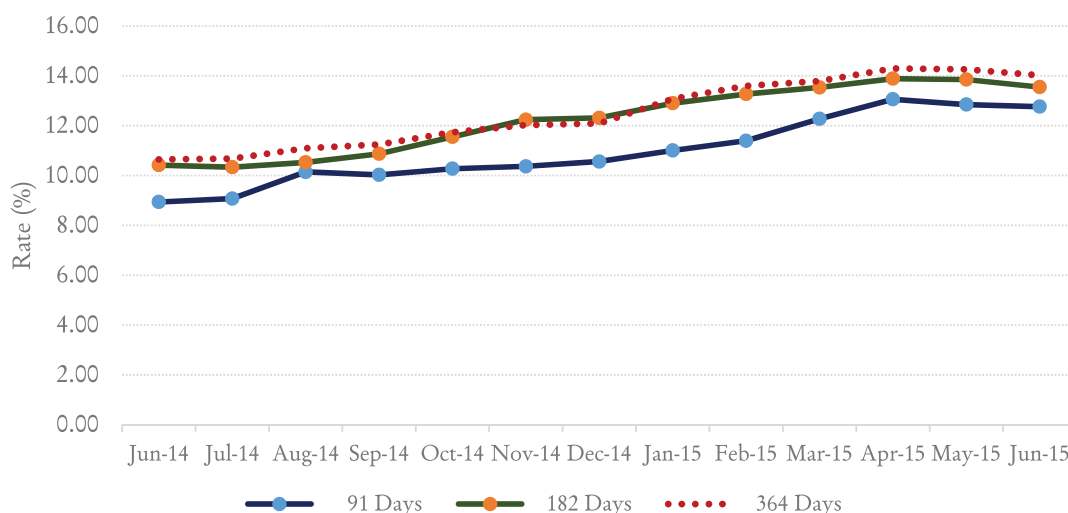
Source: MoFPED 2015b.

### Extent to which public expenditure/revenue can be adjusted to absorb shocks – (Score 4.0)

Following the depreciation of the shilling against major currencies and poor revenue collection in the second quarter of 2015, the Ministry of Finance Planning and Economic Development (MoFPED) cut spending with respect to the approved budget, aiming to maintain price stability and policy credibility by limiting fiscal expansion. The increase in interest rates resulted in higher domestic financing costs (Figure 5). The budget cuts were in the

lowest priority sectors. In addition to budget cuts, the government avoided using temporary advances from the BoU to cover shocks arising from revenue shortfalls. In addition, the BoU accumulated foreign exchange reserves equivalent to 3-4 months of future imports of goods and non-factor services to cater for shocks.

Figure 5: Treasury Bills (Monthly Average Discount Factor) (% , per annum)

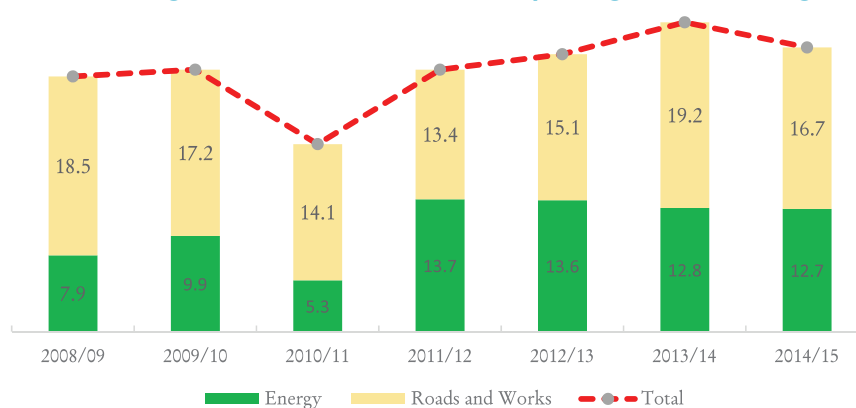


Source: BoU 2015.

**Extent to which the provision of public goods, especially infrastructure, is consistent with medium-term growth – (Score 4.0)**

Uganda intends to expand GDP growth to 7 percent by 2020, and spending on infrastructure is key to attaining this particular macro target (NPA 2015). This is partly due to the need to undertake large investment outlays to address the large infrastructure gaps relating to an inadequate electricity supply and an inadequate road network. Furthermore, the rail network functions at very low capacity. Therefore, over the past two years, the national budget has maintained its emphasis on providing infrastructure, especially roads and energy. From Figure 6, the share of the road and energy sectors in the national budget has been maintained at more than 29 percent in 2014/15 due to the prioritization of overall infrastructure development. Furthermore, domestic development expenditures as a share of GDP increased from 8.0 percent in 2013/14 to 11.3 percent by 2014/15. As a result, the overall fiscal deficit increased from 3.9 to 4.5 percent of GDP in 2013/14 and 2014/15, respectively, partly due to higher investment spending on infrastructure.

Figure 6: Trends in budget allocation to infrastructure spending (% of total budget Expenditure)



Source: MoFPED 2015.



Such expenditure has resulted in an increase in electricity generation capacity from 595 MW in 2011 to 851 MW in 2014. There are a number of other on-going large-scale power projects—notably the Karuma and Isimba hydro-power dam construction. It is projected that electricity production will rise to 2,500 MW by 2020. Apart from energy, road infrastructure has improved. The cumulative stock of the paved road network increased from 3,050 km in 2010/11 to over 4,000 km in 2014/15. Specific to the Kampala capital city, at least 1,207 km of roads were either constructed or rehabilitated between 2011 and 2015. Overall, public spending on infrastructure investments is set to continue rising and is consistent with the medium-term aspirations.

### 2.3. Debt Policy

#### **Extent to which debt management strategy aims to minimize budgetary risks and ensure long-term sustainability – (Score 4.0)**

For the past two and half decades, Uganda has established Public Debt Management Frameworks that provide the overall policy, legal and institutional framework within which debt is incurred, used and managed. Uganda's Public Debt Policy, which is part of the overall macroeconomic management framework, aims to i) meet the government's financing requirements at the minimum cost, subject to a prudent degree of risk; ii) ensure that the level of public debt remains sustainable, over the medium- and long-term horizon while being mindful of future generations; and iii) promote the development of domestic financial markets (MoFPED 2013).

Indeed, Uganda's "total" Debt Policy Framework is consistent with the EAC's macroeconomic convergence criteria of not more than 50 percent of GDP, as defined in the East African Monetary Union (EAMU) Protocol. Hence, in accordance with Public Debt Management Frameworks, the MoFPED has established a Medium-Term Debt Strategy (MTDS) for managing public debt. The strategy provides a financing framework to meet the medium-term fiscal financing requirements that should minimize debt servicing, budgetary costs and risk exposures (MoFPED 2013).

#### **Extent to which external and domestic debts are contracted focusing on achieving/maintaining debt sustainability – (Score 4)**

Table 1, shows the cost and risk indicators for Uganda's existing debt as at the end of June 2014. The risk indicators include the amount of debt, the ratio of nominal debt to GDP, the present value (PV) of debt to GDP, the cost of debt, the refinancing risk, the interest rate risk and the foreign exchange risk. In the recent past, public debt has increased faster compared to past trends from US\$6.4 billion at the end June 2013 to US\$7.5 billion as at the end of June 2014, of which US\$4.3 billion (57 percent) was external and US\$3.2 billion (43 percent) was domestic. The results of the December 2014 Debt Sustainability Analysis (DSA) confirm that Uganda's public debt is still highly sustainable, with the concessional component accounting for the largest share of external debt. This situation contributes to the current Weighted Average Interest Rate (WAIR) of the entire debt portfolio of 5.2 percent, which is relatively low compared to the current yield of 17.5 percent for the 15-year bond, the longest bond in Uganda's portfolio. However, it is also worth noting that the current global economic performance, which is characterized by weak economic performance in developed economies, a slowdown in emerging economies such as China, and low commodity prices, has a bearing on Uganda's economic performance. The increased investment in infrastructure has partly been encouraged by expected revenue from future oil production. However, the recent drop in international oil prices has obliged Uganda to reassess its development strategy.

Table 1: Cost &amp; Risk Indicators for Existing Debt as of the end of June 2014

Risk Indicators		External Debt	Domestic Debt	Total Debt
Amount (in millions of USD)		4,300.00	3,234.00	7,534.10
Nominal Debt as % GDP		16.3	12.3	28.6
PV as % of GDP		8.5	12.3	20.8
Cost of Debt	Weighted Av, IR (%)	1	12.3	5.9
Refinancing Risk	ATM (years)	18.9	2.3	11.8
	Debt maturing in 1 yr (% of total)	3.3	49.5	23.2
Interest Rate Risk	ATR (years)	18.9	2.3	11.8
	Debt refixing in 1 yr (% of total)	3.3	49.5	23.2
	Fixed rate debt (% of total)	100	100	100
FX risk	FX debt (% of total debt)			57.1
	ST FX debt (% of reserves)			4.6

Note: FX=Foreign Debt; DX=Domestic Debt

Source: MoFPED 2015b.

### Degree of co-ordination between debt management and other macroeconomic policies – (Score 4)

Uganda has an established legal and institutional framework for managing the different types of public debt (both domestic and external). The PFM Act of 2015 clearly illustrates the procedures for contracting and managing public debt. The Act provides for the formulation of an MTDS, which provides a financing framework that meets the government's medium-term fiscal financing requirements and minimizes debt servicing budgetary costs and risk exposures, thereby maintaining debt sustainability. The strategy is primarily focused on determining the appropriate overall composition of the entire debt portfolio over the medium term, considering macroeconomic indicators and the market environment. The strategy is thus reviewed on an annual basis, in line with the MTEF, to provide insights and clear guidance on the risk and cost trade-offs that can be accommodated, consistent with the long-term debt management framework (MoFPED 2015).

Uganda is credited for its prudent management of the fiscal, monetary and external debt policies undertaken by the BoU and the MoFPED, which have ensured that the overall debt position remains within sustainable levels. Despite having a clear policy of debt management and coordination, there are challenges regarding implementation and efficiency in the delivery of public infrastructure projects. Absorptive capacity constraints and the limited capacity of public officials to adequately manage critical project elements are a few of the many challenges faced by infrastructure project implementation in Uganda. These challenges lead to high costs overruns.

### 3. STRUCTURAL POLICIES

This section highlights progress in the structural policies and interventions undertaken in the sub-themes of trade, the financial sector, and the business regulatory environment. Arguments are made within each sub-theme indicator on the extent to which the policies and interventions undertaken in the review period have fostered development. It is against such evidence provided that a score is given.

#### 3.1 Policies and Institutions for Economic Cooperation, Regional Integration and Trade

**Policies and institutions for economic cooperation and regional integration: Extent to which a country supports regional organizations in which it is a member and its commitment to economic cooperation and regional integration initiatives – (Score 4.5)**

The major regional cooperation frameworks to which Uganda is fully committed include the EAC; the Common Market for Eastern and Southern Africa (COMESA); the Intergovernmental Authority on Development (IGAD); the African Union (AU); and the International Conference on the Great Lakes Region (ICGLR). In efforts to ensure the smooth implementation of the EAC Common Market, Uganda has established a Regional Integration Centre (RIC) at the border in Busia to promote information sharing on all EAC developments. With the aim of easing the movement of Ugandans across EAC member states, in April 2014, the government started to register and issue National Identity Cards.

In regard to the EAMU, the EAC partner states intend to be using a common currency by 2024, and henceforth, in 2014, all members had ratified the EAMU Protocol. Efforts to promote capital mobility across EAC partner states saw the central banks in Uganda, Kenya and Tanzania adopt the East African Payment System (EAPS) in November 2013. In summary, the EAC has continued to deepen market integration, progressing from the ratification of the Customs Union Protocol, the Common Market Protocol, and the EAMU Protocol.

The Ministry of Trade Industry and Cooperatives (MTIC) launched the Buy Uganda Build Uganda (BUBU) Policy in 2014 to provide affirmative action to local suppliers to benefit from government procurement. The bill on the revitalization of the Uganda Development Corporation (UDC), an important pillar for the industrialization of the country, was also passed by Cabinet in 2014. The Micro-, Small-, and Medium-Scale Enterprise (MSME) Policy was passed in September 2015 to provide a policy framework for improving the enterprise environment in Uganda. The bills for the following sub-sector policies are before Cabinet: the Competition and Consumer Protection Policy, the Accreditation Policy, Cooperatives Societies Amendment Bill, and the Cooperatives Bank. The following are before Parliament: the Trade License Amendment Bill and the Anti-Counterfeit Bill. The bills on the following policies are at an advanced stage of finalization: Grains and Cereals, Sugar, Packaged Water, Leather, Iron and Steel, Electronic Single Window, Industrial Metrology, Trade in Services, Domestication of World Trade Organization (WTO) Implementation, Domestication of the COMESA Treaty, Cooperatives College and Intellectual Property Rights.

The EAC launched the Electronic Single Window in Nairobi on 2 May 2014 as a trade facilitation initiative to enhance efficiency and to lower the cost of doing business within the region. The Electronic Single Window System is a centralized mechanism for tracking goods, customs clearance, and electronic payment, including through mobile money. Under the Northern Corridor coalition of the willing (Uganda, Rwanda, Kenya and South Sudan), the focus has been on developing infrastructure, eliminating Non-Trade Barriers (NTBs), and strengthening the Regional Commodities Exchange.

