UGANDA ECONOMIC UPDATE

AUGUST 2013 | 2ND EDITION

Special Focus

Jobs: Key to Prosperity

THE WORLD BANK

Uganda Economic Update

SECOND EDITION

AUGUST 2013

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Foreword

It is a pleasure to introduce the second edition of the Uganda Economic Update series. The series is part of our effort to engage a broad audience in a discussion of Uganda's economic developments. Each edition of the series includes two parts: a general update on the economy of Uganda, and a more detailed discussion of a specific issue of critical importance to the development of Uganda. The present edition discusses the agenda of Jobs, around the challenge of creating productive employment opportunities for more of Uganda's citizens.

This second edition comes at a time when Uganda's economy is recovering from the slump it suffered in FY12, when it recorded a GDP growth of 3.4 percent. If the renewed macroeconomic stability is sustained and investments to address binding constraints to growth yield dividends, the economy is expected to gradually revert to earlier growth rates of around 7 percent. This growth outlook also reflects expected benefits from oil-related investments. The most important challenge lies on how the country exits aid dependence without falling into oil dependence. Key to this transition relates to prudent fiscal management, good governance, accelerating growth through a more diversified economic base that brings about more job opportunities.

Over the past decades, Uganda's impressive economic growth has generated employment opportunities in many sectors. However, these have been insufficient to absorb the fast growing and rapidly urbanizing labor force. A number of factors are at play here:

- First, most firms are stuck in a sub-optimal equilibrium with low productivity. Combining this with rapidly growing labor supply, educated youth are increasingly finding it difficult to gain employment in areas for which they have been trained or that match their qualifications and expectations.
- Second, the vast majority of Ugandans remains unskilled. As a consequence, they are unable to promote the growth of firms.
- Third, the mismatch between the number of good jobs and the size of the labor force is likely to worsen as an increasingly large number of young Ugandans enter the workforce. Moreover, as the agricultural sector becomes more efficient and productive, the ability of this sector to absorb large numbers of workers will diminish. This will further accelerate urbanization.

However, through appropriate policies, Uganda can build upon the successes of the past to address the challenge of creating more and better jobs. This second edition of the Uganda Economic Update series argues that the biggest challenge for policy makers relates to creating an enabling environment for farms and firms to thrive, grow, and create productive jobs. Meaningful labor participation will also hinge on appropriate skilling of the labor force. In addition, this report calls for an approach that on the one hand improves jobs and creates more jobs at the level of household enterprises and in small and medium enterprises, and on the other hand promotes growth of larger firms which are the main source of innovation and transformation. The agenda for action has to be concrete and clear to stakeholders, and action has to start now. We hope that this edition will provide a useful contribution to the national debate on this important agenda.

Philippe Dongier
World Bank Country Director for Uganda, Tanzania and Burundi

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Abbreviations and Acronyms

BOU	Bank of Uganda
BOP	Balance of Payments
CBR	Central Bank Rate
COMESA	Common Market for Eastern and Southern Africa
DSA	Debt Sustainability Analysis
DRC	Democratic Republic of Congo
EABC	East African Business Council
EAC	East African Community
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
HIPC	Highly Indebted Poor Countries Initiative
ICT	Information and Communications Technology
IFC	International Finance Corporation
IMF	International Monetary Fund
LIBOR	London Interbank Offered Rate
MDRI	Multilateral Debt Relief Initiative
MFPED	Ministry of Finance, Planning and Economic Development
NDP	National Development Plan
NEER	Nominal Effective Exchange Rate
ODA	Official Development Assistance
REER	Real Effective Exchange Rate
SMEs	Small and Medium Enterprises
SSA	Sub-Saharan Africa
UEU	Uganda Economic update
URA	Uganda Revenue Authority
USAID	United States Agency for International Development
VAT	Value added tax
WB	World Bank
WDI	World Development Indicators

Key Messages

Despite the difficult past five-year period, renewed macro-stability is creating a strong basis for Uganda to rebuild a more resilient economy. From an average rate of economic growth of 9.3 percent per annum in the period from FY01 to FY08, the rate declined to 7.2 percent in FY09 and to 5.9 percent in FY10. There was a short-lived recovery in FY11, with the rate increasing to 6.7 percent, before falling again to 3.4 percent in FY12. Average per capita income is estimated to have declined from US$ 470 in FY11 to US$ 440 in FY12, while the proportion of the population living below the poverty line may have increased from 25 percent to about 29 percent between 2009/10 and 2010/11. The fiscal and monetary adjustments implemented since mid FY12 have resulted in the stabilization of some key financial indicators, including inflation and the exchange rate, which has helped to instill confidence in the market. The economy is currently recovering and is estimated to have grown at a rate of approximately 5.0 percent in FY13. This improved stability is creating an enabling environment for the implementation of long term fiscal and structural policies that may facilitate Uganda's achievement of accelerated growth and ultimately of its goal of achieving middle income status.

> "The economy is currently recovering and is estimated to have grown at a rate of approximately 5.0 percent in FY13.

