



Country Diagnostic Note Uganda

Achieving Middle-Income Status and Structural Transformation



 Republic of Uganda
01 February 2022

Introduction

Uganda Country Diagnostic Note

Serves as an input to the Country Strategy Paper 2022-2026

Outline

1. Country Aspirations - Vision 2040
2. Socioeconomic and Macroeconomic Trends
3. Cross Cutting Issues
4. Development Gaps - High 5's
5. Conclusion and Recommendations



Country Aspirations:

Vision 2040

- Vision 2040 aims to raise Uganda to **upper-middle-income** status within 30 years, with per capita income averaging **\$9,500**
- The third National Development Plan aims to raise **household incomes and living standards**.
- Its key objectives are to increase **labor productivity** and **social wellbeing**, strengthen **private sector capacity** to drive growth and create jobs, build **quality and productive infrastructure**, promote **value addition** in key growth sectors, and support a **stronger role for the state** in national development (including public investment).

In 2020, some performance indicators:

- Poverty at around 21%
- Electricity access is about 21%
- Manufactured exports
- Gross capital formation, at 25.2 percent of GDP in 2020,
- Gross domestic savings, at 19.0 percent of GDP in 2020, implies that Uganda must continue to rely on foreign capital to make ends meet.

Selected Performance Indicators for Uganda's Vision 2040

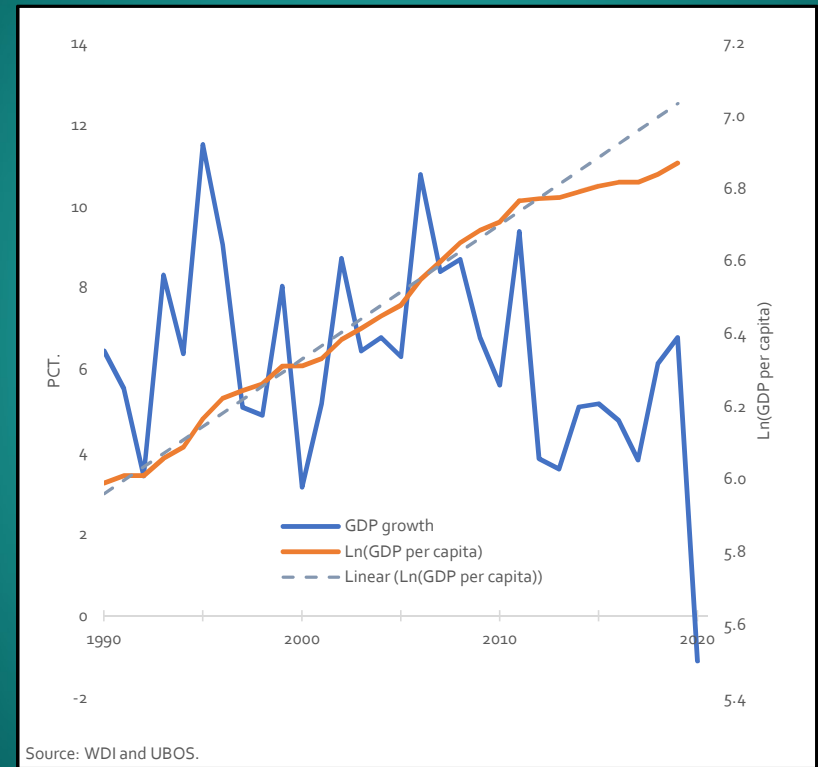
Indicator	1990	Baseline 2010	Target 2040
Income per capita (constant 2010 USD)	399	819	9,500
Agricultural labor productivity (value added/worker, constant 2010 USD)	1,057 (1991)	1,142	6,790
Population below the national poverty line (%)	56.4 (1992)	24.5	5
Manufactured exports (% of merchandise exports)	2.4 (1994)	22.8	50
Gross capital formation (% of GDP)	12.7	26.3	30
Gross domestic savings (% of GDP)	-0.5	14.9	35
Electricity consumption (kWh per capita)		75	3,668
Access to electricity (% of population)	5.6 (1991)	12.1	80
Access to safe piped water (% of population)		15 (6.2)	100
Standard paved roads (% of road network)		4	80
Cargo freight on rail (% of freight)		3.5	80
Urbanisation (% of total population)	11.1	19.4	60
Child Stunting (% of children under 5)	47.7 (1988)	33.5	0
Gender related development index		0.51	0.9
Forest cover (% of land area)	23.8	13.7	24
Wetland cover (% of terrestrial area)		8	13

Socioeconomic and macroeconomic trends:

Growth

- Strong growth trends in the 1990s and 2000s
- Slower growth after global financial crisis and euro debt crisis
- Clear deceleration of per capita income
- COVID-19 has exacerbated situation

Change in GDP growth and GDP per capita in Uganda, 1990-20 (%)