In 2014, Uganda hosted a high-level conference on resource mobilization for infrastructure development, mobilized funding through the PTA Bank for projects worth US\$ 6.6 billion, and developed a COMESA Regional MSME

Strategy, which led to the creation of a US\$ 5 million SME seed fund to be piloted in 5 member states. Uganda joined the COMESA Free Trade Area (FTA), effective from 1 July 2014 (MTIC 2014). As a result, the government has secured funding worth Euro 3.2 million for three years from the COMESA Adjustment Facility to implement regional integration programmes (MTIC 2014). This funding is facilitating, among others, the establishment of two border markets and two trade information offices at Mutukula and Lwakhakha and the implementation of regional commitments on: standards, competition policy, the Common Investment agreement and transport facilitation tools such as the regional third-party insurance scheme commonly known as the Yellow Card.

The government is engaged in negotiations for the EAC-COMESA-SADC Tripartite Free Trade Area to remove some of the inconsistencies and costs in regional integration raised by overlapping memberships. The Tripartite FTA accounts for half (27) of the membership in the AU, with a Gross Domestic Product of US\$1.3trillion, a population of 565 million and a combined landmass of 17 million square kilometres (MTIC 2014). Following the Tripartite negotiations, partner states launched the Tripartite FTA in December 2014 in Cairo, encompassing three RECs: the EAC, the COMESA and the SADC. Uganda, Kenya and Rwanda combined their efforts in 2014 to introduce and implement the Single Tourist Visa (STV). Doing so was directed at boosting the tourism sector in the EAC so that East Africa becomes “a Single Tourist Area”.

#### **Assessment of trade regime restrictiveness focusing on the height of tariffs barriers, the extent to which non-tariff barriers (NTBs) are used and the transparency and predictability of the trade regime – (Score 4.5)**

In 2014/15, some improvements were made in the implementation of the first pillar of the EAC integration process, the Customs Union, which was launched in 2005. Trade between partner states is now free from import duties. Although NTBs continue to affect trade effectiveness, a number of measures have contributed to a significant reduction in trade costs. By removing road blocks, weighbridges, various administrative procedures and multiple bonds, the total number of days it takes for a container to move from Mombasa to Kampala has decreased from 18 to a maximum of 4 and from Mombasa to Kigali from 22 to a maximum of 7.

A Common External Tariff (CET) has also been introduced so that all goods entering the EAC are charged the same duty rate across member states. However, overlapping membership in different Regional Economic Committees (RECs), e.g., the EAC and the COMESA, currently distorts CET implementation. To further reduce trade costs, implementation of One-Stop Border Posts (OSBPs) is underway, and Integrated Border Management (IBM) is being strengthened. Four OSBPs are to be constructed at the borders of Busia (Uganda/Kenya), Mutukula (Uganda/Tanzania), Mirama Hills (Uganda/Rwanda) and Elegu (Uganda/South Sudan) under the East African Trade and Transport Facilitation Project (EATTFP). This measure should significantly reduce time costs since traders and tourists will be able to clear all formalities at only one stop on either side of the Ugandan border. To complement these measures, the government plans to introduce a one-stop electronic trade clearance system.

Uganda and some other COMESA countries (e.g., Malawi, Rwanda, Swaziland and Mauritius) have adopted a Regional Payment and Settlement System (REPSS). This is a Multilateral Netting System with end-of-day settlement in a single currency, which enables importers and exporters to pay and receive payment for goods and services cost-effectively. In the same vein, the regional assembly has recently passed the “Elimination of Non-Tariff Barriers Bill, 2015”, which seeks to deepen integration among its five member countries by promoting the free movement of goods. Accordingly, partner states are to eliminate NTBs on intra-EAC trade in accordance with the provisions of Articles 2 (4) and Articles 6, 7 and 13 of the Protocol on the Establishment of the EAC Customs Union and Article 5 of the Protocol on the Establishment of the EAC Common Market. The latter governs the proceedings for the reporting, monitoring and elimination of NTBs. In addition to barring EAC members from imposing any new NTBs, the new law seeks to establish a mechanism for identifying and monitoring the removal

of NTBs within the partner states.

According to the EAC (2014) Report on the status of the elimination of NTBs within the EAC region, 78 NTBs were reported as having been resolved, whereas 18 were reported as having been unresolved. In July 2014, Uganda commissioned the NTB Reporting System. For Uganda, some of the unresolved NTBs include: the lack of coordination among the numerous institutions involved in testing goods; the selective auctioning of Ugandan goods at Mombasa; and the scanning of Ugandan goods by an anti-counterfeit agency at Mombasa.

With support from TradeMark East Africa Ltd, the MTIC has established a national committee on the elimination of NTBs and the creation of a dedicated unit at the Ministry. The government has continued to eliminate NTBs to facilitate the smooth flow of trade. Through this initiative, to date, the following has been achieved:

- Cash bonds on Uganda-destined goods, mainly on high-value products such as cars, electrical products and sugar by the Republic of Kenya, were removed. Uganda and Kenya harmonized axle load control measures on weighbridges by implementing a Gross Vehicle Mass (GVM) of up to 52 tonnes, depending on vehicle configuration, and removed the unnecessary checkpoints and weighbridges along the Northern Corridor.
- The Kenyan government removed requirements for physical inspection, transit permits, the payment of transit fees, and 11 possessions of import permits from countries of destination by Ugandan exporters of hides and skins.
- The 16 percent VAT on services (port charges) for all goods cleared for transit into Uganda has been removed since there was no mechanism for claiming the VAT by Ugandan-registered clearing firms.
- The Uganda Revenue Authority (URA) established an Electronic Cargo Tracking System. It aims to eliminate delays and costs related to escorting transit cargo to the borders and to avoid the short landing of cargo.
- Uganda and Rwanda signed a bilateral agreement on the removal of NTBs and constituted a monitoring committee on the elimination of NTBs between the two countries.

### **Assessment of customs and trade facilitation, including the extent to which the customs service is free of corruption, relies on risk management, processes duty collections and refunds promptly, and operates transparently – (Score 4.0)**

In 2014, Uganda implemented the Automated System for Customs Data (ASYCUDA). This system is geared towards facilitating trade efficiency and competitiveness by substantially reducing the transaction time and costs and by helping to fight corruption by enhancing the transparency of transactions (EAC 2014). EAC countries have implemented the aforementioned OSBP, which has had a great impact on boosting trade facilitation across borders (MoFPED 2015). It now takes on average 20 to 30 minutes to clear consignments compared to the three hours that was the case prior to OSBP implementation.

## **3.2 Financial Sector**

### **Financial stability – (Score 4.0)**

The banking system remained sound and well placed to support the growth of the economy. During 2014/15, notable growth was registered in the balance sheets of banks. Their total assets grew by 16.1 percent from 18.6 trillion in June 2014 to 21.6 trillion in June 2015 (BoU 2015). This growth was mainly driven by lending, which grew by 12.4 percent, supported by a pick-up in real economic activity during first quarter of 2014/15. The banks' asset quality also improved, with the ratio of nonperforming loans (NPL) to total gross loans falling from 5.8 percent in June 2014 to 4.3 percent in March 2015. The banking system also remained well capitalized, with all banks meeting the regulatory capital adequacy requirements.

Core capital/risk weighted assets and total qualifying capital/risk weighted assets stood at 20.8 percent and 23.2 percent, respectively, well above the minimum requirements of 8 percent and 12 percent, respectively. Paid-up capital, which is the primary form of capital, stood at US\$ 1.3 trillion as at the end of March 2015. The BoU revoked the license of Global Trust Bank Ltd. as a financial institution and ordered the winding up of its affairs, reducing the number of commercial banks to 25. With regard to the legal framework, the process involved the amendment of the Financial Institutions Act 2004 to provide for Islamic banking, agent banking, to provide for special access to the Credit Reference Bureau by other accredited credit providers and service providers, and to reform the Deposit Protection Fund.

### The financial sector's efficiency, depth, and resource mobilization – (Score 3.5)

During 2014/15, private sector credit continued to grow in comparison to the previous two financial years. Total credit to the private sector increased by 13 percent from US\$ 9.1 trillion at the end of June 2014 to US\$ 10.3 trillion at the end of March 2015. The sustained increase in private sector credit growth vis-à-vis a decline in non-performing assets is an indication of the improved credit worthiness of borrowers and is expected to boost private sector investment. The quality of loan assets has also improved, with the ratio of non-performing loans to total loans decreasing from 5.8 percent in June 2014 to 4.2 in March 2015. The ratio of lending to deposits increased over 2014/15, from 73.0 percent in June 2014 to 81.1 percent in March 2015, despite sustained deposit growth. In 2014/15, the building, mortgage, construction and real estate sector and the trade sector continued to receive the largest shares of private sector credit, at 22.9 percent and 18.9 percent of the total, respectively, as of March 2015. Personal and household loans, which were the fastest growing components of private sector credit in 2013/14, registered an average annual growth of 17.2 percent in the current financial year, down from 33.6 percent previously. The relative tightening in the sector is evidenced by slow growth in the stock of credit to the sector, recorded at 7.7 percent for the 12 months to March 2015 (MoFPED 2015).

### Access to financial services (financial inclusion) – (Score 3.0)

Uganda still has low levels of financial inclusion, especially with regard to formal financial institutions. The evidence shows that only 20 percent of the adult population have accounts with formal banking institutions, nearly 34 percent use the non-bank formal/semiformal institutions, 31 percent are using informal institutions and an estimated 2.6 million or 15 percent are financially excluded (EPRC 2013). Regardless of the low figures of financial inclusion through formal financial institutions, there is evidence of significant growth in mobile money services since 2013 (BoU 2015). For example, between 2014 and 2015, the use of mobile money in terms of volume, value of transactions, and the number of registered users has continued to grow (Table 3).

Table 3: Mobile money performance in 2014/15

Indicator	Jun-14	Jun-15	% Change
Transactions (millions)	445.7	566.4	27.1
Value of transactions (US\$ trillions)	22.2	26.5	19.3
Registered customers (millions)	17.6	19.5	10.5
Number of agents (000s)	64	96.5	50.8

Source: BoU 2015.

Despite the expansion of mobile money services, the borrowing and saving rate through this channel remains very low. Mobile money continues to be used largely for cash transfer and money remittances. To deepen financial inclusion in Uganda, the BoU has embarked on promoting financial inclusion activities through the Financial Inclusion Project. The project focuses on four pillars, namely, (i) improving financial literacy, (ii) consumer protection, (iii) financial innovation (including through mobile money and agency banking), and (iv) financial

services data and measurement, which have previously been viewed as barriers to financial inclusion (Bank of Uganda 2013).

### 3.3 Business Regulatory Environment

#### Regulations affecting entry, exit and competition – (Score 4.0)

The registration and formalization of businesses are guided by the Business Names Registration Act 1918 Cap 109. Uganda's business and regulatory environment is cited as one of the major challenges constraining private investment and growth. Most enterprises in Uganda are in the informal sector due to the high costs of formalization (MTIC 2014). The 2015 World Bank Doing Business (DB) Report reveals that the ease of doing business in Uganda has worsened. In particular, Uganda was ranked 137<sup>th</sup> out of 185, 132<sup>nd</sup> out of 189 and 150<sup>th</sup> out of 189 countries surveyed in the DB in 2013, 2014 and 2015, respectively (World Bank 2015).

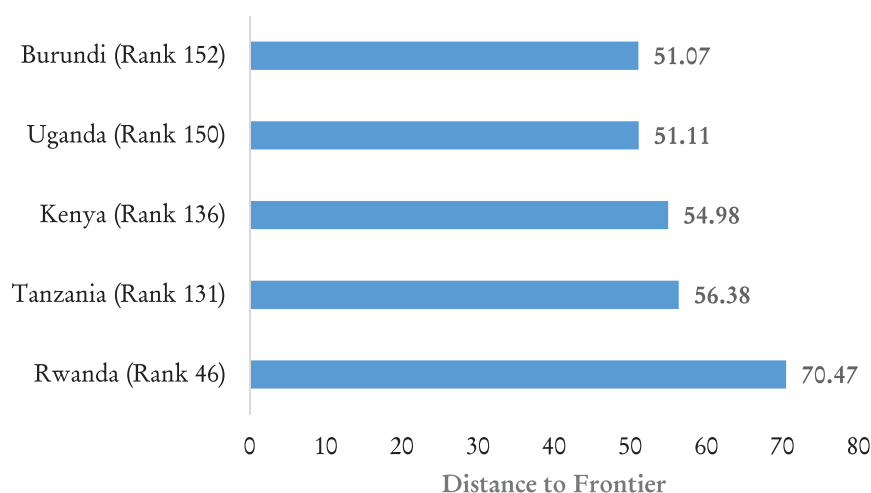
Typically, domestically owned firms encounter more formal barriers of entry to the market compared to foreign-owned firms. The cost of starting a business (as a percentage of income per capita) and the number of days required to do so increased in 2015 compared to 2013 and 2014. Uganda's rank deteriorated from 50<sup>th</sup> in 2013 to 151<sup>st</sup> in 2014 and 166<sup>th</sup> in 2015 (World Bank 2015).

On resolving insolvency (exit), Uganda's ranking improved significantly from 157<sup>th</sup> in 2013 to 79<sup>th</sup> in 2014 but declined to 98<sup>th</sup> in 2015. Uganda strengthened its insolvency process by consolidating all provisions related to corporate insolvency in one law, establishing provisions on the administration/reorganization of companies, clarifying standards on the professional qualifications of insolvency practitioners, and introducing provisions that allow the avoidance of undervalued transactions. There is no specific development regarding regulations relating to competition.