An accelerated rate of economic growth can be achieved through a more rapid diversification of the economic base. Such a diversification would provide new sources of employment for Uganda's rapidly growing and urbanizing labor force, even as the agricultural sector remains the predominant employer for the foreseeable future. This diversification should involve the production of higher value products and the well-planned exploitation of the country's resources, including its human resources and its natural resources, particularly oil. Uganda has to manage this rapid structural transformation appropriately so that sufficient jobs will be created to provide employment for the young and rapidly growing working population and to promote the growth of the most productive sectors to sustain productivity gains and economic growth over time.

Part I: State of the Economy: Recent Economic Developments and Economic Outlook

Economic recovery is gaining momentum, despite unexpected fiscal developments. The Ugandan economy grew strongly during the first half of FY13, driven by renewed economic stability, private sector response to monetary easing, and improved export prices. With the low level of inflation, the monetary easing gradually resulted in an increased availability of credit, especially for large and medium sized enterprises. Improved prices of some commodity exports and good weather boosted agricultural output. However, this economic recovery suffered as a result of unexpected events on the fiscal front. The overall rate of growth during FY13 has been estimated to reach approximately 5 percent.

Subsistence Fishing! A fisherman in northern Uganda

> The fiscal deficit is estimated to reach a value equivalent to 3.9 percent of GDP, lower than the target of 4.2 percent.

In FY13, inflation slowed down as pressures from the spikes in food and oil prices receded. This has led to an easing of monetary policies by the Central Bank. While this policy action could have helped to increase the availability of banking credit to the private sector, its impact has been limited by the persistent high cost of credit and the temporary closing of the Land Offices. Banks also preferred to lend in foreign currency. As a result, credit remained largely inaccessible for most small and medium size business operators in the country.

In the context of the delayed execution of key public investments, the partial aid freeze, and lower than anticipated domestic revenues, government spent less and hence ran a lower deficit during FY13. Domestic revenues are estimated to reach a value equivalent to 13.0 percent of GDP, compared to the target of 13.6 percent, while grants are expected to reach 1.7 percent, as opposed to the budget value equivalent to 2.3 percent of GDP, partly as a result of the suspension of approximately US$ 280 million in aid by Budget Support Donors. Spending is expected to reach a value equivalent to 18.6 percent of GDP, lower than the anticipated level of 20.0 percent, largely due to delays to the commencement of the construction of the Karuma Hydro Dam. By contrast, expenditure on public administration was higher than forecast. The fiscal deficit is estimated to reach a value equivalent to 3.9 percent of GDP, lower than the target of 4.2 percent.

The government has responded to the decline in concessionary financing by borrowing domestically. The value of funding derived from public borrowing on the domestic market is expected to increase from the value equivalent to 0.1 percent of GDP recorded in FY12 to 1.5 percent in FY13, either through open market operations or by drawing down accounts in the Central Bank. As a result, Uganda's total debt is projected to have increased to a value equivalent to 36 percent of GDP by the end of FY13, which is still below pre-MDRI levels. However, the increasing shorter term, higher interest domestic debt increased the interest burden. Prudent fiscal and debt management policies will ensure that debt remains sustainable over the short and long terms.

Uganda's external position is improving due to an improving trade balance and as Uganda continues to attract private capital inflows. For the first half of FY13, year-on-year data indicated that the current account deficit had shrunk from US$ 1,080 million to US$ 942 million. This resulted from an increased volume of exports that was driven by a deeper involvement in regional markets, with almost half of the trade expansion involving exports to EAC and COMESA markets. At the same time, the volume of imports declined by 4.7 percent. On the capital account, the total value of FDI amounted to US$ 657 million in the first half of FY13, higher than the sum of US$ 447 million recorded in the previous year. About US$ 635 million in incremental capital account flows came from increased investments in external assets by domestic banks, as interest rates on domestic securities declined. The value of the Ugandan shilling has remained relatively stable in both nominal and real terms for most of FY13. By June 2013, the shilling had only depreciated by 4.4 percent against the dollar in nominal value, having recouped much of the value lost following the governance scandals and subsequent suspension of aid.

The World Bank forecasts that Uganda's economic recovery will gain momentum in FY14, achieving a rate of growth of 6.5 percent. Following the pattern of previous years, growth will be driven primarily by the services sector (approximately 8.5 percent), including communication and finance. Secondary drivers of growth will be the construction sector (10 percent), which will benefit from improved financial conditions, an improved energy infrastructure, and higher levels of FDI in extractive industries, and agriculture (5 percent), which will benefit from public investments in improved inputs and from increased private sector activity in the sector.