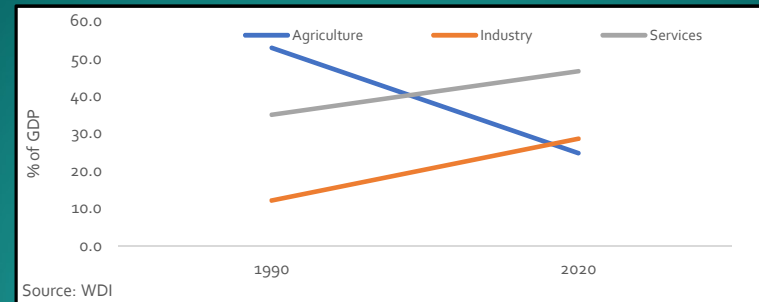


Socioeconomic and macroeconomic trends:

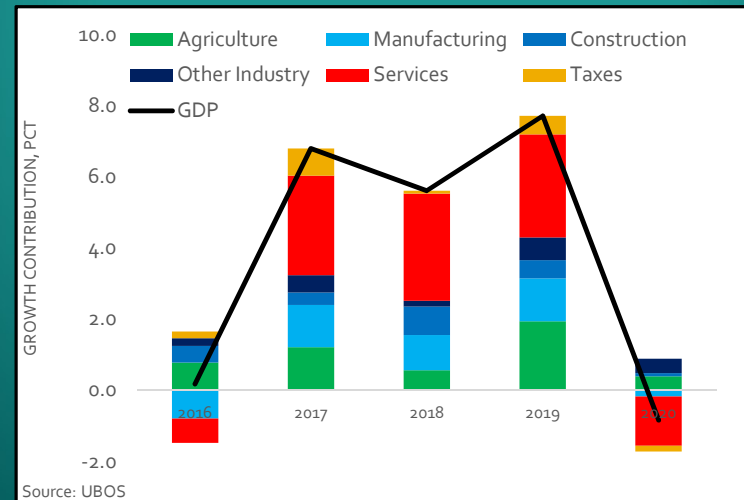
Structure of the economy

- Agriculture carries relatively less prominence in the economy
- Services the most important sector, followed by industry
- But note the slow development in agriculture productivity
- Contribution to growth is driven by services, manufacturing, and construction, while agriculture retains a significant level of importance.

Economic structure, 1990 and 2020



Supply-side contributions to growth in Uganda, 2016-20



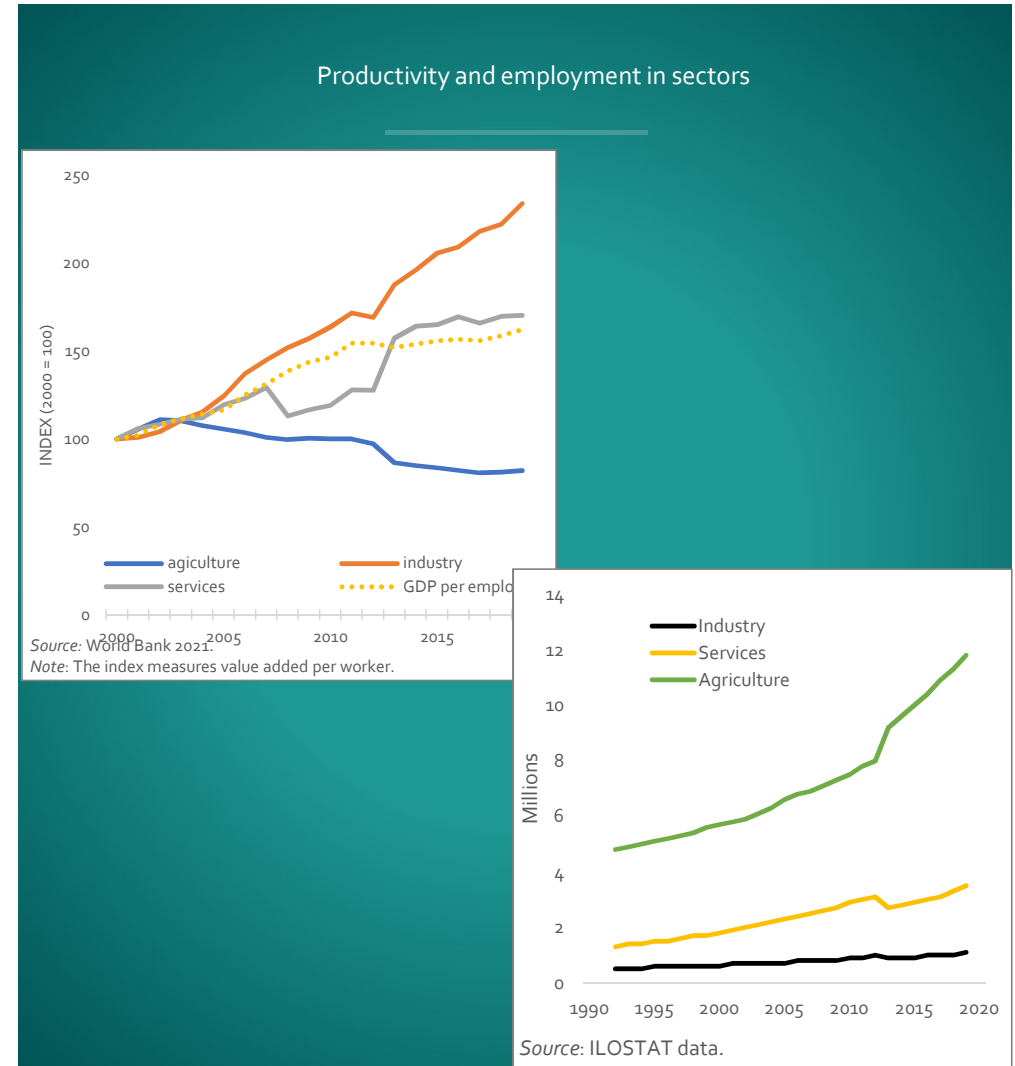
Socioeconomic and macroeconomic trends:

Productivity

- Uganda's productivity is rising, although slowing since 2010
- Industry rising fast, while services seems to be slowing
- Low productivity agriculture makes it very difficult for people to escape poverty
- Factor productivity such as land is characterized by insecure property rights, complicated ownership and transfer rules

Labor intensity of manufactured exported goods, 2020	
	Distribution (%)
Primary commodities	87.9
Manufactured goods	12.1
Labor/resource	3.9
Low-skill and technology	2.7
Medium-skill and technology	1.9
High-skill and technology	3.6

Source: UNCTAD 2021 .



Socioeconomic and macroeconomic trends:

Work force and labour

- Uganda has an abundance of labour: 16.3 million
- Mainly working in agriculture:
 - Subsistence 5.9 million
 - Agric employed 3.1 million
- Low skilled employment
 - Own account workers 6.5 million
 - Contributing family 1.7 million
- Paid employment 2.1 million

Labor indicators for Uganda, 2018/19

	Number (thousands)			Percent	
	Rural	Urban	National	Rural	Urban
Population	27,273	12,483	39,756	68.6	31.4
Working-age population	13,223	6,996	20,219	65.4	34.6
Population working (ages 14-64)	11,295	5,044	16,339	69.1	30.9
Subsistence farming	4,936	949	5,885	83.9	16.1
Employed population	6,215	3,987	10,202	60.9	39.1
Paid employment	802	1,284	2,086	38.4	61.6
Own account workers	4,338	2,125	6,463	67.1	32.9
Other (employers, contributing family, other)	1,075	578	1,653	65.0	35.0
Employed					
Skilled agriculture, forestry, and fishery	2,635	482	3,117	84.5	15.5
Services and sales	1,262	1,168	2,430	51.9	48.1
Crafts and trade	783	706	1,489	52.6	47.4
Elementary	771	554	1,325	58.2	41.8
Professionals	267	399	666	40.1	59.9
Plant and machine operators	342	323	665	51.4	48.6
Technicians	68	188	256	26.6	73.4
Others	87	167	254	34.3	65.7

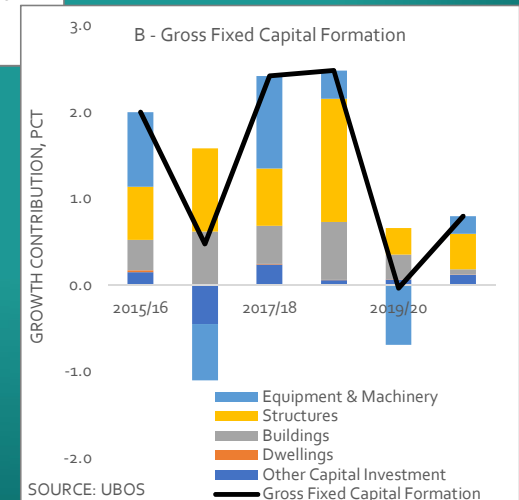
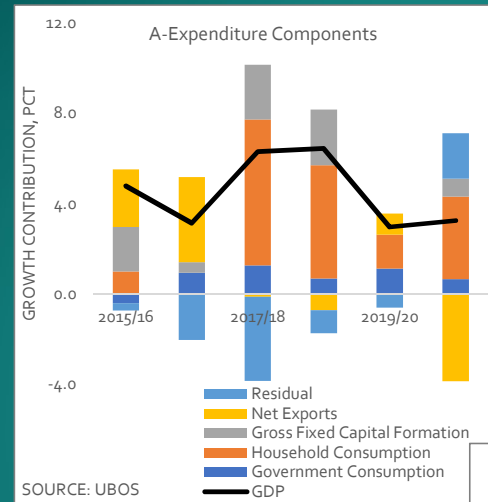
Source: UBOS 2019

Socioeconomic and macroeconomic trends:

Demand and investment

- Private consumption, investment and public consumption are important for growth
- Mixed picture in terms of net exports and the residual
- In terms of fixed capital formation
 - Structures and buildings are important contributors to gross capital formation
 - Equipment more mixed. This says something about industrial potential.