#### Regulations of ongoing business operations – (Score 3.0)

Comparatively, Uganda performs relatively below expectations compared to its peers in the score for regulations of ongoing business operations. That is, in the EAC, the global rankings places Uganda in the fourth position in the doing business environment (Figure 7). Considering the indicator on the number of procedures required to start a business, the World Bank DB Report (2015) reveals that although Uganda reduced the number of procedures for starting a business from 18 in 2010 to 15 in 2013, the current pace of reform continues to be exceptionally slow and the number of procedures remains the highest in East Africa. The number of procedures required also stands in stark contrast to Uganda's neighbour, Rwanda, which has only two procedures. Although it takes approximately two days to complete the process of registering a business in Rwanda, this process takes approximately 32 days in Uganda. These bureaucratic procedures contribute to the high levels of business informality that are apparent in Uganda. Investors (both local and international) are tied up in red tape and end up losing entrepreneurial morale.

Figure 7: Cross East Africa country comparison in Doing Business, 2015



Source: World Bank 2015.

Uganda ranked 131<sup>st</sup> out of 189 countries in the world in the access to credit indicator, down from 42<sup>nd</sup> in 2014, and it scored zero (0 out of 8) on the depth of credit information and credit registry coverage in 2015. This shows the rigidity in credit markets as potential entrepreneurs do not have enough available information on which credit schemes they can access. In 2015, Uganda ranked 104<sup>th</sup> in the world in paying taxes, down from 98<sup>th</sup> in 2014 (World Bank 2015). In addition, a drop in the rankings was registered in resolving insolvency, from 79<sup>th</sup> to 98<sup>th</sup> (Ibid). The recently introduced customs e-payment system has reduced the transaction costs for tax payments.

Globally, Uganda stands at 104<sup>th</sup> in the ranking of 189 economies in the ease of paying taxes. On average, firms make 31 tax payments a year, spend 209 hours a year filing, preparing and paying taxes and pay 36.5 percent of their profit in taxes. The ranking in 2014 was partly driven by Uganda's simplified registration for a tax identification number (TIN) and value added tax through the introduction of an online system. Although the government under the Uganda Registration Services Bureau (URSB) and Uganda Investment Authority (UIA) is deepening reforms to create a one-stop centre for registration services, challenges remain. The URSB reduced the number of stamps required to register a company from 65 to 30, with the ultimate target being only five stamps. In addition, payments for Kampala Capital City Authority (KCCA) services are now made online or by using mobile money, which has helped ease business operations in the country.

However, Uganda's overall performance on most of the DB indicators continued to deteriorate in 2015 (Table 3). Businesses continue to face a plethora of licenses/permissions, and this aspect remains one of the worst performing areas in the Doing Business indicators (Uganda's DB rank for addressing construction permits declined from 143<sup>rd</sup> to 163<sup>rd</sup> (World Bank 2015), one of the highest the world). In addition, its rank in the DB 2015 indicator on protecting investors improved from 115<sup>th</sup> to 110<sup>th</sup>. This improvement is attributed to the Investment Code Act cap 92 of 1991 and revised/amended in 2013, which favours Foreign Direct Investment (FDI).



Table 4: Indicators of Uganda's business regulatory environment by ranking, 2007-2015

Indicator rank	2007	2008	2009	2010	2011	2012	2013	2014	2015
Starting a business	107	114	129	129	137	143	50	151	166
Acquiring construction permits	110	81	81	84	133	109	183	143	163
Obtaining electricity						129	166	178	184
Registering property	166	163	167	149	150	127	149	126	125
Obtaining credit	159	158	109	113	46	48	23	42	131
Protecting minority investors	60	122	126	132	132	133	117	115	110
Paying taxes	43	55	70	66	62	93	165	98	104
Trading across borders	160	141	145	145	148	158	145	164	161
Enforcing contracts	71	119	117	116	113	116	42	117	80
Resolving insolvency	44	48	51	53	56	63	157	79	98
Total	175	178	181	183	183	183	185	189	189

## Notes

	Reform making it easier to do business
	Change making it more difficult to do business

Source: Authors' compilation from various Doing Business Reports, World Bank

To provide a conducive environment for doing business in Uganda, the GoU has undertaken the following reforms:

- Creation of a One-Stop Centre (OSC) for business registration and licensing at the Uganda Investment Authority. Establishment of the Uganda Free Zones Authority: The Uganda Free Zones Authority (UFZA) is a corporate body, established by the Free Zones Act, 2014 (Act No. 5 of 2014), to ensure efficiency and ease of doing business in the Free Zones.
- ASYCUDA: Uganda made trading across borders easier by implementing the ASYCUDA world electronic system for the submission of exports.

### Regulations of factor markets (labour and land) – (Score 3.5)

The World Bank (2015) DB report shows that Uganda's cost of registering property improved. Specifically, the global rank initially deteriorated (from 127<sup>th</sup> in 2012 to 147<sup>th</sup> in 2013) but improved in 2014 and 2015 (from 126<sup>th</sup> to 125<sup>th</sup>). The Government of Uganda (GoU) passed the National Land Policy in 2014 to provide a framework for articulating the role of land in national development, land ownership, and the distribution, utilization, alienability, management and control of land. The policy is still contentious in implementation and enforcement. Specifically, inheritance laws on land for married couples and those in polygamous arrangements remain unresolved.

With regard to labour regulations, a minimum wage board was instituted in August 2013 and is currently reviewing the possibility/feasibility of instituting minimum wages and the form that they should take. To facilitate the movement of labour across borders, in 2013, Uganda and Kenya concluded a bilateral agreement to waive the work permit fees to allow the free movement of labour between the countries. Uganda also launched the National Action Plan (2012/2013-2016/2017) to eliminate the worst forms of child labour.

Through the Ministry of Foreign Affairs (MFA), Uganda promoted regional operations and engagement in the

fight against human trafficking. During 2013, Uganda participated in two regional joint operations related to combating human trafficking. In July 2013, through the coordination of Interpol-Kampala, Uganda participated in the “usalama operation”, a regional operation against human and drug trafficking as well as motor vehicle theft. In December 2013, Uganda hosted Criminal Investigation Department (CID) officers of East African states to discuss the progress and challenges in combating drug and human trafficking.

## 4. POLICIES FOR SOCIAL INCLUSION/EQUITY

This section examines and scores policies for social inclusion/equity in five key dimensions: (i) Gender Equality, (ii) Equity of Public Resource Use, (iii) Building Human Resources, (iv) Social Protection and Labour, and (v) Policies and Institutions for Environmental Sustainability. More succinctly, we assess the extent to which Uganda has enacted and established institutions and programmes to enforce laws and policies that promote gender equality; assess the extent to which the patterns of public expenditures and revenue collection affect the poor; assess the national policies and public and private sector service delivery that affect access to and the quality of health and education-related services; assess social protection (SP) and labour policies; and analyse the extent to which environmental policies and institutions foster the protection and sustainable use of natural resources and the management of pollution.

### 4.1 Gender Equality

**Promotion of equal access of men and women to human capital development opportunities. The focus is on primary and secondary education as well as tertiary education and vocational training, antenatal and delivery care, and family planning services – (Score 4.0)**

The gender-responsive legal and policy environment has seen Uganda register some progress in reducing gender inequalities and vulnerabilities across the different social, political and economic capabilities. It reflects the differences in human development achievement between males and females in three dimensions – education, health and standard of living. The closer the ratio is to 1, the smaller the gap between females and males. Thus, the Gender Development Index (GDI) for Uganda calculated from various National Household surveys was 0.699 in 2005/06, 0.809 in 2009/10 and 0.728 in 2012/13 (UNDP 2015). The Gender Inequality Index (GII) considers gender-based inequalities in three dimensions (reproductive health, empowerment, and labour market participation)<sup>2</sup>. The higher the GII value is, the higher the losses due to inequality. The GII remained almost constant for Uganda for eight years (2005/06-2012/13) at 0.565, implying a loss in achievement due to gender inequality of 56.5 percent (ibid).

**Education:** In education, the legal framework is governed by: the Constitution of the Republic of Uganda (1995), the Uganda National Examinations Board (UNE) Act (1983), the Education Act (2008), the Business, Technical, Vocational Education and Training (BTJET) Act (2008), the National Curriculum Development Centre (NCDC) Act (2000), the Education Service Act (2002), the Universities and Other Tertiary Institutions Act (2001) and the recently enacted Higher Education Students Financing Act (2014), which operationalized the activities/functions of the Higher Education Students' Financing Board and allows students to access loans to pay their tuition fees, with the loan being repaid when one lands a job.

According to the MoESTS (2015), the National Policy on Education has progressed through several phases as follows: (i) commencement of the review of the 1992 Government White Paper on Education (GWP) and the Education Sector Strategic Plan (2004-2015); (ii) finalization of the review of the National Strategy for Girls Education; (iv) commencement of the review process for the Gender in Education Policy (2009) and (v) the Early Childhood Development Policy (2007). Other policies still in place include: the Physical Education and Sports Policy (2004), the Basic Education Policy for Educationally Disadvantaged Children (2006), the Gender in Education Policy (2009), the Special Needs Education Policy, the Education Sector HIV and AIDS Workplace Policy and the International Commitments on Education (Millennium Development Goals – MDGs; and Education for All – (EFA) Goals). Therefore, this policy framework provides the basis of education sector policy. The above policy framework not only sets the direction but also provides the basis for the formulation of various sector and sub-sectoral investment plans (which, among others, include the Annual Ministerial Policy Statements to

2 For details on the composition of the three dimensions, see the UNDP (2015) report on "Unlocking the Development Potential of Northern Uganda", page 28.

Parliament; the Education and Sports component of the National Development Plan; the Education and Sport Sector Strategic Plan 2007-2015; BTVET Strategic Plan 2012-2022, popularly known as “Skilling Uganda”; the Universal Secondary Education Strategic Plan 2009-2018) as well as sector flagship programmes (such as Universal Primary Education – UPE; Universal Secondary Education – USE; and Universal Post Ordinary Level Education and Training (UPOLET)) that operationalize it. Specifically,

1. **Primary:** According to the Ministry of Education, Science, Technology and Sports (MoESTS), primary enrolment rates were similar between males and females. That is, enrolment increased by 3.7 percent between 2013/14 and 2014/15 (Figure 8). Nonetheless, the Gross Enrolment Rate (GER) and the Net Enrolment Ratio (NER) declined by 6 percentage points and 1.7 percentage points, respectively, over the same period. Thus, gender parity at the primary school level was maintained at 50:50 (i.e., 50 percent boys and 50 percent girls). This is a result of the government’s UPE policy of enrolling all girls and boys. However, there are still some relative gender disparities in terms of primary completion. The Completion Rate improved by 4.6 percentage points from 67.4 percent (boys 68 percent; girls 67 percent) in 2013/14 to 72 percent (boys 72 percent; girls 72 percent) in 2014/15.
2. **Secondary:** Total enrolment in secondary schools increased by 2.1 percent from 1,362,739 in FY2013/14 to 1,391,250 in 2014/15 (Figure 8). The GER and NER increased between FY2013/14 and 2014/15 in an observable gender bias. That is, the GER increased from 26.8 percent (28.8 percent boys; 24.8 percent girls) to 30 percent (32 percent boys; 28 percent girls), and the NER increased from 24.7 percent (25.9 percent boys; 23.6 percent girls) in 2013/2014 to 26 percent (27 percent boys; 25 percent girls) in 2014/15.
3. **Tertiary education and vocational training:** Total enrolment in the BTVET fell by 7.5 percent from 42,674 in 2013/14 to 39,712 in 2014/15, with a decline in female enrolment (Figure 8). Under the Uganda Post Primary Education and Training (UPPET)/UPOLET programmes, enrolment in the 118 BTVET institutions decreased by 2.4 percent from to 16,251 in 2014/15 (i.e., 12,189 males; 4,062 females) (MoESTS 2015).

In higher education/university education, total enrolment increased by 24 percent from 201,376 (113,688 males; 87,572 females) in 2013/14 to 249,049 (139,092 males; 109,957 females) in 2014/15. The number of females in higher education increased by 26 percent from 87,572 in 2013/14 to 109,957 in 2014/15. The number of public universities increased from five (5) in 2013/14 to six (6) in 2014/15.

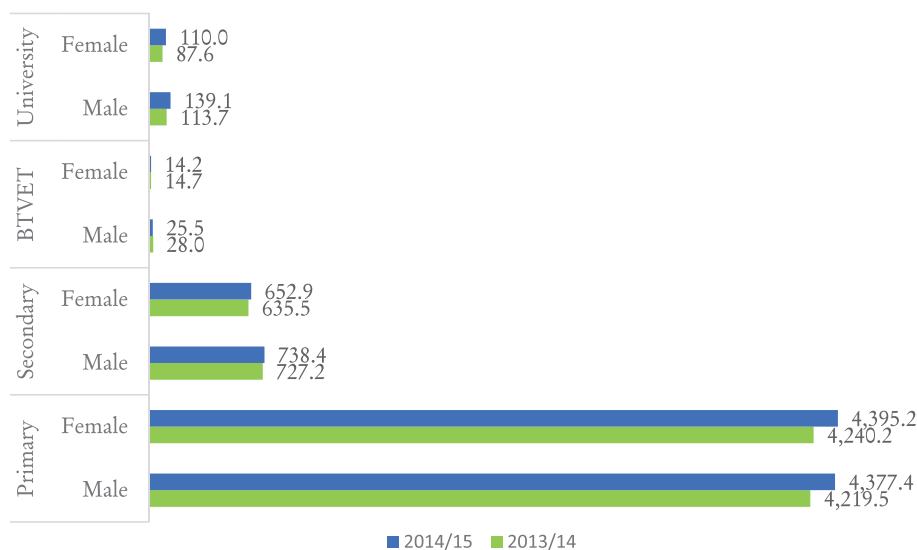
The progression and enrolment rates at higher levels of education (secondary and tertiary) continue to be low for females compared to males (MoESTS 2015).<sup>3</sup>

**Health:** Uganda has continued to register improvements in life expectancy at birth over the last ten years. This metric increased by 4.4 years for the entire population (from 53.3 in 2005/6 to 58.7 years in 2012/13), higher for females than for males (6.1 years and 4.7 years, respectively) 2015). Although women have a higher life expectancy, they equally have high maternal mortality rates. Maternal health is determined by various sexual and reproductive health issues, including child bearing and teenage pregnancy, family planning and contraceptive use, HIV and AIDS infection, and access to, and the utilization of, quality sexual reproductive health services. At the national level, the government intends to reduce the maternal mortality rate (MMR) per 100,000 live births from the current level of 438 to 320 by 2020. Although there were no significant changes in the MMR between 2006 and 2011 at the national level, this situation presumably conceals the situation at the disaggregated level (Ibid).