> Increased volume of exports that was driven by a deeper involvement in regional markets

In order to achieve sustained recovery, prudent monetary and fiscal management will remain essential. An eased monetary policy has already resulted in an expansion in credit to the private sector, which should be perpetuated as lending rates for local currency credit are adjusted further. This should boost the rate of growth of private investment from a value equivalent to 15 percent of GDP in FY13 to 18 percent in FY14. In terms of fiscal management, the Government will have to manage the trade-off between the higher level of public expenditure required to address current deficiencies in infrastructure and social services and low levels of revenue collection, on one side,

A Tanzanian registered truck carrying goods to S. Sudan

> To ensure a higher rate of usage of the appropriate fertilizers and seeds and control crop diseases

Inappropriate land use without new technologies undermines benefits from Agriculture - Amooti in garden in Kasese

and the need to maintain a sustainable overall deficit over time, on the other. Public investment must be accompanied by efforts to achieve improved efficiency and effectiveness in the social sectors, including through improvements to service delivery, notably by local governments. These policy priorities, which are emphasized through the Budget for FY14, will support recovery if implemented appropriately.

Uganda could grow even faster in the medium term as a result of improved infrastructure, increased private sector activities and trade, and increased levels of agricultural productivity. The Government's plans to increase access to markets and lower transport costs by building additional rural feeder roads; to improve access to irrigation; to ensure a higher rate of usage of the appropriate fertilizers and seeds and control crop diseases, particularly the coffee, cassava and banana wilt diseases; and to promote warehousing, will result in higher levels of agricultural production. The rate of growth of the industrial sector could accelerate, boosted by improved infrastructure (particularly an improved energy supply) and through the implementation of other growth-enhancing reforms and interventions aimed at streamlining business operations. In addition, the growth of the services sector, including growth in the banking and telecommunications sub-sectors throughout the EAC, will also contribute to the positive macroeconomic outlook. Considering that Uganda is currently ranked 120th out of 185 countries surveyed in the World Bank's "Doing Business" survey, it is clear that the potential benefits of an improved business environment are significant.

Uganda's economic outlook benefits from expected oil explorations and other activities related to the development of this new sector, although the timeline for the commencement of oil production in Uganda remains uncertain. Within proven oil reserves of 800 million barrels, Government revenue would double in less than 10 years to reach US$ 3 billion if oil prices remain at their current levels, and the country could capitalize on a cheap and abundant source of energy to develop and expand a range of productive activities. It is not yet clear exactly when production will commence or what its magnitude will eventually be, but the most recent indications are that limited production of 30,000 barrels will commence within 2-3 years, with full-scale, export-driven production commencing no sooner than in five years. However, the construction cycle should start soon, with an expected significant (but temporary) impact on local suppliers and on the creation of employment.

Uganda faces a number of risks over the short to medium term, the most important relating to fiscal management. Fiscal space might become limited with the expected decline in development

assistance. While still has space to borrow, excessive domestic borrowing might also increase fiscal vulnerability through costs associated with high interest rates and short term redemptions. Lack of discipline in public expenditure planning, excessive non-priority spending, and political interference could also result in a decline in Uganda's fiscal situation. As a landlocked country with a predominantly agrarian economy, Uganda will remain vulnerable to exogenous factors such as volatility in the prices of imports and exports, regional instability, and weather shocks. Lastly, Uganda's economic performance may be affected if a change in political climate as the 2016 presidential and parliamentary elections approach and raise economic uncertainty.

> The process of urbanization is providing opportunities for new economic activities through the agglomeration of firms and customers, notably in the manufacturing and services sectors.

Managing the risks will be vital to achieve robust growth. However, the sectors that are driving this growth have also to become more important sources of employment for the fast growing labor force. With 73 percent of the labor force being employed in the agricultural sector, this sector has remained the primary source of employment in Uganda. Unfortunately, most of those involved in this sector are engaged in low value, subsistence activities. The majority of jobs outside the agricultural sector are in the informal enterprise sector or in low value, small-sized formal establishments. The process of urbanization is providing opportunities for new economic activities through the agglomeration of firms and customers, notably in the manufacturing and services sectors. Three quarters of the new formal jobs were created in the most urbanized districts, Kampala, Wakiso, Mukono, Mbarara, Jinja and Arua. However, such activities still involve only a small proportion of the labor force. There is a structural mismatch between sectors and locations that employ the largest proportion of the labor force and those that contribute to output growth. This posits the challenge of not only creating jobs, but creating the right jobs to spur development. The second part of this update explores these issues in greater depth.

Part II: Jobs: Creating more productive employment opportunities for more of Uganda's citizens

Uganda is facing an increasing challenge to productively employ its fast growing and mainly young, literate and increasingly urban population. However, an even larger challenge for Ugandan policy makers will be to manage the entire labor force's transition from a predominant involvement in low productivity subsistence agriculture to increased involvement in higher productivity manufacturing and services sectors. Changes to the labor force's level of access to good jobs will continue to be driven by the transformation of production, the demographic transition and the process of urbanization. If the transformation of the economy continues on its current path, the services and manufacturing sectors could expand significantly to the point where the number of workers employed in these two sectors doubles to about six million by 2020. However, with the labor force growing above 4.0 percent per annum, Uganda will have an additional 10 million workers on the market by then. With the ongoing reforms to the educational system, about 50 percent of the total labor force will have attained at least a minimum of primary education. About 20 percent of the total labor force will be urban dwellers. The

Small entrepreneur making ends meet in Lira town

> About 20 percent of the total labor force will be urban dwellers.

agricultural sector will therefore remain a major source of employment, mainly because it will be performing the role of residual employer. In the urban areas, the fast growing formal sector can provide employment by accelerating from its low base. However, the informal sector will still play a significant role in providing employment.