Demand-side components and contribution to GDP growth, 2015/16-2020/21

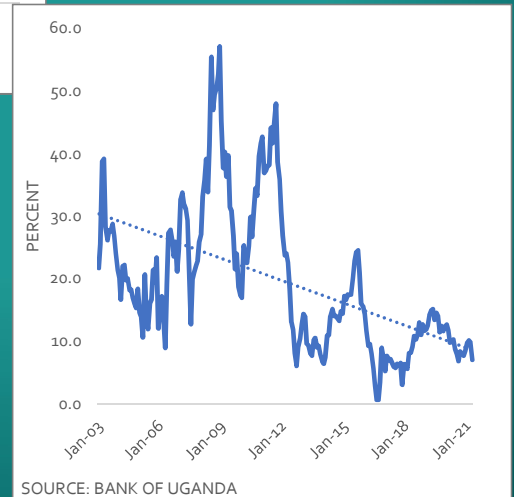
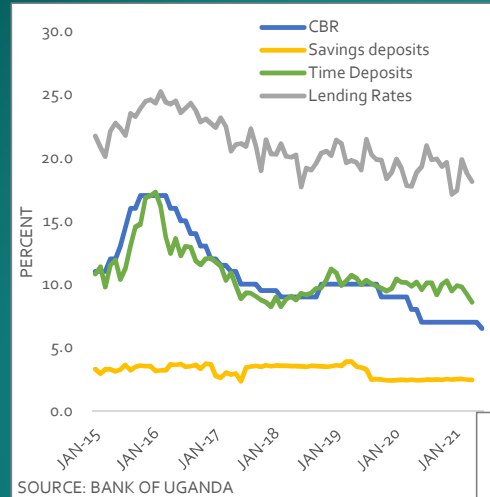


Socioeconomic and macroeconomic trends:

Financial Markets

- Relatively few financial institutions of a country the size of Uganda
- Narrow pallet of services and lack development
- Low competitiveness
- High lending rates – leads to lower credit growth which is mainly focused on short-term borrowing.
- Agent banking and mobile money are opportunities for development

Various interest rates (%) and credit growth (%)

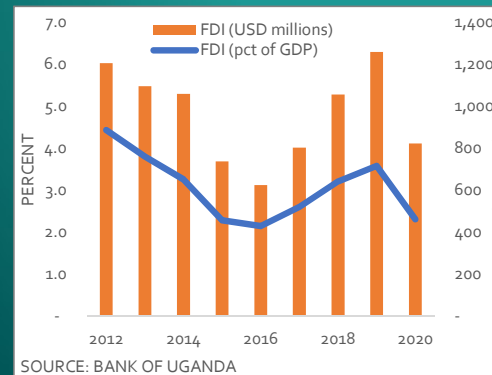
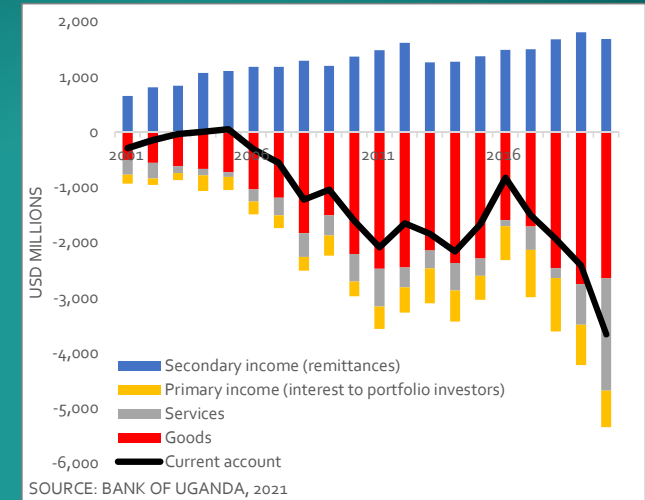


Socioeconomic and macroeconomic trends:

Current account

- Chronic current account deficit driven by deficit in goods
- Services (tourism) weakened in 2020
- Weak trade balance is similar to exporting jobs abroad (relatively strong shilling is adding to the issue)
- Strong external investment attracted to Uganda

Current account deficit and foreign direct investment



Cross-cutting issues:

- Governance

- Although developments are taking place, reforms are slow. The Uganda CPIA has showed limited improvements during the past 10 years.

- Climate

- Uganda will experience warmer weather, erratic rainfall, prolonged dry spells, extreme weather events (droughts, floods and landslides)

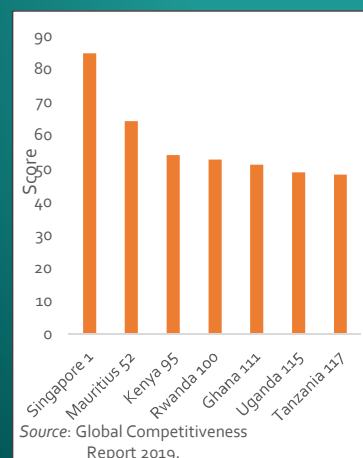
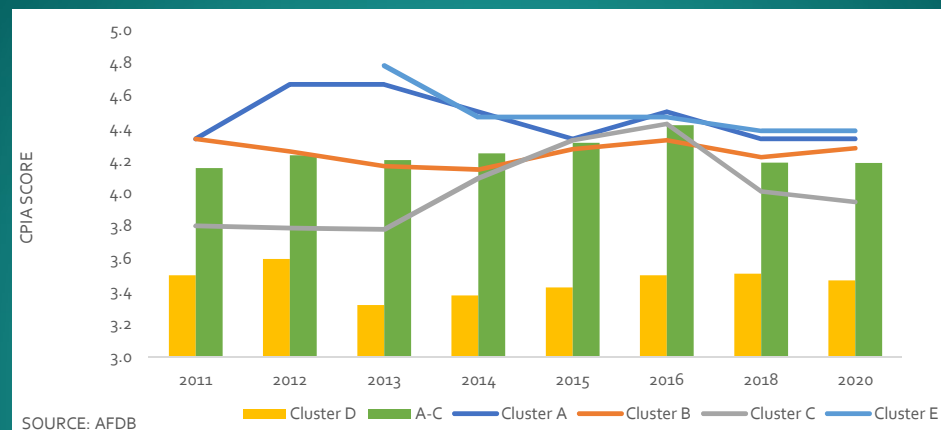
- Fragility