**Antenatal and delivery care and family planning services:** The use of antenatal services, measured by the share

<sup>3</sup> The Completion Rate increased from 35.3 percent (36.7 percent males; 33.8 percent females) in 2013/14 to 39.1 percent (41.4 percent males; 36.9 percent females) in 2014/15.

Figure 8: Enrolment by education facility level, in thousands



Source: MOESTS, 2015

of women (aged 15–49 years) who gave birth during the previous 5 years (and who made at least one antenatal visit during their last pregnancy), has an impact on MMRs; this usage mostly remained unchanged nationwide. Adolescent fertility rates declined from 163 per 1,000 women in 2006 to 119 per 1,000 women in 2011. Access to family planning reduces high fertility and teenage pregnancy. Hence, the reduction in adolescent fertility rates is in part attributable to an increase in the number of persons accessing family planning methods, especially among married women, from 23.9 percent to 30.2 percent (Ministry of Health [MoH] 2015).

Maternal health is also affected by antenatal visits among pregnant women. Women (15–49 years), who made at least 4 antenatal visits during their last pregnancy over the last 5 years increased slightly by 0.6 percentage points (47.3 in 2006/07 and 47.9 in 2010/2011). Improvements are driven by ongoing programmes in the health sector, which include initiatives such as the “mama kit”, in which mothers who deliver at health facilities receive a token (a bag that contains a towel, bed sheet and clothes for the baby) for having given birth at a health centre. Village Health Teams (VHTs) have also been trained by UNICEF to support safe deliveries.

### Promotion of equal access for men and women to productive and economic resources – (Score 3.0)

Women’s participation in gainful employment empowers them and contributes to the achievement of other human development dimensions such as access to education, health, productive resources and participation in political decision-making. Although the NDP I aimed at enhancing the availability and quality of gainful employment to create quality employment opportunities and improve the labour force distribution in the country, there were discrepancies in employment opportunities for women and men by region. The working age population ratio of men to women (14–64 years) was 47.2 percent: 52.8 percent in 2009/10 and 47.6 percent: 52.4 percent in 2012/13. Labour force participation is higher for men than for women when subsistence farming is excluded (59.6 percent: 46.4 percent) (UBoS 2010; 2013).

Employment opportunities for women are still highly informal, with women having the highest share of informal business ownership compared to men, but with low survival rates due to financial hindrances. The monthly median income in 2012/13 was US\$105,000 for men and US\$90,000 for women (UBoS 2013). Men continue to earn more than women due to the wider opportunities available to the former.

Although women dominate the use of land, they do not have rights to its ownership. In Uganda, the majority of land (78.3 percent) is formally registered in the names of men (UNHS 2013). Despite equal protection under the law, Ugandan women remain constrained with respect to land ownership rights, especially in rural areas, where frequently, married women can neither hold land nor use it freely, except with the permission of their husbands.

On business ownership, many informal businesses (largely of low-value stock) are owned by women and hence bring in little capital. Some target youths such as the Youth Livelihood Programme (YLP); it is embedded therein that the YLP will ensure a fair and just share of the benefits to the target beneficiaries. Efforts are being made to ensure that female youths constitute at least 30 percent of the beneficiaries under the Livelihood Support and Skills Development Components (MoGLSD 2013).

**Giving men and women equal status and protection under the law. The focus is on ratification of the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW), family law, violence against women, and political participation – (Score 4.0)**

The GoU continues to demonstrate commitment to addressing gender inequality, promoting women's empowerment and human rights through the domestication of various global commitments in Uganda. Some of these include (but are not limited to): the Convention on Elimination of All Forms of Discrimination against Women (CEDAW); the Beijing Platform for Action (1995) to guarantee women's rights and equal participation in the development process; the Declaration on the Elimination of Violence against Women<sup>1</sup>; and UN Security Council Resolutions 1325 and 1820.

At the regional level, Uganda is also a signatory to several protocols, declarations, treaties and conventions that commit the country to addressing human rights violations. These include: the Gender Policy and Strategy (July 2004) and the Gender Policy (May 2002); the Protocol on the Rights of Women in Africa (July 2003); the AU Heads of State Solemn Declaration on Gender Equality (July 2004); the Protocol of the African Charter on the Rights of Women in Africa (2003); the Protocol on the Prevention and Suppression of Sexual Violence against Women and Children in the Great Lakes Region (30 November 2006); the Goma Declaration on Eradicating Sexual Violence and Ending Impunity in the Great Lakes Region 2008); the International Conference on Great Lakes Region Protocol (ICGLR, 2006); and the Kampala Declaration on Ending Impunity (2003).

At the national level, a number of laws, policies and plans have been formulated to redress gender inequalities in the country to enable women and girls, men and boys to live dignified and better lives. These include: the Uganda Constitution (1995); acts of parliament such as the Domestic Act (2010), which was amended in 2013 to include: the National Gender-Based Violence (GBV) policy, revised Police Form 3; the 2013 guidelines for the establishment and management of GBV shelters in Uganda and the Female Genital Mutilation Act (2011). Others are the National Gender Policy and Employment Policies and Sexual Harassment Act (2006).

There are also supportive state institutions such as the Parliament; the Inspectorate Government (IG); the National Human Rights Commission and Equal Opportunities Commission; the Supreme Court; and the Court of Appeal; the JLOS coordinates the promotion and protection of human rights. Uganda has a wide range of civil society organizations working on human rights issues as well as ministries such as the MoGLSD, the Ministry of Justice and Constitutional Affairs (MJCA) and the Ministry of Local Government (MoLG), which are entrusted with the implementation of policies geared at improving the well-being of all Ugandans, men/boys and women/girls. For example, UNICEF and the Justice Law and Order Sector (JLOS) are piloting the use of video links in cases involving defilement.

Although the GoU demonstrates commitment to promoting gender equality and safeguarding the rights and dignity of women and girls, translating the legal and policy provisions into a substantial reality for girls and women continues to remain a formidable challenge. The reason is the strong patriarchal mind-sets, weak political will, corruption, poverty and strong social norms that perpetuate gender inequality in all regions of the country. There are no laws and policies focused on addressing specific gender challenges of a post-conflict setting. However, the existing legal and policy framework provides an opportunity for women and girls in the region to claim their rights to live better lives free from violence, deprivation and marginalization and to access opportunities for sustainable livelihoods.

The Constitution of the Republic of Uganda (1995) provides for equal rights for men and women in political decision-making. Political participation, measured by the share of seats in the national parliament, has been improved through the affirmative action in the Local Government Act 1997, which provides for women's representation by reserving one-third of the seats for women at all local council levels.

Women currently occupy approximately 34 percent of the seats in the Ugandan 9<sup>th</sup> Parliament (2011-present), placing it 17<sup>th</sup> in the world with regard to gender representation. Specifically, District Women Representatives constitute approximately 29 percent of total seats in Parliament (112 directly elected District Women Representatives as Members of Parliament (MP) out of 375 total seats) and 84 percent of all female members of Parliament. Within the Parliament, almost 8 percent of women are in Constituency seats. Women also have a sizable share of Cabinet, State Minister and Shadow Minister Appointments. Women constitute approximately 32 percent of Cabinet Minister positions, 30 percent of State Minister seats and 30 percent of Shadow Minister positions. Women occupy almost 30 percent of Parliament leadership. Among all MPs who currently hold a position in a Cabinet or State Ministry, 23.7 percent are females, whereas 76.3 percent are males. The leadership representation for this particular position is 10.1 percent females and 17.5 percent males, whereas for Shadow Ministries, 29.0 percent are females and 64.5 percent males (Refki et al. 2015). Despite this critical mass of women in the 9<sup>th</sup> Parliament, more gender-specific bills were passed during the 8<sup>th</sup> Parliament, when there were fewer women in power.

It is the common view that Uganda's women in Parliament play the 3S role (Seen, Serve and Support) but do not actively pass laws and programmes. These are indicators of the presence of a wide gap between policy measures and the implementation of the good intents noted above. Although the Constitution protects women against discrimination, it also negates this guarantee by allowing the application of customary law in matters of personal law, in marriage, divorce, and devolution of property. Given that most Ugandan cultures are patriarchal and patrilineal, customary law tends to favour men and therefore continues to play a highly discriminatory role. This tendency has a negative effect on women's ability to fully participate in national decision-making, earn a decent living through formal employment or enterprise, and acquire and own property. Although Uganda has ratified conventions and instruments that are relevant to gender discourse and revised the Gender Policy in 2007 ten years after the first such policy, there has been not enough political will to translate them into national law as these are not tabled for inclusion in the budget for implementation.

## 4.2 Equity of Public Resource Use

### Assessment of the consistency of government spending with the poverty reduction priorities

#### The extent to which individuals, groups, or localities that are poor, vulnerable, or have unequal access to services and opportunities are identified – (Score 3.5)

Poverty measurement and statistics face several challenges: methodological, institutional and financial capacity

issues. Nonetheless, Uganda has credible nationally representative Household Survey datasets to measure poverty. The latest poverty estimate is based on the Uganda National Household Survey of 2012/13 conducted by the UBoS. Using Household Surveys, the Poverty Status Report (PSR), 2014, shows that poverty levels have further declined in Uganda from 24.5 percent in 2009/10 to 19.7 percent in 2012/13. The resources allocated to these surveys are only partially monitored during the execution of the budgets. Based on the survey findings, vulnerable groups are identified by region, gender, age and income for proper intervention at both the governmental and development partner level.

The GoU has been a major advocate for social protection, rendering its support to family structures through information communication campaigns. In financial year 2013/2014, the government more than tripled its contribution to the Social Assistance Grants for Empowerment (SAGE) programme for the elderly, from US\$ 635.9 million in 2012/2013 to US\$ 2.6 billion in 2013/2014. Currently, nearly 162,000 children are in households that directly benefit from the Vulnerability Family Grant (VFG). However, the VFG has been stopped because it was less popular among recipients. Nonetheless, additional programme assessments show that social protection schemes are largely not particularly poverty-focused.

### **Extent to which a national development strategy implements explicit interventions to assist the groups identified – (Score 3.0)**

The National Development Plan (I & II) broadly defines the government's strategy and priorities in line with the poverty reduction agenda. These are reflected in the Medium-Term Expenditure Framework (MTEF) quarterly review report, which presents a spending strategy that is operationalized through the budget. However, challenges remain, particularly in implementation and the alignment of expenditure to priorities.

Analysing the budget expenditures in some sectors such as education, transport/infrastructure and health, although inequitable in distribution, spending has been somewhat progressive. For example, basic education is a prerequisite for human capital growth. As a result, the Millennium Development Goal of ensuring universal education for all eligible school-going children has been met by Uganda, given its policies. The MoESTS is planning to conduct a UPE assessment to evaluate its status in implementation and to assess whether objectives have been met or not and why.

According to the MTEF review by the MoFPED (2015), spending on the agriculture sector has concentrated mostly on a poorly targeted and implemented input provision programme through National Agricultural Advisory Services (NAADS) and lacks a better-defined focus on extension services that would directly benefit poor farmer households.

### **Extent to which the composition and incidence of public expenditures are tracked systematically and the results are fed back into subsequent resource allocation decisions – (Score 4.0)**

The Budget Monitoring and Accountability Unit (BMAU) continued to focus on following budget implementation across 13 strategic sectors of the economy including energy, agriculture, and tourism, among others. The BMAU reports continued to show that there are challenges to budget implementation and absorption in some sectors such as roads and energy. During 2014/15, these reports continued to be useful to the MoFPED for tracking budget performance. In addition to the BMAU, the government outsources independent private firms to analyse budget progress during or after the completion of projects. Several audit firms and research institutions are also involved in the evaluation and tracking of the budget implementation process across the different institutions of government. Finally, the Office of the Auditor General (OAG) conducts value for money audit exercises annually and, accordingly, reports to Parliament for action. A major challenge, however, is that the Parliament does not respond in time, thus creating lags in response by other budget-overseeing institutions.



## Assessment of the revenue collection dimension

### Incidence of major taxes, e.g., whether they are progressive or regressive – (Score 3.5)

To create fiscal space, Uganda continues to make positive strides in improving revenue collection. Nonetheless, the domestic revenue/GDP ratio has averaged at approximately 12.9 percent over the last 10 years despite increased compliance and a reduction in tax exemption groups. Income tax is primarily composed of personal income taxes (approximately two-thirds), whereas corporate taxes represent the rest. The income tax system is partially progressive because low-income earners, who constitute a large proportion of the population, face a lower rate (3 percent). In addition, the tax policy in 2012 became more progressive as the threshold on Pay as You Earn (PAYE) was revised upwards by 100 percent. In 2013 and 2014, the VAT threshold remained unchanged at 18 percent (URA, 2015). Going forward, the plans in 2015 to further reduce tax exemptions and rationalize the incentive structure should increase the progressiveness of the tax system and widen the tax base, if enforced.