Looking forward, multi-dimensional strategies are required to generate transformative employment for Uganda's labor force. The key policy question is: How can the Ugandan labor market absorb an increasing labor force while facilitating ongoing improvements to productivity? A key point emphasized by the 2013 World Development Report on Jobs is that each country has specific characteristics that affect the composition of its labor force and its deployment and that there is no universal means of facilitating a transformation that applies to all countries. Similarly, within any particular country, there can be a regional or sectoral divergence in economic structures and job profiles at different points in time. With this in mind, the emphasis will be different depending on whether the policies are applied to rural areas or urban areas. In the context of Uganda's current and future economic structure, demographic patterns, and rural-urban dynamics, the job strategy can be defined in terms of five pillars:


Lab Technician

Pillar 1: Creating better jobs on the farm will result from increased productivity within the agricultural sector. This

will be particularly significant for rural areas, where 90 percent of farming jobs are located. Current efforts by government to improve rural infrastructure to connect producers to markets, to raise the level of capitalization of farmers by facilitating improved access to finance, to bring research and advisory services closer to farmers, and to address factors responsible for the high cost of inputs must overcome past public sector failures that acted as constraints against farmers, particularly small farmers, from accessing and using new technologies. In addition, land rights must be secure if agriculture is to achieve this transition. For urban areas, more farming jobs can be generated if new methods of urban farming and non-traditional activities, such as poultry, piggeries, and livestock, are encouraged.

Pillar 2: Making the informal sector more productive, especially in urban areas. The jua kalis (artisans) and household-based enterprises employ half of the labor force outside agriculture. Authorities, particularly at the local level, must see the informal firms as a means to create employment and generate revenue, and not as a burden. The sector can raise productivity and provide better jobs if the operators have access to capital, raising their technical and entrepreneurial skills and creating an enabling working environment. As experience from other countries like Brazil suggests, measures designed to address these three main constraints have to be implemented simultaneously to maximize impact. A matching grant that provides capital and workstations and that also requires these entrepreneurs to raise their skills is one example.

Pillar 3: Improving survival, growth and productivity in the formal sector. This largely concentrated and urban-based sector will be the source of innovation and the driver for shifting Ugandan workers from relatively low-productivity activities to higher ones. There are no barriers to starting businesses, as evidenced by the large number of newly established firms. However, the high infrastructure costs, lack of access to finance, poor business services and lack of skills constrain the survival and growth of formal firms. In addressing these constraints, the Government must be strategic, taking account of the severity of the constraint to particular types of firms and of the magnitude of the anticipated impact on job creation.

Pillar 4: Ensuring that the labor force has the appropriate skills. Skills allow firms to operate at a higher level of productivity, empowering the labor force to participate in higher productivity jobs. The skilling of Uganda's labor force must address a twofold challenge, involving: (a) the provision of foundation skills through high quality primary education and through the achievement of a higher rate of transition to secondary education; and (b) the provision of the requisite skills to support the transformation of the economy in a manner that ensures a high level of inclusion. In addition to current government efforts to improve education and the skilling of Uganda's labor force, the private sector must be encouraged to participate in skilling workers, as no education system can produce the specific skills that are needed by particular industries.

Pillar 5: Promoting a more efficient urbanization process to support firm growth and job creation

> "The high infrastructure costs, lack of access to finance, poor business services and lack of skills constrain the survival and growth of formal firms.

Tilda Holdings - One of the few larger farms linking agriculture to industry

in urban areas. As they do almost everywhere in the world, firms in Uganda concentrate in urban areas because they value the agglomeration benefits that this location provides. These benefits include information sharing, process and product innovation and access to producer amenities, such as business, financial, logistics, banking, advertising, legal and other services. For firms to fully benefits from location in urban areas, they must be able to freely substitute land with capital. This is realized when there are good physical plans that guide developments in the urban areas, well developed infrastructure to support mobility, and land policies and institutions that secure land rights and allow land to be utilized for increasingly high value activities. Priority reforms include those to improve land use flexibility (e.g. systems for land registration, valuation and incentives for land owners to rent out land); to address urban congestion, and to minimize regional gaps in social services such as education and health so that people migrate to urban areas not in search of better social services, but in search of productive employment.

The policy agenda is complex and its impact will likely mainly be realized in the medium to long run. Nonetheless, the agenda for action has to be concrete and clear to the stakeholders, and action has to start now. The highest priority lies in ensuring the increased productivity of the agricultural sector, as this is where the bulk of the population works. In this regard, current efforts in this direction are commendable. However, people are also moving off the farm and will continue to do so if agriculture is to raise productivity. Thus, similar attention must be paid to off-the-farm activities. The first point of action in the non-agricultural sector must be to address constraints against firm productivity growth.