- Environmental: Uganda's population growth (fertility of 5.4 in 2016), among the highest in the world, has placed enormous pressure on natural resources,
- Youth employment: Uganda will need to create more than 600,000 jobs a year until 2030 and 1 million jobs a year by 2040,

- Private Sector Development

- Most businesses are informal, and less than 5 years old
- Uganda doing relatively well but neighbors are doing better
- Main impediment for private sector is to plug into regional and global value chains due to infrastructure, financing and policy obstacles.

Uganda Country Performance and Institutional Assessment



Firm size in Uganda, 2011

Firm size (employees)	Number of firms	Distribution (%)
1-4	428,100	93.5
5-9	19,027	4.1
>10	10,979	2.4
Total	458,106	100

Source: MFPED 2017.

Feed Africa

- Agriculture remains the backbone of Uganda's economy and is the main source of livelihoods for most of its rural population
- Agriculture's performance on production, productivity, and food and nutrition security has been far from satisfactory
- Agriculture expansion based on land expansion and labour
- Uganda's agriculture must transform from a low-productivity sector where the bulk of the population works to a more dynamic setting where its produce is readily linked to markets, while strengthening value addition
- Uganda has improved infrastructure services, yet those specific to agriculture—such as irrigation, dams for livestock, and rural roads are less developed.

Area planted for selected Food Crops, 2008-2020 (Ha)

	2008/09	2016	2017	2018	2019	2020
Plantain Bananas	915,817	970,250	970,308	578,757	589,000	633,000
Cereals	1,738,575	1,773,015	2,146,000	3,454,153	2,617,000	2,555,000
Root Crops	1,344,404	1,347,115	1,384,600	2,443,472	1,255,000	1,916,000
Pulses	617,522	674,700	1,100,000	1,205,509	867,000	1,017,000
Oil Crops	381,676	469,618	283,828	704,751	635,000	592,000
Total	4,997,994	5,234,698	5,884,736	8,386,642	5,963,000	6,713,000

Production Volumes for Selected Cash Crops, 2013- 2020 (tonnes)

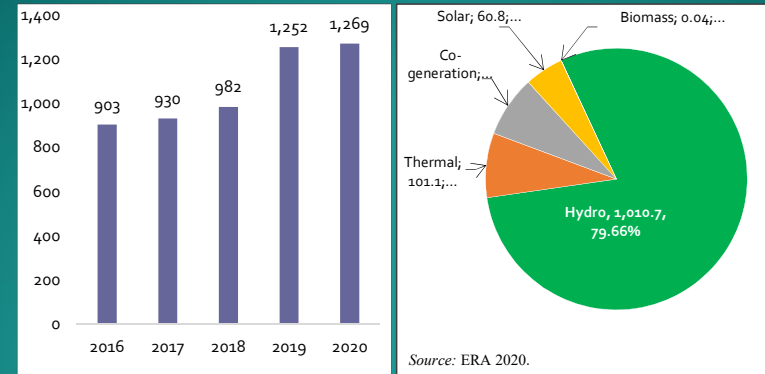
	Coffee Procured			Tea	Cotton
	Robusta	Arabica	Total		
2012	133,830	52,295	186,126	57,939	47,577
2013	166,986	58,908	232,561	60,970	18,571
2014	164,777	47,395	211,872	65,373	14,594
2015	180,020	49,129	229,169	58,588	17,275
2016	184,145	58,916	243,061	39,299	20,399
2017	228,845	73,218	302,063	50,055	31,808
2018	211,103	73,122	284,225	74,247	34,790
2019	249,560	64,373	312,601	60,337	33,600
2020	307,472	52,631	360,104	75,692	33,600

Development Gaps – High 5's:

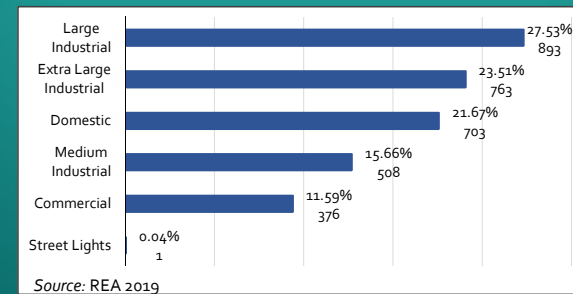
Light Up and Power Africa

- Uganda currently has excess generation capacity
- Lack ability to evacuate power to areas needed
- More investment in transmission and distribution required.