### Alignment of taxes with poverty reduction priorities – (Score 4.0)

Government budgeting and resource allocation aim to improve agriculture, tourism, infrastructure, human resource development and service delivery as the key areas for the NDP. As a result, improving tax collection by the government as well as public borrowing (external and domestic) have continued to support poverty reduction priorities such as investments in agriculture, tourism, roads, human resource development in health and education and improvement in service delivery. Since 2009/10, domestic taxes have improved from approximately 4.1 trillion to the current level of approximately 10 trillion, enabling the government to improve budget allocations to poverty-related priorities such as to roads, rural roads and market construction, energy and agriculture-specific projects such as NAADS, and Northern Uganda Poverty Rehabilitation Programmes such as the Peace Recovery and Development Programme (PRDP), among others.

Improving domestic tax collection has reduced the over-dependency on external borrowing from approximately 55.0 years ago to approximately 81.0 percent in 2014/15. However, due to the need for infrastructure development, external borrowing in 2015/16 grew slightly in proportions higher than the previous year's, bringing down the ratio of domestic taxes to total budget to a level of approximately 55 percent. However, this decrease is temporary because it aims to solve the huge infrastructure deficits in roads and energy that the country is facing. By addressing these deficits, the economy is expected to grow through the opening up of rural markets and the support of value addition activities along agricultural commodity value chains. By supporting these project and programmes, the government aims to achieve improved service delivery and poverty reduction among its people.

## 4.3 Building Human Resources

### Health and nutrition services, including population and reproductive health – (Score 4.0)

Uganda has aligned existing country plans and strategies towards the outcome of better nutrition as a priority intervention area in Uganda's NDP. Uganda's Second NDP (2015/16-2019/20) has set a target of reducing stunted children to 22 percent from the current baseline of 33.4 percent. The Second National Health Policy 2010 has integrated all priority disease- and programme-specific health policies with a view to aligning them with the overall national policy framework (the Vision 2040), the NDPI (2010/11-2014/15), and the National Health Sector Strategic Investment Plan (HSSIP 2010/11-2014/15). The health sector strategic planning process has been occurring since 1995, and to date, four successive National Health Strategic Plans have been developed and are still being implemented. With decentralization, the government executes its stewardship function at the central, regional and district levels, mainly through the MoH and the MoLG. Furthermore, the government organizes the health sector in various coordination mechanisms, leading to the development and implementation of integrated health policies and strategic plans in a consultative manner. However, Uganda still faces many aid

coordination challenges that undermine progress. Full aid harmonization and alignment have not been attained, and a significant proportion of aid to the health sector is either outside the preferred health basket or 'off-budget'.

Government investment in the health sector declined from 8.7 percent of the overall national budget in 2013/14 to 8.5 percent in 2014/15. This decrease contrasted with the HSSIP target of 10 percent. Budget performance for the appropriated GoU budget was 100 percent (MoH, 2015). This translates into a government contribution of US\$ 13.7 per capita on health. The per capita public expenditure increased from US\$ 12 to US\$ 13.7 due to an additional government programme, the Global Alliance for Vaccines and Immunization (GAVI). This figure is still below the recommended per capita government expenditure on health of US\$ 34 per capita, according to the World Health Organization (WHO) Commission of Macro Economics and Health (CMH). It is also below the HSSIP target of per capita government expenditure on health of US\$ 17 (MoH 2015).

Basic health services including maternal, new-born, and child health (MNCH) services are provided to the majority of the population. There has been a steady increase in intervention coverage for all major public health priorities, particularly immunization, malaria, HIV/AIDS, and tuberculosis. For example, the national immunization coverage increased. The percentage of children under one year immunized with the 3<sup>rd</sup> dose of a pentavalent vaccine now stands at 102.4 percent (104.5 males and 99.5 percent females) in 2014/15, up from 93 percent (91 males and 95 percent females) in 2013/14. The percentage of one-year-old children immunized against measles stands at 90 percent in 2014/15 compared to 87 percent in 2013/14 (MoH 2015). These achievements must be sustained and propelled through further strengthening of existing Expanded Programme on Immunization (EPI) services and by targeting poorly performing districts and difficult to reach areas and populations.

The Annual Health Sector Performance Report (AHSPR) of 2014/15 reveals that the national malaria prevalence rate improved from 42 percent in 2009 to 19 percent in 2014 owing to out- and in-door residential spraying. Despite an increase in staffing levels and the availability of an Electronic Management Health System (EMHS), all reproductive health indicators are still below the HSSIP targets. The percentage of pregnant women attending at least 4 Ante Natal Care (ANC) sessions increased only slightly from 32.4 percent in 2013/14 to 36.6 percent in 2014/15 (the target was 60 percent). The percentage of deliveries in health facilities remarkably increased from 44.4 percent in 2013/14 to 52.7 percent in 2014/15, and Intermittent Presumptive Treatment for malaria (IPT2) coverage increased from 49 percent to 53.4 percent over the same period (ibid). Despite improved efforts at recruitment and deployment, human resource constraints (adequacy, distributional disparities and skills) still adversely affected the delivery of quality reproductive health services.

Public funding targets many key public health priorities; however, more could be done. Despite the existence of a free public health care policy for all primary health care services, the quality of service is undermined by the erratic availability of drugs and medical supplies and the severe shortage of key health workers. Financial protection for the poor through universal health care schemes and pooling mechanisms is also inadequate. Through the MoH, the government is currently working out modalities of introducing a National Health Insurance (NHI) scheme. However, the time frame for starting the exercise has not yet been defined. Child nutrition is one of ten indicators used in the computation of the Multidimensional Poverty Index (MPI). The evidence asserts that undernutrition contributed to 15 percent of child mortality in Uganda (UNDP 2015). Nationally, the percentage of stunted children declined from 38.1 percent in 2006 to 33.4 percent in 2011 (UDHS 2006; 2011). There was progress in reducing maternal mortality rates (MMR) in Uganda from 412/100,000 in 2006 to 398/100,000 in 2011 (ibid).

Several capital development projects within the health sector were launched in financial year 2014/2015, some of which include the renovation of the Mulago National Referral Hospital, the construction of hospitals and modern maternal and neonatal facilities and the completion of the new Uganda Cancer Institute (UCI) building block and the UCI Fred Hutch Cancer Centre Facility. The sustained recruitment and staff welfare improvements in the sector

have seen staffing conditions continually improve. This improvement notwithstanding, there have been significant rural-urban disparities; for example, the Arua Regional Referral Hospital is staffed at 108 percent, but the Moroto Regional Referral Hospital is staffed at 41 percent.

The GoU is committed to curbing the consequences of the high fertility rate by improving access to family planning services within the country through implementation of the Uganda Family Planning Costed Implementation Plan 2015-2020. The project aims to increase age-appropriate information and access to and use of family planning among young people between the ages of 10 and 24 years. Hence, reducing the unmet need for family planning to 10 percent and increasing the modern contraceptive prevalence rate to 50 percent by 2020 are the focus (MoH 2015).

### **Education, Early Child Development programmes (ECD), training and literacy programmes – (Score 3)**

The MoESTS has developed a policy on Early Childhood Development (ECD) to guide the development of ECD curricula and the training of ECD teachers and care givers to inspect and monitor ECD centres and nursery schools. This policy addresses some of the issues raised in the Situation Analysis of Children in Uganda Report 2015. The report found that 81 percent of ECD centres are located in urban areas and are privately owned. This situation discourages the majority of children below five years of age from enrolling because 55 percent of children in Uganda live in poverty and 24 percent live in extreme poverty.

The GoU received a School Facilities Grant (SFG) worth US\$ 100 million from Global Partnership Education in 2014 to enable the implementation of the Uganda Teacher and School Effectiveness Project (UTSEP) as support towards implementation of the Education Sector Strategic Plan (ESSP). The project started on 24 March 2015 and is expected to close by 30 June 2018. Its main objective is to support the government in improving teacher and school effectiveness in the public primary education system. The GoU also launched the Student Loan Scheme in 2013/2014 to enable access to higher education for students from poor families, and over 1,000 students have been targeted to benefit from the scheme.

### **Prevention and treatment of HIV/AIDS, tuberculosis, and malaria – (Score 3.5)**

Another health indicator is HIV/AIDS. The high prevalence of HIV/AIDS unmistakably affects the functioning of households. According to the MoH (2015), the percentage of children exposed to HIV from their mothers accessing HIV testing within 12 months increased from 54 percent to 58 percent in 2014/15, which fell short of the target of 75 percent by the end of the HSSIP. A total of 70,634 children exposed to HIV from their mothers received a PCR 1 test, and of these, 4,185 (5.9 percent) were HIV-positive compared to 6.3 percent (3,402/54,013) in 2013/14. The latest statistics on the number of patients (both adults and children) on anti-retroviral therapy (ART) indicate that the percentage of people who are on ARVs increased from 48 percent in 2013/14 to 56 percent by 2014/15.

**Tuberculosis (TB):** The TB case detection rate (TB CDR) increased from 36.6 percent in 2013/14 to 45 percent in 2014/15, far below the HSSIP target of 70 percent. The TB Treatment Success Rate was 79 percent, compared to 80.7 percent in 2013/14. The slow progress relates to inadequate systems for TB case detection, adherence monitoring poor Directly Observed Treatment (DOT) and testing relapses for drug sensitivity.

**Malaria:** This disease is endemic and the leading cause of illness and death in Uganda, and it mainly affects children and pregnant women. It causes low birth weight, maternal anaemia, infant mortality, spontaneous abortion, and stillbirth (UBOS 2012b). Uganda has the sixth highest number of annual deaths from malaria in Africa and some of the highest reported malaria transmission rates in the world, with approximately 16 million cases reported in 2013 and over 10,500 deaths annually (National Malaria Control Programme- Malaria Reduction Strategic Plan 2014-2020 (UMRSP)).

## 4.4 Social Protection and Labour

### Social safety net programmes, pension and old age savings programmes – (Score 3.5)

Safety net programmes: Social protection is globally recognized as critical for sustained poverty reduction, inclusive growth and social cohesion. To address the constraints within Uganda's social protection system, a National Social Protection Policy (2015) has been developed, and a parliamentary forum on social protection has also been launched. Social protection for vulnerable groups is divided through public investment programmes and projects such as the Elderly and Disability, the Youth and Child Affairs Programme, and the Expanded Social Protection Programme (ESPP).

In September 2014, the SAGE charter was launched to streamline the operation of the programme. In August 2015, the national roll out of the Senior Citizens Grant (SCG) was announced, following the success of the SAGE pilot operation that has been on-going in 15 districts for the last five years. Under this scheme, each beneficiary receives a monthly grant of US\$ 25,000. According to the PSR (2014), the SCG in particular has proven to be cost-effective and very popular among beneficiaries and the broader communities in the 15 pilot districts. The government has committed US\$ 149 billion for this programme, and for their part, development partners such as the UK Department for International Development (DFID) and Irish Aid have committed to providing up to US\$ 290.6 billion for another five years to support the ESPP.

However, public investment in social protection is only 0.78 percent of GDP, and spending on Direct Income Schemes (DIS) is at 0.33 percent of GDP, which is far lower than the 1.1 percent spent on DIS by low-income African countries. In addition, only 3 percent of Uganda's population has access to formal social security. A total of 2.8 percent and 2.3 percent of the population are covered by the Public Service Pension Scheme (PSPS) and the National Social Security Fund (NSSF), respectively.

Due to poor targeting mechanisms, some programmes have been known to benefit even some well-off individuals or households. More rigor in identifying the poor must be exercised. To date, there has been little effort to adapt programmes to the changing needs of the population. In fact, programmes have suffered from inadequate funding and have only been able to cover a small proportion of the target group. Although the small cash transfer programmes use Living Conditions Monitoring Survey data to identify poor districts, the inadequate funding prevents equity due to very low coverage and does not cover all eligible districts. Some attempt has been made to coordinate social assistance programmes, with the MoGLSD providing overall coordination. However, coordination is still a challenge. To address the coordination challenges, in 2013, the MoGLSD developed a draft National Social Protection Policy Framework for Uganda, but to date, it has been tabled before Cabinet.

Pension and old age savings programmes<sup>4</sup>: Uganda inherited a formal social security system established by the colonial administration. It catered to only public and formal private sector employees. At present, the pension system in Uganda is underpinned by a legal framework consisting of: the Constitution of the Republic of Uganda (1995); the Pension Act (CAP 286); the Armed Forces Pension Act; and the Uganda Public Service Standing Orders (2010 edition). In addition, we have the Parliamentary Pensions Act; the Retirement Benefits Regulatory Authority Act; and the NSSF Act. Alongside the PSPS and the NSSF, which cater to civil servants and formal private sector employees, respectively, there are also dozens of private, yet to be licensed occupational schemes that have been established and are operating. These schemes often provide benefits over and above the NSSF mandatory contributions.

4 Office of the President (2013/14). Pensions Reform in Uganda; Challenges and Opportunities, Directorate of Economic Affairs and Research (DEAR) [http://www.uspp-cso.org/download/social\\_protection\\_policies,\\_laws,\\_plans\\_&\\_strategies/PENSIONS%20SECTOR%20DEVELOPMENT%20IN%20UGANDA\\_CHALLENGES%20AND%20OPPORTUNITIES1%20\(2\).pdf](http://www.uspp-cso.org/download/social_protection_policies,_laws,_plans_&_strategies/PENSIONS%20SECTOR%20DEVELOPMENT%20IN%20UGANDA_CHALLENGES%20AND%20OPPORTUNITIES1%20(2).pdf)

The PSPS was established on 1 January 1946. The provision of pension benefits to public service employees (covering traditional civil servants, including police and prison services, local government employees and teachers) is enshrined in the Constitution. The armed forces are provided for under the Armed Forces Pension Act (AFPA). Meanwhile, until 1994, the provision of pensions for the urban authorities was being administered under the provisions of the Local Government Provident Act (CAP 292), and municipalities were also separately provided for under the Municipalities and Public Authorities Provident Fund Act (CAP 291). Following the amendment of the Pensions Act in 1994, the provision of pensions to both urban authorities and municipality employees was brought under the Pensions Act, which requires that all local governments (urban authorities and municipalities alike) should provide for the pensions of their employees. Subsequently, the responsibility of administering and managing pensions for local governments was transferred to the Ministry of Public Service (MoPS).