The following five short term measures might be adopted as measures to achieve a rapid impact on the job creation agenda:

i. **Strategically grow larger firms by supporting clusters and full value chains for strategic sectors, such as light manufacturing,**

> “Attracting investors, particularly foreign investors, into strategic sectors can have a significant impact on job creation.

Tea estates such as this in Fort Portal can create more jobs

exportable products, building and construction, and the oil industry. Large firms can drive a rapid increase in employment because they drive transformative productivity growth and have significant potential to support a higher level of integration with regional and global economies. However, while existing large firms down-sized following privatization programs implemented between the 1990s and early 2000s, very few new large firms have been established since then. Attracting investors, particularly foreign investors, into strategic sectors can have a significant impact on job creation. Such approach should focus on building the entire value chain, as was the case for the Ethiopian leather industry. Uganda's producers of exportable products can continue to contribute to employment creation if, in addition to overcoming constraints to lower production costs, they access deeper regional markets through lower transport costs and the removal of non-tariff barriers. In addition, in anticipation of an increase in the export of processed food, with important backward linkages to agriculture, industries in foods and beverages manufacturing, phyto-sanitary certification, plastics, packaging, and transport logistics, should be encouraged as they would complete the value chain. A similar approach could be applied to other value chains for the production of building materials, oil, and beef.

ii. **Improve the business environment by industrial zoning and innovative financial solutions.** This will require a focus that extends beyond the reform of business regulations. One way to create an enabling environment for a large number of firms at the same time is to promote the formation of clusters. Industrial zoning is one useful instrument to reduce transaction cost, improve connectivity, promote increased access to finance, and to facilitate the transfer of technology and innovation. Government efforts in this direction, which have begun with the establishment of industrial parks, need to be followed more zealously to improve the business environment for firms in clusters that are already forming. In addition, access to finance can be improved by introducing a leasing law to foster lending without collateral and to ease access to

> "One way to create an enabling environment for a large number of firms at the same time is to promote the formation of clusters.

Metal and pottery works leading the way for informal enterprise

machinery and capital. Furthermore, innovations such as the introduction of a collateral registry and the legalizing of 'factoring' as a financial instrument to enable SMEs to use their contracts with larger firms to access finance from financial institutions, are necessary. These improvements in the business environment will also foster the growth of the small and medium sized enterprises that are the largest source of employment.

iii. **Create linkages between large industries and small and mainly informal manufacturers.** This is potentially beneficial to both large and small firms. It would raise productivity of informal firms and lower input costs for the large firms. Special incentives for the few large steel and mills manufacturing industries could encourage the establishment of linkages with the jua kalis (artisans). Such linkages can build on the current practice of collecting scrap metal that is fed into steel mills or plastic scrap that is collected by recycled into large plastics industries.

iv. **Create a matching grant for informal sector operators.** To raise the productivity of the informal sector, the Government could introduce a system of matching grants to enable informal business operators to access capital and workstations, with such a system also requiring recipients to improve their level of skills.

v. **Build urban infrastructure to ease movement of people and products.** In addition to the construction of major transport corridors, the government must also prioritize the development of urban infrastructure if firms are to grow.

PART 1: THE STATE OF UGANDA'S ECONOMY

- By the third quarter of FY13, Uganda's economy had stabilized and begun to show signs of recovery. Over the year, GDP is projected to grow by approximately 5.0 percent. This is higher than the figure of 3.4 percent recorded in FY12, although still significantly lower than historical growth rates.

- Recovery has been driven by good weather, monetary easing, and a lower rate of inflation. However, some factors continued to weigh against the recovery, including the lagging transmission from monetary policy to private credit expansion and the necessary adjustments to fiscal policy as a result of lower aid inflows caused by a series of corruption scandals in recent months.

- The short-term economic outlook forecasts a rate of growth in GDP of 6.5 percent in FY14 as the result of improved climatic conditions, which will boost the outputs of the agricultural sector. At the same time, accommodating monetary policy and reduced uncertainty in the business environment should stimulate private investment, including in construction. Inflation should remain low, barring external shocks, while the Government is expected to continue its shift towards increased emphasis on infrastructure.

- If Uganda can grow faster, in the range of 10 percent per year, then it will be able to achieve its vision of reaching middle income status within 10 years. This would necessitate good monetary and fiscal policies, the transparent and optimal management of future oil revenues and opportunities, as well the successful transition from a predominantly agricultural to a more diversified economy, with increased involvement in manufacturing and services activities.

- One key challenge for Uganda is to create enough quality jobs for a rapidly growing population, a significant proportion of which is migrating toward cities. This is necessary not only to sustain high economic growth over time, but also to help mitigate potential economic and social tensions resulting from inequalities.