A: Installed capacity (MW), and B - Sources of Power (MW; PCT)



Energy consumption by customer type in Uganda (% , gigawatt-hours)

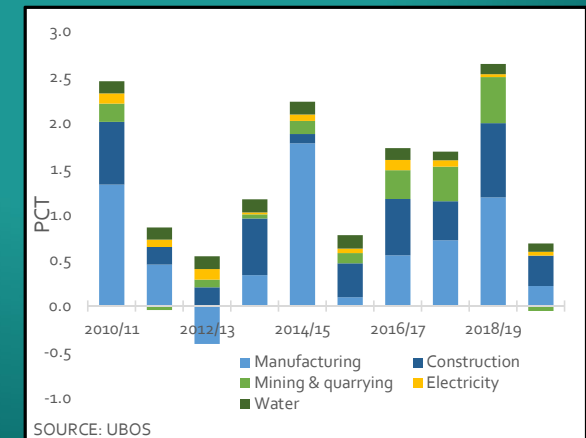
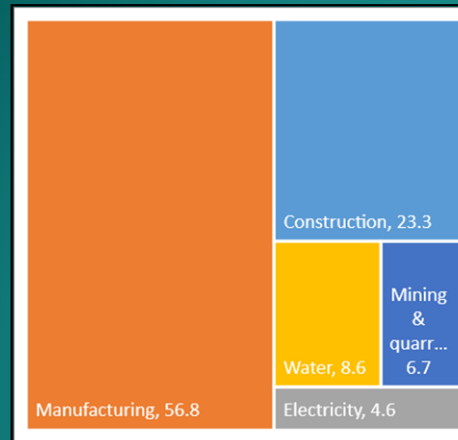


Development Gaps – High 5's:

Industrialise Africa

- Productivity in industry/manufacturing is rising
- Critical mass of industries and labour in and around Jinja-Kampala-Mpigi Corridor
- Transport infrastructure improving in the corridor (e.g. airport, roads, energy, industrial parks)
- Infrastructure must be further strengthened to close gaps and make a landlocked Uganda a competitive nation.
- Railway can reduce transport costs by 40% (and beyond) if implemented efficiently (US-cents per ton-kilometer)
 - Trucks 17-19
 - Meter Gauge Rail (rehabilitated) <11-13
 - Standard Gauge Rail (new) <6
- Other important (soft) areas include governance, goods standards, enhanced trade, commercial courts, financial markets, etc.