Financing of the Public Service Pension Scheme (PSPS): The PSPS is an unfunded, pay-as-you-go and non-contributory defined benefit scheme. As such, it is financed from the consolidated fund (out of government tax revenues). The MoPS is responsible for the management and administration of the scheme. Its operational expenses are therefore catered to by the government through the MoPS. For now, its sustainability depends on the revenue collections of the URA.

Reforms in the pension system. The Uganda Retirement Benefits Regulatory Authority (UBRA) was established as a regulator. The Uganda Retirement Benefits Regulatory Bill, 2011, was enacted by Parliament on 26 April 2011. The President of Uganda signed it into law on 28 June 2011, and it became effective in September 2011, as the URBRA Act, 2011. Since the establishment of the UBRA, in 2013, there were 42 retirement benefits schemes, 11 administrators, 7 fund managers, 4 custodians and 3 corporate trustees who were registered compared to when they started in 2011 (from 8 fund managers licensed by the Capital Markets Authority (CMA) and managing 19 occupational pension funds with slightly over UGX 220 billion (US\$ 92 million)). The Retirement Benefits Sector Liberalization Bill, 2011, is still before Parliament.

### **Protection of basic labour standards – (Score 3.0)**

Uganda has a number of labour laws that are meant to uphold employees' rights and duties. These include but are not limited to: the labour unions Act, No. 7, 2000, the Occupational safety and Health Act 2006 (Act No.9), the Atomic Energy Act 1973 (Cap 143), the Social Security Act (No. 21 of 1967), the Public Health Act 1935 (Cap 281), Public Services Act, 2008 (No. 9 of 2008) and the Employment (Sexual Harassment) Regulations 2012 (S.1, 2012, No. 17). However, most of these laws lack proper and adequate enforcement throughout the country. There are noticeable rampant contract breach, unsafe working conditions and sexual harassment, accidents and work-related injuries. On average, 2000 cases of work-related accidents have been reported annually. In addition, there is still inadequate awareness and sensitization on occupational safety and health (OSH) standards, with limited personnel and logistics for enforcement of legislation.

### **Regulations to reduce segmentation and inequity in labour markets – (Score 3.0)**

At the national level, the Constitution of the Republic of Uganda provides a firm basis for labour market interventions. The relevant provisions in the National Objectives and Directive Principles of State Policy, related to social protection, are as follows:

- Objective VII: The State shall make reasonable provision for the welfare and maintenance of the aged;
- Objective XI (ii): The State shall give the highest priority to the enactment of legislation establishing measures that protect and enhance the right of the people to equal opportunities in development;
- Objective XIV (b): All Ugandans shall enjoy rights and opportunities and access to education, health services, clean and safe water, work, decent shelter, adequate clothing, food security and pension and retirement benefits.

Article 32 of the Constitution states that ‘notwithstanding anything in this Constitution, the State shall take affirmative action in favour of groups marginalized on the basis of gender, age, disability or any other reason created by history, tradition or custom, for the purpose of redressing the imbalances that exist against them’. Article 254 states that ‘a public officer shall, on retirement, receive such pension as is commensurate with his or her rank, salary and length of service’.

Thus, there is no clear-cut programme by the government that addresses the reduction in segmentation and inequity in labour markets. Nonetheless, these are embedded in other policies such as:

- The National Policy on Disability
- The National Orphans and Other Vulnerable Children Policy (2004);
- The National Policy for Older Persons (2009)
- The Draft National Youth Policy (2012) The National Employment Policy (2010)
- The National Equal Opportunities Policy (2006)
- The Uganda Gender Policy of (2007)
- The National Policy for Disaster Preparedness and Management (2010)

In 2012, the minimum wage and conditions of employment statutory instrument was revised to significantly increase the minimum wage requirement – by 100 percent. The net effect on employment and welfare is uncertain.

### **Active labour market programmes, such a public works or job training, and community driven initiatives – (Score 3.0)**

The government is fully involved in this aspect through national programmes that are heavily inclined towards youths such as the Youth Venture Capital Fund (YVCF), the YLP, the NAADS and Operation Wealth Creation (OWC). OWC is a presidential initiative aimed at improving the livelihoods of rural farmers; it is being implemented by the Ministry of Agriculture, Animal Industry and Fisheries (MAAIF) in collaboration with the army (Uganda People’s Defence Force – UPDF). To address community mobilization challenges, a National Community Development Policy and its Action Plan were approved by Cabinet in July, 2015 to strengthen the human resource and operational capacity for community development. Other on-the-job training programmes are performed by private organizations but remain at a small-scale level.

Specifically, examining youth programmes, the YLP is the government’s most recent initiative aimed at providing youths with marketable vocational skills, financial support and relevant knowledge and information to enhance self-employment opportunities and incomes. The project has been allocated a total of Ushs 265 billion over its five-year period (2013/14-2017/18). The YLP was up-scaled in 2013/14 to cover the rest of the country. In addition, the US\$ 265 billion YVCF was established in 2013 to help support the growth of viable businesses and sustainable SMEs by youths. However, a report by the EPRC (2015) on YVCF assessment shows that it has not been effective as 53.7 percent of the funding was received by retail traders who did not necessarily create more jobs.

To enhance on-going active labour market programmes in training, all government institutions are mandated to offer internship programmes to university students in their 2<sup>nd</sup> and 3<sup>rd</sup> year of schooling to equip them with practical skill and behaviour in a working environment. The Makerere University Business School Entrepreneurship Centre offers training programmes to the interested public. The Uganda Industrial Research Institute (UIRI) offers young entrepreneurs incubation space and training opportunities as well.

## 4.5 Environmental Policies and Regulations

### Air, water, waste, conservation management – (Score 3.5)

Policy/regulations, institutions and financing: Policies include: the National Environment (Audit) Regulations, 2006; the Environmental Impact Assessment Regulation, No. 13/1998 (under section 107 of the National Environment Act Cap 153) [1 May 1998]. The annual water sector performance report (2014) indicates that a total of 781 environmental impact assessment (EIA) reports were reviewed and approved (437 certificates were issued). The results from field inspections show that 70 percent of the approved projects comply with environmental standards.

With regard to financing, in 2013/14, the overall budget for the water and environment sector was US\$ 542.7 billion, compared to US\$ 382 billion in 2012/13. The increase is largely due to increased funding reflected under National Water and Sewerage Corporation (NWSC)'s budget component, from US\$ 80.1 billion (in 2012/13) to US\$ 138.4 (2013/14), and the release of funding that had been frozen/delayed by Danish Aid (Danida) and German Aid (KfW). The off-budget funding amounted to US\$ 103.7bn, whereas the on-budget allocation was US\$ 439.1bn. The government (on-budget) allocation for the water and environment sector represented 3.2 percent of the total national budget. Despite the increase in regional coverage for safe tap water, the catchment area has been more urban than rural. Hence, many rural areas still do not have access to safe drinking water.

**Engagement with the public:** With the Ministry of Water and Environment (MoWE) and the National Environment Management Authority (NEMA), Uganda has an active environmental information and education programme that provides access to certain environmental information including EIAs, but its effectiveness has suffered owing to a recent reshuffling of its senior management. The Uganda Wildlife Authority (UWA), with assistance from NGOs, runs education centres and conservation programmes in some protected areas. The Wildlife and Environment Society of Uganda is active in building public awareness through school events and the publication of a magazine. Many tourism businesses are now going green; however, except for the effort of a few NGOs, there is little effort to build national awareness on environmental issues. The challenge still remains for manufacturing and industrial sectors, where the stakeholders feel that implementing cleaner production methods is too costly.

**Air Pollution Management:** Air pollution is managed by the National Environment (Noise Standards and Control) Regulations, 2003 (under sections 28 and 107 of the National Environment Act Cap 153).

**Water Pollution Management:** Water management is guided by the Water Act, Cap. 152 and the National Environment (Wetlands, River Banks and Lake Shores Management) Regulations, No. 3/2000 (under section 107 of the National Environmental Act Cap 153). Specifically, the Directorate of Water Resources Management (DWRM) of the MoWE operates a water resources monitoring network consisting of 137 surface water stations, 33 groundwater stations and 17 automatic weather stations. The functionality of the network for the reporting period is 57 percent.

In 2014, the DWRM continued to coordinate Uganda's participation in international transboundary water resources management programmes and projects. A number of projects were coordinated under the Lake Victoria Basin Commission, principally under the Lake Victoria Environment Management Project Phase II (LVEMP II), and the Nile Basin Initiative (NBI).

Furthermore, the National Environment (Standards for Discharge of Effluent into Water or on Land) Regulations, S.I. No 5/1999 (under sections 26 and 107 of the National Environment Act, Cap 153) contain the maximum permissible limits that polluting firms/entities/individual businesses are required not to exceed. The NEMA often notes that enforcing the air and water pollution laws has not been easy due to either the limited availability of

suitable equipment or, in some areas, the lack of inputs to conduct pollution tests.

**Solid and Hazardous Waste Management:** This type of pollution management is guided by the National Environment (Waste Management) Regulations, S.I. No 52/1999, Statutory Instruments 1999 No. 52 Regulations, 1999 (under sections 53(2) and 107 of the National Environment Act, Cap 153). They have several components such as the sorting and disposal of domestic waste and outline the required cleaner production methods to employ. Specifically, they stipulate that a person who owns or controls a facility or premises that generate waste shall minimize the waste generated by adopting the following cleaner production methods:

- a) Improvement of production processes through (i) conserving raw materials and energy; (ii) eliminating the use of toxic raw materials; and (iii) reducing toxic emissions and wastes;
- b) Monitoring the product cycle from beginning to end by (i) identifying and eliminating potential negative impacts of the product; (ii) enabling the recovery and reuse of the product where possible; and (iii) reclamation and recycling;
- c) Incorporating environmental concerns in the design and disposal of a product. The regulations also provide for mechanisms for the transporting, packaging and labelling of waste.

To that end, NEMA management has continued to support the 12 Municipal Solid Waste Composting facilities amid the challenges of funding and institutional support from the respective urban authorities and the limited market for compost manure. The Lake Victoria Environment Management Project Phase II (LVEMP II) signed a MoU with the Kampala City Authority (KCCA) to implement solid waste management and storm drainage in Kampala City. This is still on-going, and there have been remarkable improvements in this area.

### **Natural Resources Management (Forests, Fisheries) – (Score 3.5)**

There are several regulatory instruments directed towards natural resource management; these include: the National Environment (Mountainous and Hilly Areas Management) Regulations, 2000 (Uganda National Environment Act Cap 153, section 107); the National Environment (Management of Ozone Depleting Substances and Products) Regulations 2001 (under section 107 of the National Environment Act Cap 153); the National Forestry and Tree Planting Act, 8/2003; and the Mining Act, 2003. The major limitation in natural resource management is the lack of timely up-to-date information.

The performances of some indicators in the 2014 Annual Sector Report of the MoWE are outlined in Table 4. There is a rapid disappearance of forest cover (from the baseline of 18 percent to 15 percent in 2013/14). As a result of the Protected Areas (PA) regulations, the proportion of natural forest under strict nature reserve has remained constant at 12 percent without encroachment. The worry is now the proportion of Uganda's wetlands used under management plans, which continues to deteriorate because many people are encroaching onto gazetted wetland areas. Nonetheless, a directive has been passed to invoke all land titles that are in wetlands.



Table 5: Environment sub-sector performance against the platinum indicators

No.	Platinum Indicators	Baseline value	Achievements	
			2012/13	2013/14
1	% Uganda's land area covered by forest	18	unknown	15
2	% Natural forest under strict nature reserve	12	12	12
3	% Survival of tree seedlings past year 3	60	unknown	75
4	% Rural households that travel more than 1 km to collect firewood	2 km	unknown	unknown
5	% Forest reserves under management plans	32	32	32
6	% Developers complying with certificate of approval conditions	60	30-70	70
7	% Solid waste disposed of safely in the 9 municipalities	50	unknown	unknown
8	% Meteorological rainfall observation network coverage of country	60	unknown	unknown
9	% Uganda's land area covered by wetlands	10.90	unknown	10.90
10	% Uganda's wetlands used under management plans	0.90	unknown	4.40

Source: Uganda Water and Environment Sector Performance Report, 2014

The GoU and its development partners (DPs) have developed and are now implementing a 5-year Joint Water and Sanitation Sector Programme Support (JWSSPS 2013-2018) that will end by June 2018. This measure will help continue to streamline sector performance activities against set targets.

## 5 GOVERNANCE: PUBLIC SECTOR MANAGEMENT AND INSTITUTIONS

The level of governance in the public sector and institutions is discussed along five broad sub-themes, namely, Property Rights and Rule-based Governance, Quality of Budgetary and Financial Management, Efficiency of Revenue Mobilization, Quality of Public Administration, and Transparency, Accountability, and Corruption in the Public Sector. Each of these has specific dimensions to guide the justification for the rating. This section thus focuses on specific effective legal systems and rule-based governance structures in which property and contract rights are reliably respected and enforced and budgets are managed, as well as the extent to which corruption is addressed and there is sufficient freedom of media to foster transparency.