1. Recent Economic Developments

Uganda's economy has been adjusting from the shocks it has faced over the last five or so years. In FY12, the rate of growth declined to almost 3 percent, while the rate of inflation reached the unprecedented level of 23.5 percent. With the implementation of the appropriate fiscal and monetary policies, the economy has stabilized in FY13, with the rate of inflation declining to 3-4 percent. As a result, private sector activities in construction, communication and financial services have rebounded. The suspension of aid and the slow implementation of investments have constrained the speed of recovery by limiting public expenditures to a level significantly lower than anticipated in the budget for FY13. In the future, the authorities will need to manage carefully the trade-off between higher public spending and fiscal sustainability.

After a long period of rapid economic growth, Uganda's rate of economic growth declined between 2006 and 2012 as the macroeconomic environment became more volatile. From a peak rate of growth in GDP of 10.8 percent in FY06, the rate declined to 7.2 percent in FY09 and to 5.9 percent in FY10, before a short-lived recovery to 6.7 percent in FY11. The economy is currently recovering from a decline in the rate of growth of 3.4 percent in FY12. Deterioration in the terms of trade, the fiscal and monetary policy slippages, the prolonged drought, and subsequent tightening of monetary policy to stabilize the economy, were the main factors behind the economy's deceleration. The volatility in the rate of economic growth has negatively impacted living conditions of Ugandans. The per capita income is estimated to have declined from US$ 470 in FY11 to US$ 440[1] in FY12, while the proportion of the population living below the poverty line is estimated to have increased from 25 percent to about 29 percent between FY10 and FY11[2] as households faced high food prices.

Despite this difficult five-year period, the renewed macro-stability, characterized in particular by a lower and less volatile rate of inflation, has been crucial in driving economic recovery in FY13. Fiscal and monetary adjustments implemented since the second half of FY12 have resulted in the stabilization of key economic financial indicators, including the inflation and exchange rates, and contributed to a restoration of confidence amongst economic actors. A lower rate of inflation has allowed the Central Bank to sustain an easier monetary policy, which has gradually led to a more rapid increase in the availability of credit. The severe reduction in public spending implemented in FY12, particularly in capital expenditures, has been halted, although slow execution of investment projects as well as the freeze in budget support by donors forced the authorities to slow down their spending plans during the course of FY13.

1.1 Recovery: The receding impacts of shocks and stabilization measures

Uganda's economic recovery gained momentum over FY13, with significant improvements in most indicators compared to FY12. On the basis of the quarterly GDP estimates produced by the National Statistical Office, the overall rate of growth of the economy during the first half of FY13 is estimated to have reached approximately

1 Official estimates of GDP per capita also indicate a decline from US $ 541 to US $ 510 over the same period (Background to the Budget 2013/14).
2 The National Household Panel, 2010/11

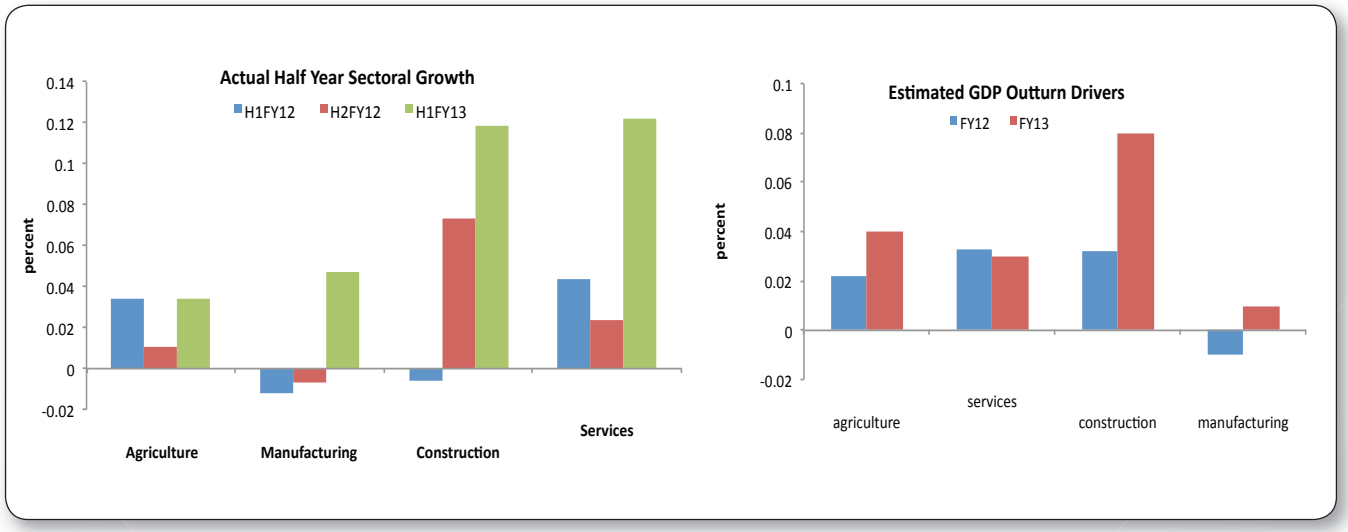
9.9 percent, which is significantly higher than during the same period in FY12, when the rate stood at 4.3 percent. For FY13, the authorities estimate the annual GDP growth rate to be in the range of 5 percent.