Distribution and GDP growth contributions of industries in Uganda

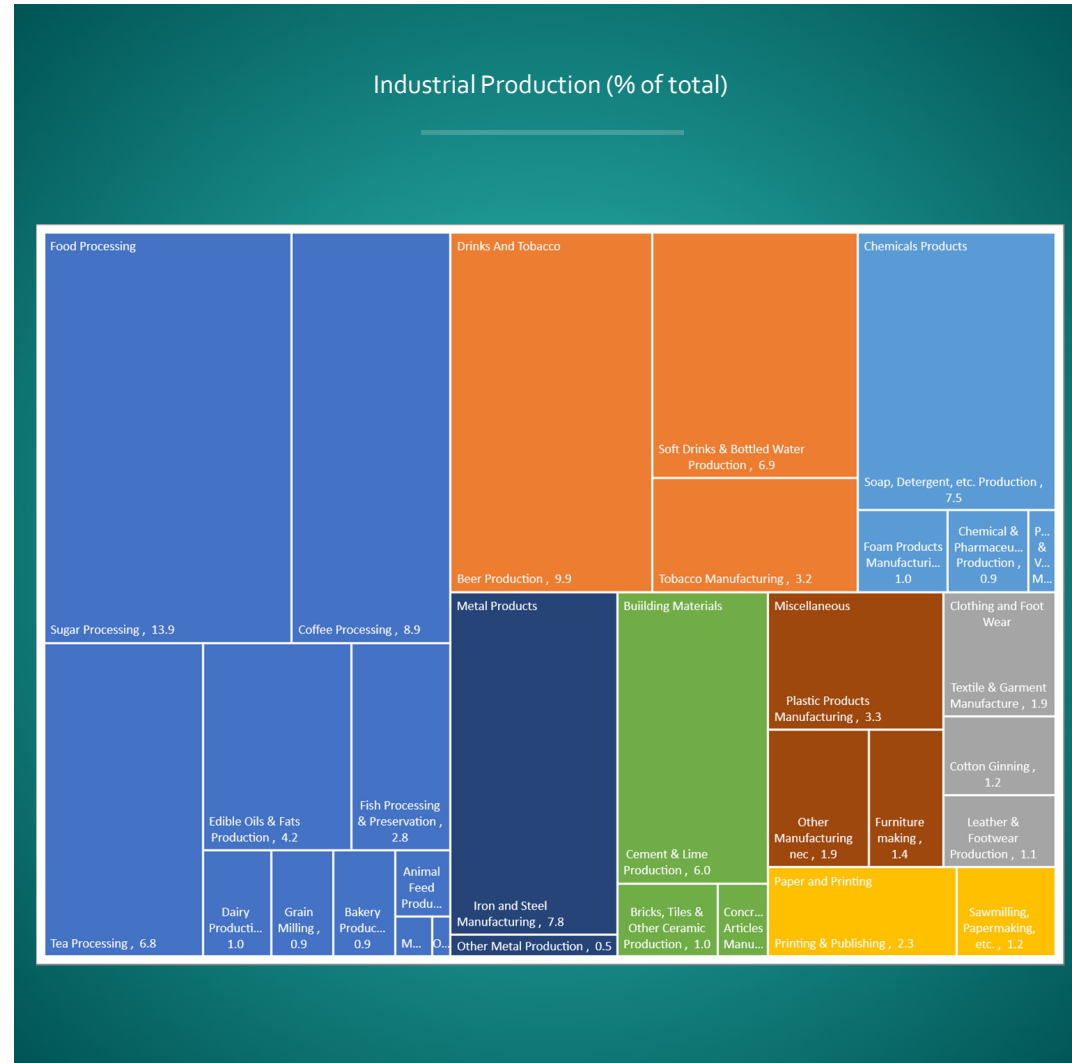


SOURCE: UBOS

Development Gaps – High 5's:

Industrialise Africa

- Low tech commodities agro-processing dominate industrial production

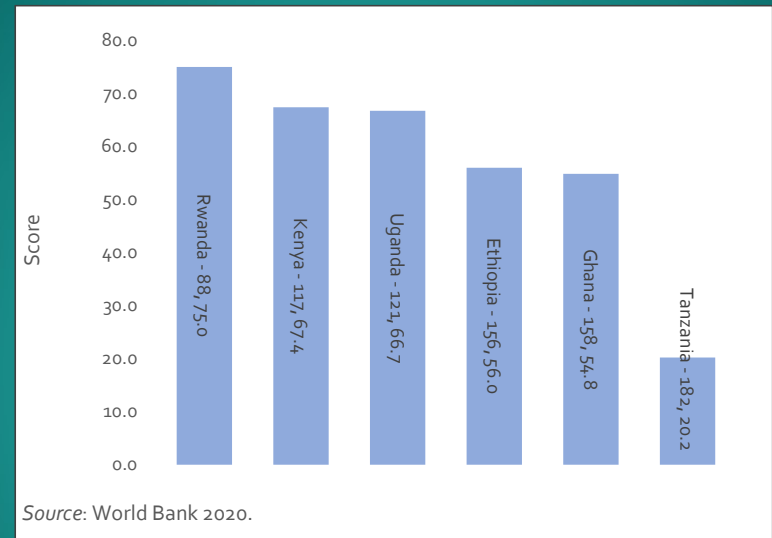


Development Gaps – High 5's:

Integrate Africa

- Regional integration is vital to the development of regional markets that allow goods and services to move seamlessly between countries.
- Uganda is a relatively open economy. At 48.2, its trade openness indicator is among the highest in East Africa (World Bank 2021).
- Uganda's location makes it a natural gateway for other landlocked countries in the region

Trading across borders in selected East African countries (rank, score)



Development Gaps – High 5's:

Improving the Quality of Life for the People of Africa

• Education

- Education system has been criticized for favoring white collar career choices, instead of instilling practical hands-on skills that are useful in industry, services, or self-employment.
- Primary education caters for most youth, but low enrollment in secondary, TVET and higher education
- To meet the skills demands of the future, Uganda will need to improve the quality of primary and secondary education and greatly expand the number of people with technical skills.

• Health & Population Growth

- Crude mortality declining since late 1990s while spread between mortality and birth rate remains high.
- Population growth of over 3% makes it extremely challenging to ensure catch up and keep up with socio-economic needs/demands

• Water & Sanitation

- Increased volumes of untreated water have led to deteriorating water quality
- Deterioration of wetland areas and illegal titling and cutting in forest reserves adds to the deterioration of water quality.

Average employment growth by sector in Uganda, 1991-2018 (%)					
	1991-1999	2000-2009	2010-2018	1991-2018	Workers engaged (thousands)
Agriculture	2.0	2.6	3.7	2.7	9,774
Mining	9.3	1.2	19.1	9.3	146
Manufacturing	5.3	-0.5	3.4	2.6	726
Utilities	6.3	-2.9	4.4	2.3	9
Construction	5.7	8.7	5.4	6.7	365
Trade services	3.7	3.4	2.6	3.2	1,853
Transport services	2.0	5.1	8.9	5.3	381
Business services	8.9	5.7	7.4	7.3	143
Financial services	5.3	3.9	6.1	5.1	38
Real Estate	9.4	11.1	4.3	8.3	8
Government services	1.4	5.3	7.8	4.8	854
Other services	1.7	6.6	5.1	4.5	3.1
Total	2.5	2.9	4.0	3.1	14,802

Source: Groningen Growth and Development Centre, Economic Transformation Database GGDC/UNU-Wider, release February 2021.