### 5.1 Property Rights and Rule-Based Governance

#### Legal basis for secure property and contract rights – (Score 3.0)

Property and contract rights are enshrined in the Constitution of the Republic of Uganda, 1995. Article 26 of the Constitution provides for the right for all to own property, singly or in association with others, and the corresponding protection against forced deprivation of such property. In addition, the Investment Act Code 1991/2000 provides the requirements for obtaining a license to invest in Uganda and the rules for legally operating such a business activity in the country. It is, however, important to note that although there is a reasonably adequate legal framework to protect private property in Uganda, implementation and enforcement continue to appear inefficient across different sectors and institutions, thereby limiting the ability of the private sector to secure their property and contract rights. It can take over a year for someone to legally access property contract rights.

#### Predictability, transparency, and impartiality of laws affecting economic activity, and their application by the judiciary – (Score 3.0)

Uganda has put in place the Public Private Partnership (PPP) Act, 2015, which provides for Public Private Partnership agreements; the PPP Committee and PPP Unit; the project Development Fund; the functions of contracting authorities, accounting officers, project officers, project teams, and evaluation teams; the role of private parties in PPPs; project inception and feasibility studies for public partnerships; the procurement of PPPs; the disqualification of bidders; the evaluation of PPP bids; PPP agreements and the monitoring of projects; the bidding methods; the procurement procedures and types of PPP agreements; and related matters. This is one of the key recent legal reforms that are set to increase transparency and the predictability of investments in the country. If Uganda passes the competition law that has been before Parliament since 2010, the barriers to business entry and exit will be eased, and the benefits to the PPP law will be fully realized, including promoting FDI and partnerships with Uganda's local private sector.

#### Difficulty in obtaining business licenses – (Score 3.0)

Uganda continues to be ranked among countries with the highest costs of doing business in the world, as well as in the EAC. This has continued to affect the level of FDI in the country. It takes more than 18 days to get a business license in Uganda, compared to 5 days in Rwanda, 9 days in Tanzania and approximately 18 or more days in Kenya. There is also evidence that Uganda did not perform well in other business indicators such as starting business ranking, number of procedures, and cost of capital, among others (see Section 3.3 for more details). Getting a business license is further complicated by the number of institutions one must be registered and approved with. The outlook for business performance for Uganda is not positive, compared to other countries in the EAC. Businesses continue to face high costs of capital, higher interest rates, and high energy costs that affect their competitiveness and profitability in the sub-region.

## **Crime and violence as an impediment to economic activity – (Score 2.5)**

To reduce crime in the country, the Justice and Law and Order Sector (JLOS) continued to improve its governance and leadership with the appointment of a Chief Justice and Deputy Chief Justice in 2014/15. This continued to empower the independence of the judicial processes. Sector institutions continued to be involved in legal reform and the drafting of legislation, with many bills presented before Parliament. The increased enlightenment of society generated greater debate on legal and policy issues. Because of reforms in the JLOS, significant recruitments were made by crime fighting agencies such as the Uganda Police Force (UPF), with 4,906 probationary police constables and 728 cadets recruited and 3,500 police constables and 500 cadets trained. Additionally, Uganda Prisons Service (UPS) admitted and commissioned 1,250 prison warders and wardresses, and the Directorate of Public Prosecution (DPP) recruited over 90 state attorneys. This increase in staffing helped to improve the police to population ratio from 1:812 to 1:757 and the warder to prisoner ratio from 1:10 to 1:7. The sector now has a complete chain of frontline JLOS service points operating from their own buildings in 53.6 percent of the districts (JLOS 2014/15).

Because of the enhanced capacity of crime fighting structures and agencies, notwithstanding low budget allocation to the JLOS during FY 2014/15, crime levels were reduced to low levels in FY 2014/15 compared to FY 2013/14. This was reflected by high conviction rates, standing at approximately 64 percent, reduced rates of recidivism and increased case disposal rates, which stood at 95.8 percent during FY 2014/15 if taken as a proportion of cases registered over the same time during FY 2013/14. The challenge, however, remained in the growth in organized and violent crime, leading to prolific and high profile murders that claimed the lives of several people. Other developments in the sector included the reduction of the overstay on remand for capital offenders to 10.5 months over the reporting period, as well as the reduction in the committed population and remand prisoners from 56 percent to 54 percent. To reduce the burden on prisons for the remand of juveniles, there was an extension of remand homes to other districts, such as Aura Remand home that became operational, and the extension of judicial case hearings to Guru, which minimized the failures in timely crime convictions and the loss of cases.

According to statistics from the Judiciary Case Administration System (CAS), the number of cases disposed of as a proportion of those filed, increased from 45 percent in 2013/14 to the current 124 percent in the reporting period. This is critical for improved delivery of justice. To achieve more progress on crime management in the sector, the government should establish more service points at in the county and sub-county levels. The sector should also fast-track the rationalization of magisterial areas and recruit more Magistrates Grade I to replace the Magistrates Grade II who are being phased out so that a vacuum is not created by their departure. Such a vacuum may lead to people resorting to shortcuts such as mob justice to achieve their own mode of justice. The government should also address the continued non-functionality of Local Council Courts I and II, whose absence is partly the reason for the growth of the case backlog in the mainstream courts.

## **5.2 Quality of Budgetary and Financial Management**

Assess the extent to which there is:

### **A comprehensive and credible budget, linked to policy priorities, which in turn are linked to a poverty reduction strategy – (Score 5.0)**

In Africa, Uganda is rated as having a rather credible budget system that is linked to MTFF and MTBF, as well as to the development priorities as set out in the NDP I and the Vision 2040. Under the Poverty Eradication Action Plan (PEAP), period 1997 to 2007, Uganda had a three-year MTFF and a three-year MTBF. The revision of the PEAP to the NDP by 2010 has changed Uganda's MTFF projections from three years to five years to be in line with the NDP.

The MTBF contains a five-year expenditure ceiling, spending allocations, planning margins, development priorities, and performance indicator targets. The annual budget process is guided by these frameworks. Using these frameworks as benchmarks, the budget ceilings are provided by MoFPED based on the medium term fiscal targets and macroeconomic fiscal indicators. In the budget process, the different ministries and local governments are given expenditure ceilings to guide their budget allocations. Through a participatory process, the ministries and local governments provide their costing priorities in their Budget Framework Paper, which collectively form the National Budget Framework Paper (BFP), which is constituted into the budget.

**Effective financial management systems to ensure that incurred expenditures are consistent with the approved budget, that budgeted revenues are achieved and that aggregate fiscal control is maintained – (Score 4.0)**

The government passed the PFM Act in 2015. This was a consolidation of the public finance management policies, laws and measures. This Act provides for the roles of the Minister and Secretary to the Treasury in the budget process, the raising of revenues to realize the budget, the supplementary budget and excess expenditure, a contingency fund and the raising of loans. Critically, the Act also provides for the management of public resources, the role of the Accounting Officers in the budget process and its management, the accounting standards and reporting procedures and how to spend the anticipated oil revenues. In the Act, guidelines of how to spend the budget dictate that Accounting Officers report quarterly on the budget implementation. To this end, the government has established PFM Systems and measures such as the Treasury Single Account (TSA), through which the MoFPED controls all government expenditures, and the IFMIS, which is the payment system for all government expenditures. Both of these measures are centrally managed by MoFPED to ensure that expenditure at the different levels of government is consistent with the budget. The law also provides for the OAG to conduct quarterly, semi-annual and annual audits of all budget expenditures, including external debt, to ensure that public expenditure is in line with the budget.

**Timely and accurate fiscal reporting, including timely and audited public accounts and effective arrangements for follow up – (Score 4.5)**

Uganda's budget reporting requirement has recently changed to be in line with the new PFM Act, 2015. Budget monitoring is based on linking the expenditures to performance outputs using the Output Budgeting Tool (OBT), which is updated quarterly by all the Accounting Officers. It is based on these reports that the MoFPED assesses the budget performance. On a quarterly basis, the Budget Monitoring and Accountability Units (BMAU) conduct field visits to evaluate and verify how efficiently the budget is being implemented in the key economic sectors such as Agriculture and Infrastructure development. The BMAU, however, do not cover all sectors in the economy, and, therefore, their positions on performance may not be conclusive. The OPM, through its Monitoring and Evaluation unit, conducts a quarterly overall assessment of the different levels of government, which comprise MDAs and local governments (LGs), on their budget performance.

The OAG has the mandate to perform audits on behalf of the government. To augment OAG activities, the Public Accounts Committee (PAC) of the Parliament of Uganda reviews and critiques budgets and audited reports submitted by the OAG. A major complaint from the OAG is that Parliament takes too much time to act on the audited reports, which delays the work of other related budget-overseeing institutions, such as the Inspectorate of Government (IG), the Directorate of Public Prosecution (DPP) and the police. To further improve budget reporting and accountability, the government recently has revised budget reporting to link resources with both output and outcomes. This is likely to improve on the budget implementation by the Accounting Officers.

## Clear and balanced assignment of expenditures and revenues to each level of government - (Score 3.5)

Uganda has been implementing a decentralized governance system since 2002. Currently there are approximately 111 Districts and 31 Municipalities. In the decentralized framework:

- a) There is harmonization in planning between the central government (CG) and local government (LG) annual planning and budgeting. This has made the government more responsive to local needs and has streamlined budgeting in a manner that minimizes waste through a built-in LG reporting and accountability mechanism. Local governments are involved in the budget, and expenditure estimates are guided by the MTEF ceilings.
- b) There have been quarterly releases of funds to LGs to execute different functions.
- c) The accountability mechanism has been streamlined through the OBT.
- d) There is evidence of an improvement in service delivery due to the implementation of fiscal decentralization.

In terms of financing, LGs continue to be heavily reliant on the CG for funding. Grants from the CG to LGs contribute over 85 percent of financing to LGs' budgets. There are three main grants to local governments:

- Conditional grants, which constitute more than 90 percent of all funding;
- Unconditional grants, which constitute approximately 7 percent of all funding and give LGs discretion in spending and the flexibility to move allocations within and across sectors;
- Equalization grants intended as a subsidy to Districts/LGs severely lagging in service delivery indicators.

The Fiscal Decentralization Strategy (FDS) provides for raising local revenue taxes to approximately 10 percent of the local government budget. Due to the high proportion of the informal sector, revenue collected by the local government has averaged less than 3 percent of the total budget in the past five years (LGC 2015).

With the need to realize effective service delivery at the LG level, the current level of financing of local governments needs to be reviewed and shifted to a level that will sustain recurrent and development expenditures for improved service delivery.

### 5.3 Efficiency of Revenue Mobilization

#### Tax policy - (Score 3.5)

Since the 1990s, the government has continued to implement tax reforms aimed at improving tax administration and revenue mobilization, including import taxes, domestic taxes, pay-as-you-earn (PAYE) corporate taxes and other non-tax revenues. Consequently, tax collection has continued to rely heavily on the traditional tax sources such as trade (import) taxes, PAYE and value-added (VAT) taxes, leaving out the larger informal sector, estimated at approximately 49 percent of Uganda's economy. Notwithstanding the narrow tax base, revenue mobilization efforts, particularly on domestic taxes, continue to be undermined by high tax exemptions, tax evasion and corruption by some customs officers. The narrow scope of Uganda's tax policy and other revenue mobilization challenges have continued to make Uganda's tax to GDP proportion one of the lowest in the region at an average of approximately 12.5 percent in the past 10 years. This revenue mobilization effort is below the threshold of 18 percent expected for developing countries. It is also below what is recommended under the EAC macroeconomic convergence criteria on revenue collection thresholds established under the EAMU, which is also at 18 percent.

#### Tax administration and collection effort – (Score 4.0)

With persistent challenges to revenue mobilization and other challenges in the URA tax collection effort, in 2014/15 MoFPED introduced measures to expand the tax base by reforming the laws on tax exemptions, with a view of reducing or abolishing them. This is complemented by the simplification of tax measures and increased tax payer

education by the URA as well as increased registration in the informal sector. The role of the URA in ensuring effective revenue mobilization is very critical in projecting the expected resources to finance the budget. The GoU remains committed to improving tax administration and to making sure that there is a better environment in which more revenues can be collected. To increase the efficiency of tax collection by the URA, government support to the URA has included the modernization of tax collection systems and processes to optimize revenue tax collection at minimum cost.

## 5.4 Quality of Public Administration

### Policy coordination and responsiveness - (Score 3.5)

To improve government efficiency and effectiveness in planning, budgeting and policy implementation, it is a constitutional requirement that all government business should be coordinated by the OPM. This means that the OPM should have the systems and capacity to coordinate all MDAs and LGs and to monitor and evaluate budget implementation for different projects and programmes. Although this is a requirement of the government, it is apparent that the institutions that are mandated for planning, budgeting and policy implementation are not well coordinated.

In terms of monitoring government business, all MDAs and LGs' monitoring and evaluation (M & E) systems are supposed to be linked to the OPM - M&E system. However, this does not seem to be occurring as required. There is also reported evidence of duplication of activities and overlaps in reporting on the budget implementation across MDAs and LGs. This continues to complicate planning and policy implementation. OPM, therefore, needs to strengthen the reporting mechanisms and feedback processes of all MDAs and local governments and link them to its M&E system to facilitate efficient government planning and budget implementation.