The services and construction sectors have been the main drivers of the recent growth recovery (see Figure 1). The services sector, which accounts for approximately 42 percent of the total value of Uganda's GDP, recorded a rapid rate of growth of 12.2 percent during the first half of FY13. The financial services sub-sector grew strongly, recording a rate of growth of 10.2 percent, reversing the declines recorded in the previous half year. The rate of growth of the construction sector, including the residential houses sub-sector, accelerated to about 11.9 percent, in contrast to the negative growth recorded in the first half of FY12, when the rate stood at -0.6 percent. This development is partially attributable to increased levels of public investment, but also to improved supply conditions, as showed by the deceleration of construction price indices during the first half of the year. On the other hand, hotels and restaurants, wholesale and retail, real estate and other businesses grew modestly.

Manufacturing is slowly recovering. In FY12, the manufacturing sector was afflicted by the triple whammy of power shortages[3] and higher electricity prices4; financing constraints resulting from tighter liquidity; and lower demand from global and regional markets. This year, however, it has shown some signs of modest recovery, growing by 4.7 percent during the first half of FY13 (see Figure 1). This recovery has been led by the food processing and beverages and tobacco sub-sectors, helped by a more stable electricity supply, better credit facilities, and stronger demand.

The rate of growth of the agricultural sector has remained sluggish, in spite of increased private investment and good weather. The overall rate of growth in the sector was 3.4 percent during the first half of year, which is the same as recorded during the corresponding period in FY12, when the

Figure 1: Construction and Services drive economic recovery



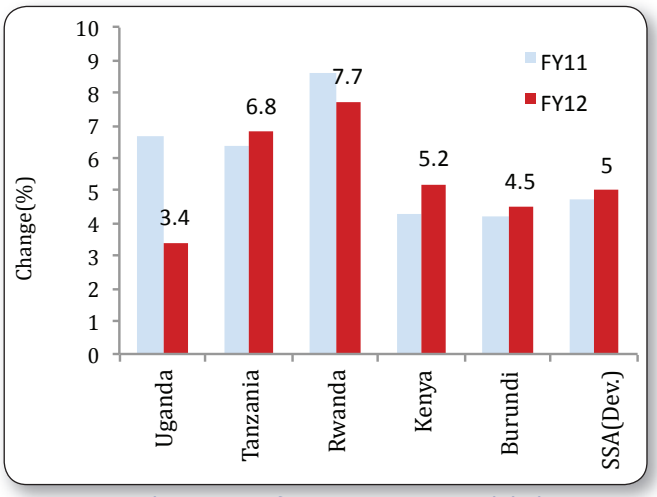
Source: Uganda Bureau of Statistics, 2012 and World bank Staff Estimates

3 FY12 suffered severe load shading as water levels for hydroelectricity generation remained low due to near-drought conditions; expensive thermal generators being switched off due to insufficient funding; and delayed commissioning of the Bujagali hydropower. By the time the first 50 megawatts unit of Bujagali, previously expected to have come on board in May 2011, was switched on in April 2012, load-shedding had reached an average of 12 -18 hours a day.

4 The industrial sector had enjoyed a subsidy of over 60 percent of the total cost of energy; a tariff increase of 68 percent for large industries and 38 percent for medium pushed up operation costs. This was required to improve the financial and operational viability of the electricity sector, but pushed up businesses' operational costs

country was still reeling from the impact of two years of severe droughts (see Figure 1). However, prospects for the second half of FY13 were better. Average prices of the country's major commodity exports, particularly coffee, tea, maize and fish, marginally improved compared to the previous year. At the same time, good weather during the second half of year boosted harvests, resulting in lower prices for food crops on domestic markets.

Figure 2: Uganda's FY13 Growth: A recovery, but not as good as the neighbors



Source: Uganda Bureau of Statistics, WDI & Global Economic Prospects December 2012

> According to the Consumer Price Index (CPI), produced by the Uganda Bureau of Statistics, the rate of inflation stood at 3.4 percent in June 2013, in stark contrast to the rate of 18 percent recorded a year ago.

Therefore, driven by construction and services, overall GDP growth is estimated to have reached 5.0 percent in FY13. This estimated rate of growth is still modest and far lower than the country's recent historical rates or that of regional peers, except Kenya and Burundi. (See Figure 2).