Causes of death in health facilities in Uganda, 2018/19				
	Deaths, < 5	Deaths, 5+	Total deaths	Percentage
Malaria	3,007	1,494	4,501	13.0
Pneumonia	1,508	1,328	2,836	8.2
Injuries	488	1,968	2,456	7.1
Other neonatal conditions	2,244	-	2,244	6.5
Anemia	1,056	1,181	2,237	6.5
Premature births	1,822	-	1,822	5.3
Tuberculosis	202	1,193	1,395	4.0
Other	5,467	11,533	17,000	49.3
Total	15,839	18,697	34,491	100.0

Source: Ministry of Health Management Information System

trends:

SWOC

- Macroeconomic stability has been sustained for a decade
- Opportunities for synergies to the rest of the economy
 - Mining and mineral industry and expansion of the iron and steel offer opportunities for the construction industry
 - Oil and gas have the opportunity to boost the economy and provide extra resources, while improving the current account
- Participation in trade blocs offers additional opportunities for expanding competitiveness and diversifying exports.

Summary of Strengths and Opportunities, Weaknesses and Challenges

<p>Strengths</p> <ul style="list-style-type: none"> – Excess energy generation capacity is available for mining, manufacturing industries, and commerce to power industrialisation – Roads, water and telecoms provide basic access to linking rural production areas to urban and regional markets but lack competitiveness – Rich natural resource base capable of driving economic development – Sustains macroeconomic stability 	<p>Weaknesses</p> <ul style="list-style-type: none"> – Skills mismatch affects business development and innovation – Low institutional capacity, slows progress, and lowers absorption, delaying infrastructure investment and increasing cost – High cost of credit lowers firm investment and limits expansion – Fiduciary risks and corruption affect development pace – Low adaptive capacity to adequately address climate change impacts – Limited institutional gender mainstreaming, e.g., missing gender sensitive policies and strategies in works and transport
<p>Opportunities</p> <ul style="list-style-type: none"> – Mineral extraction and development of iron and steel can spur industrialisation – Oil and gas can strengthen the Hoima region and create economic synergies and jobs, boosting trade, construction, and skills development – Declining costs of small-scale renewable energy create opportunities to provide affordable electricity to rural areas – Participation in trade blocs gives market access and improved competitiveness by lower cost railways 	<p>Challenges</p> <ul style="list-style-type: none"> – Low labour productivity in agriculture drives stagnating income – Higher cost to access global value chains, driven by the high cost of transport, as country is landlocked – Urban congestion weakens efforts to improve productivity and grow the economy – High population growth undermines economic policy, hampers efficient service delivery, and reduces effects of economic growth – Regional conflicts risk affecting domestic security, which will slow development – High vulnerability in key sectors to climate change impacts.

Conclusion and recommendations:

Some key recommendations

- Maintaining macroeconomic stability and accelerating reforms to unlock the private sector
 - Financial markets
 - Skilling
 - Higher value activities
- Boost regional and international competitiveness through business and industrial reforms and address macro-fiscal risks to maintain macroeconomic stability
- Continue to expand socio-economic infrastructure to promote competitiveness and industrialization
- Policies that allocate more resources are needed to boost agricultural productivity and competitiveness
- Strengthening tax administration and collection, rationalize tax holidays, and support expansion of tax base to raise revenue to GDP

Proposed New Bank Group Strategy for 2022–26:

Strategy Objectives and Priority Areas

Development remains guided by Vision 2040, NDP III and the National Physical Development Plan with the following targets:

- i. Enhance **value addition** in key growth opportunities;
- ii. Strengthen the private sector to **create jobs**;
- iii. Consolidate and increase the stock and **quality of productive infrastructure**;
- iv. Enhance the **productivity and social wellbeing** of the population; and,
- v. Strengthen the **role of the state in** guiding and **facilitating development**.

New Country Strategy

- The CSP development objective is **improved connectivity and industrial competitiveness to expand non-traditional exports and reduce vulnerability to external shocks**. Consultations with the Government and Bank Management proposes to consolidate the gains made in the previous CSP with a **stronger emphasis on industrialization** by focusing on one priority in the new CSP:
 - **Develop quality and sustainable infrastructure to support industrialization and private sector development**
- Via the Non-Sovereign Window, the Bank will support development and expansion of the financial and private sector, to underpin the priority areas, by boosting access to finance to catalyse enterprises.



Strategy Outline and Expected Key Outcomes

Priority Area 1:

Develop quality and sustainable infrastructure to support industrialization and private sector development

Agriculture: value chains

Transport: roads & rail

Water & Sanitation: safe water & improved sanitation for productive use, water management and preservation

Energy: Transmission, distribution, mini-grids & institutional development

Cross-cutting

Skilling and jobs for youth, gender, climate & adaptation, and sustainable growth

Support via NSO Window:

Develop and expand financial and private sector, by boosting access to finance to catalyse enterprises

Support from Bank's private sector window (locs, equity, guarantees) to promote industrialisation and SME expansion

Technical Assistance

Advisory services

Knowledge work



Thank you

For more information see the Uganda Country Diagnostic