### Service delivery and operational efficiency - (Score 3)

The decentralization policy of 2002, which entailed improvements to Uganda's service delivery to be implemented at MDAs and LG levels. To improve operational efficiency in operations, several amendments to laws and policies, particularly on financing (PFM Act 2015), procurement (PPDA Act and Regulation, 2014), recruitment and reporting have been undertaken. Other initiatives and measures in place include Integrated Finance Management System (IFMS), Integrated Payroll and Personnel System (IPPS), OBT, and TSA. These have, to some extent, improved service delivery. Despite these improvements, operational inefficiencies remain. These are mainly exacerbated by huge deficits in human resources, particularly at the local government level, and in supportive infrastructure (including computers, e-government, etc.), which are hindering the process of planning and procurement in the overall service delivery.

### Merit and ethics – (Score 2.5)

Corruption scandals involving public servants have continued to draw donors' attention to Uganda. Due to corruption scandals that have persisted in public service since 2010, donors have continued to cut assistance to Uganda; specifically, they have moved their assistance from budget support to project specific financing where they can monitor the use of their funds to the right use. Crude methods of ethical behaviour and other malpractices have continued to undermine the quality of public services in the country. High levels of corruption, conflict of interest and human resource management malpractices continue to be reported in civil society and in audit reports across almost all MDAs and local governments, in spite of the presence of corruption-checking institutions such as the IGG, DPP, the police, and Parliament, among others. Most of these scandals are a result of the eroded ethical behaviour of public officials. As a result, there is the persistence of ghost workers in the payroll system across almost all MDAs despite the government decentralizing system. This is a result of continued connivance between MoPS, MoFPED and other MDAs.

In addition, there were recent revelations in the Uganda National Roads Authority (UNRA) probe that a large amount of funds was diverted from road construction. To fight corruption in Uganda, therefore, public-sector institutions must strengthen the ethics, mindset, integrity, transparency, accountability and professionalism of those employed in public service, although this may take time, as most Ugandan public servants have corruption ingrained in their minds. It is important that the government requires the further strengthening of existing institutions, laws and measures to effectively fight the persistent high levels of corruption attributable to the inherently low ethical values of public servants. The success of such measures will largely depend on the political commitment and seriousness of government in enforcement mechanisms.

Pay adequacy and management of the wage bill – (Score 3.0)

While there have been general improvements in pay adequacy in other public departments and agencies, the pay of mainstream public servants in Uganda remained very low, below 40 percent for most civil servants compared to their counterparts in other government departments and agencies such as the Kampala City Council (KCCA), which demotivates civil servants to fully achieve their productivity potential. This was manifested in the recent strikes and continued demand for a pay raise by teachers through their umbrella organization, the Uganda National Teachers' Union (UNATU).

In the EAC region, Uganda's public pay remains less competitive when compared to those of Kenya, Rwanda and Tanzania. To improve the effectiveness and efficiency in wage and salary payments, Uganda continued to implement PFM reforms during 2014/15. Among these reforms was the decentralization of wage, salary and pension processing and of payments to the line ministries, MDAs and local governments during the financial year 2014/15. As a result, the government saved approximately 400 billion Ugandan shillings (UGX) through payroll cleaning of the 'ghost' workers. Although the policy still faces some challenges in terms of having an updated database for workers, reforms in wage and pension payments are likely to have a positive impact on the budget.

## 5.5 Transparency, Accountability, and Corruption in the Public Sector

The accountability of the executive to oversee institutions and public employees for their performance – (Score 3.0)

The Executive and Parliament in Uganda has continued to exercise its oversight of public institutions and their public employees through the PAC of the Parliament. During the period under review, 2013/14 - 2014/15, the PAC intensified its demand for budget expenditure accountability from the different line ministries as well as local governments, using audited reports from OAG and investigation reports from the IG and the police. Using these reports, several public officials have been reprimanded and some pension corruption cases that were previously mismanaged have been revived, along with a few other cases involving the diversion of public resources. Consequently, several officers continue to be remanded in Luzira Maximum Security Prison.

During 2013/14 and 2014/15, following aid cuts by donors and reductions to budget support, the executive continued to tighten its mandate to demand accountability for public funds at different levels of programme implementation. The PAC's efforts in demanding accountability for public funds have also been complemented by the police and the DPP. Despite all these efforts, however, there is evidence of continued state interference, particularly at the Cabinet level in some high-profile corruption cases such as those in the roads sector, where the government has been putting up huge resources.

Access of civil society to information on public affairs - (Score 3.5)

Uganda established the Access to Information Act in 2005. This Act provides the right to access information in all organs of the state including Parliament and the OAG, among others. This Act is aimed at promoting transparency

and accountability in all organs of the state by providing the public with timely, accessible and accurate information, and it empowers the public to effectively scrutinise and participate in government decisions. The government published regulations for the successful implementation of the law in 2007.

However, despite this law, access to information from some public institutions remains a challenge to the public on some critical issues such as the minimum wage and employment policy. The existence of organizations such as the NGO Forum has continued to empower the public to demand some critical information on budget and debt management for their scrutiny and advocacy on public expenditure management. For example, the participation of the NGO Forum in the recent debates on health insurance and the on-going pension reforms have pressured the government to go slow on these reforms.

State capture by narrow vested interests – (Score 4.0)

State capture in Uganda is being exhibited at all levels of government, including the Cabinet, Parliament, Ministry and local governments. At the Cabinet level and in Parliament, there is evidence of political influence exercised by the rewarding of high-profile public contracts. At the Ministry level, there is evidence of senior public servants involved in rewarding contracts through their procurement officers to their relatives and friends, and at the local government level, there is also evidence of district politicians manipulating contracts for their own benefit. State capture persists despite the existence of institutions such as the IG, OAG and the DPP, which are supposed to prevent and reduce corruption.



## 6. COMPARATIVE ANALYSIS FOR 2012/13 AND 2014/15

This comparison is based on the changes that have occurred in key economic indicators between the two periods: 2012/13 and 2014/15. These comparisons are broadly based on 4 themes, 16 sub-themes and 53 specific indicators. For the purposes of comparison, the aggregate scores for themes and sub-themes are used as presented in Table 6.

Table 6: Comparative Analysis of CPIA Score Rankings

		2012/13	2014/15	Change
Economic Management	Macroeconomic management	4.3	4.0	-
	Fiscal policy	4.0	3.8	-
	Debt Policy	3.7	4.0	+
Structural Policies	Policies and institutions for economic cooperation, regional integration and trade	4.5	4.3	-
	Financial sector	3.0	3.5	+
	Business regulatory environment	3.0	3.5	+
Policies for Social Inclusion	Gender equality	4.0	3.7	-
	Equity of public resource use	3.3	3.6	+
	Building human resources	3.4	3.5	+
	Social protection and labour	3.0	3.1	+
	Environmental Policies and regulations	3.7	3.5	-
Governance	Property rights and rule-based governance	3.3	2.9	-
	Quality of Budgetary and financial management	3.8	4.3	+
	Efficiency of revenue mobilization	3.5	3.8	+
	Quality of public administration	2.8	3.0	+
	Transparency, accountability, and corruption in the public sector	3.1	3.5	+

Source: Authors own compilation, 2015

### Implications of the Comparative Scores

**Economic Management:** The results confirm that Uganda has continued to pursue prudent monetary and fiscal policies to maintain price stability by keeping inflation within single digits. Despite the increasing depreciation of the exchange rate in the past 2 years by approximately 30 percent, the central bank's periodic interventions through inflation-targeting monetary programmes have maintained inflation in the target range of less than 10 percent. The country has also maintained a fiscal policy stance that has continued to keep public expenditure within the budget limits. Prudence in debt acquisition and allocation, particularly for financing infrastructure, has kept Uganda's debt sustainability analysis within the threshold target NPV/GDP ratio of 50 percent. Overall the economic management improved slightly in 2014/15, compared to 2013/14. This arose from prudent monetary policy, exchange rate policy, and fiscal policy management by the government.

**Structural Policies:** In the past two years, there has been a slight improvement in the maintenance of structural policies towards regional cooperation, financial sector reforms and the fostering of a good regulatory environment for the private sector. Regarding regional cooperation issues, the country continued to focus on the removal of non-tariff barriers and the development of customs trade facilitation within the EAC framework to promote trade

and improve market access. In the financial sector, the government ensured relative stability in the money and foreign exchange markets through its prudent monetary policy stance and bank regulation and supervision. Private sector credit growth was slightly affected by the continued revisions of the CBR, as the Bank of Uganda (BoU) attempted to moderate inflation to sustainable levels. Despite relative stability in the financial market, access to financial services has remained below the average required to promote economic growth. Regarding the business regulatory environment, the PPP law was passed in 2015 to support engagement between the private sector and the public sector. This law is expected to build the confidence of prospective foreign investors to partner with local investors in domestic investments.

**Policies for Social inclusion:** Generally, in the last two years, the government's focus on policies for social inclusion remained unchanged compared to the period 2012/13. The focus of government policy, which remained on promoting gender equality, equity of public resource use, building human resources and social protection, improved slightly. The government continued to promote equal access to opportunities for men and women through the UPE and USE, as well as through tertiary and vocational training and health care services. In the same framework, the government increased its focus on social protection programmes such as the youth fund and the elderly fund for people aged 65 years and above. All these interventions were in line with the NDP objectives. The challenge in this area, however, was in environmental policies and regulations, where compliance and enforcement remained a major problem. This resulted in the continued depletion of wetlands and forest cover, contributing to climate change.

**Governance: Public sector management and institutions:** Although there was a slight improvement in public sector management and institutional coordination, governance in Uganda continued to remain weak, particularly on laws that relate to securing property and laws affecting economic activity. Uganda continues to be ranked high globally in the cost of doing business. On a more positive note, there are indications that the crime rate has declined approximately 43 percent in 12 years, probably due to increased policing and outreach of the judiciary. There has also been a noticeable improvement in budgeting and financial management in the past two years due to the implementation of the recent public finance management reforms that have created fiscal frameworks and fiscal rules to guide the budgeting and expenditure allocations of public funds. Uganda is ranked high among African countries as having a credible budget system that is linked to MTEF with fiscal objective and targets. Other governance indicators, such as quality of public administration and transparency in accountability and corruption, continue to be influenced by political interference and state capture by a few bureaucrats and senior civil servants for their own gains.

## 7. CONCLUSION

As with previous assessments, Uganda's Country Policy and Institutional Assessment (CPIA) assesses the quality of a country's present policy and institutional framework as of 2014/15. The report rates the key economic indicators based on 4 thematic areas, 16 sub-themes and 53 specific indicators. The four main thematic areas include Economic Management, Structural Policies, Policies for Social Inclusion/Equity, and Governance: Public Sector Management and Institutions. The specific indicator ratings/scores are based on clear justification of the economy's situations in the present time of assessment. The approach taken is a review of extensive documents and data from various sources on the subject matter. In addition, key informants across MDAs are engaged in discussions to help solidify and understand the analysis and to add value to the justifications in the form of additional document review and help in providing independent scores on the indicators, which the team then reviews and discusses to reach an agreed rating of the indicator.

This report shows that despite some macroeconomic challenges Uganda faced as of 2014/15, the country still managed to achieve significant improvements in governance especially in the indicator of "Quality of Budgetary and financial management" and structural policies, but an overall decline in economic management especially in the subthemes of macroeconomic management and fiscal policy. In addition, while indicators that rate policies for social inclusion and governance show an improvement as of 2014/15 from 2012/13, the margins are dismal. This alludes to key issues on aspects related to moving beyond policy frameworks in places to actual implementation and enforcement. Nonetheless, the economy remained resilient in the face of less favourable global economic environment, inflationary pressures and volatility in the exchange rate market. This has been achieved in part due to prudence in fiscal and monetary policy management. As a result the economy grew by 5 percent during 2014/15, a slight drop from 5.2 percent in 2012/13. Despite the slowdown of the economy in 2014/15, this represented a credible performance and significantly higher than the 3 to 4 percent growth projected for the world Sub-Saharan African for the same period.

However the country has potential to do better if it were to address the most profound challenges in macroeconomic management, fiscal policy, institutional reform, corruption, revenue mobilization, gender equality, social protection, among others. Addressing these challenges through further policy reforms would raise the rating of Uganda in the thematic areas of policies for social inclusion and governable. The sluggish improvement in indicators or no change at all based on the assessment particularly brings to front that Government and non-state actors have continued to working on the "business-as-usual" norm in formulating policies and implementing interventions to actualize the regulatory frameworks in place. As we move towards attaining the Agenda 2030 (Sustainable Development Goals-SDGs) we propose that even the rating for the next CPIA be based on meeting these targets and the indicators should reflect in this as well.

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## APPENDICES

### Box A.1: 2014 CPIA Criteria

A. Economic Management
1. Monetary and Exchange Rate Policies
2. Fiscal Policy
3. Debt Policy and Management
B. Structural Policies
4. Trade
5. Financial Sector
6. Business Regulatory Environment
C. Policies for Social Inclusion/Equity
7. Gender Equality
8. Equity of Public Resource Use
9. Building Human Resources
10. Social Protection and Labor
11. Policies and Institutions for Environmental Sustainability
D. Governance-Public Sector Management and Institutions
12. Property Rights and Rule-based Governance
13. Quality of Budgetary and Financial Management
14. Efficiency of Revenue Mobilization
15. Quality of Public Administration
16. Transparency, Accountability, and Corruption in the Public Sector

### Appendix A: List of stakeholders interviewed

Ministry of Finance, Planning and Economic Development's Budget Monitoring and Accountability Unit  
 Judicial Service Commission  
 Local Government Finance Commission  
 Ministry of Education and Sports  
 Ministry of Finance Planning and Economic Development  
 Ministry of Gender and Social Development  
 Ministry of Gender Labour and Social Development  
 Ministry of Health  
 Ministry of Local Government  
 Ministry of Public Service  
 Office of the Auditor General  
 Office of the Prime Minister  
 Parliamentary Budget Office









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