1.2 Inflation down, but real interest rates still high

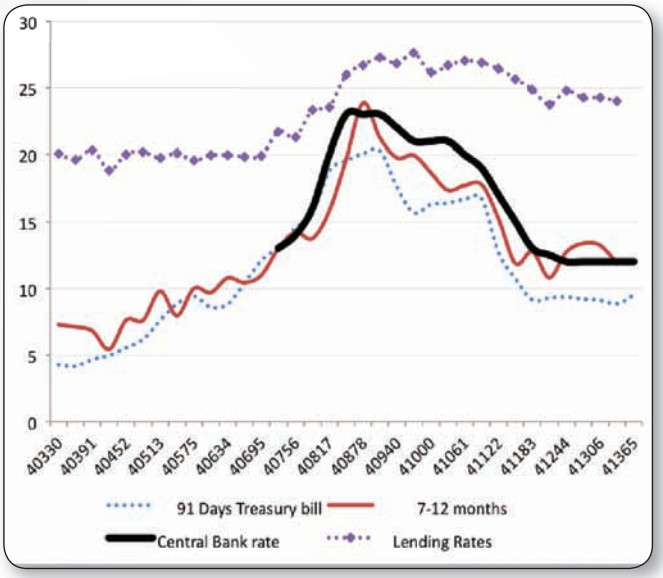
Throughout FY13, the rate of inflation went down significantly as a result of a combination of lower food prices and prudent monetary policy. According to the Consumer Price Index (CPI), produced by the Uganda Bureau of Statistics, the rate of inflation stood at 3.4 percent in June 2013, in stark contrast to the rate of 18 percent recorded a year ago. The price correction has been quite rapid (faster than in Tanzania), in spite of uncertainties related to volatile energy and import prices due to the recent elections in Kenya.

The lower inflation rates allowed the Central bank to adopt easier monetary policies and to lower interest rates. The Bank of Uganda lowered the Central Bank Rate (CBR) significantly during the first half of the year, from 20 percent in June 2012 to 12 percent in December 2012. The CBR was maintained at this level until June 2013, when it was reduced to 11 percent. This policy stance resulted in lower Treasury Bill and deposit rates, but the lending rates declined only marginally, from 27 percent in June 2012 to 24 percent in March 2013 (see Figure 3).[5] The inertia in lending rates explains why the rate of credit expansion averaged only 8.3 percent during the first half of the year. However, gradually, the effects of these policies became manifest, with the rate of expansion of credit and money supply accelerating to 11.5 percent and 15.2 percent, respectively, by March 2013.[6]

5 The correlation between BOU's policy rates and lending rates is 60 percent for Treasury Bills, 80 percent for the Bank and Rediscount Rates, and 90 percent for the CBR. ;

6 Bank of Uganda, Depository Corporations Survey (previously known as Monetary Survey), May 2013.

Figure 3: An easier monetary policy, but the banks aren't passing on rate cuts to borrowers

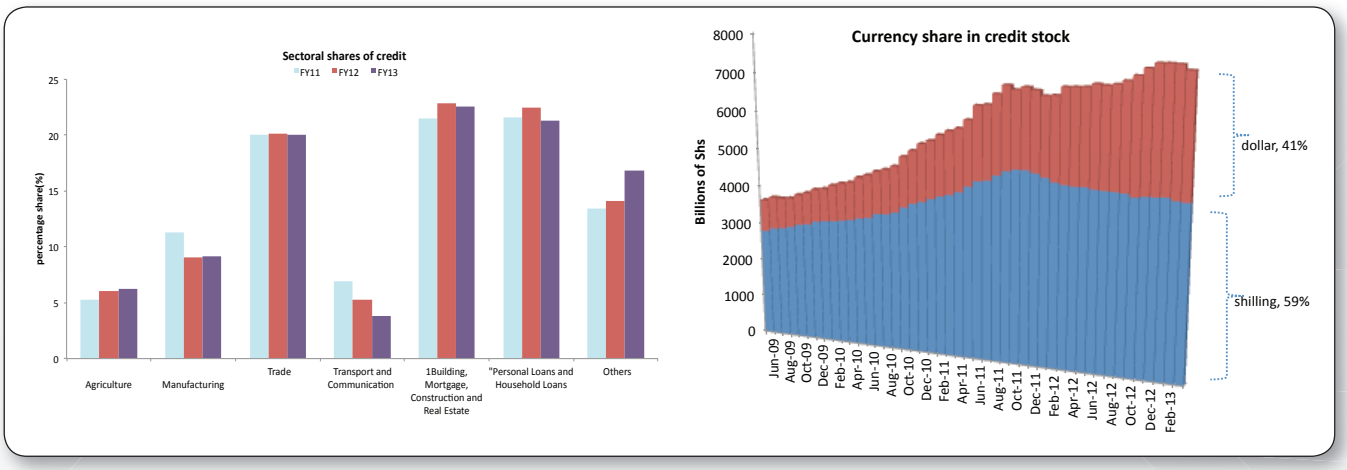


Source: Uganda Bureau of Statistics, 2012

The signals from monetary policy translate into lower interest rates to lenders with a long lag. This is because of structural problems in the domestic financial system. Lower policy rates have so far reduced returns on financial assets, including both Treasury Bills and deposits, thus enticing savers to seek alternative investments. The intended goal of lower policy rates was also to lower lending rates to boost private sector credit and investment. However, this effect was delayed due to high overhead costs and excessive margins in the banking sector (as discussed in the First Economic Update, February 2013). In real terms, interest rates are currently around 20 percent per annum[7], still much higher than they were at the height of the tight monetary policy stance, when the high rate of inflation meant that interest rates were negative in real terms. Furthermore, the closure of the Land Office for more than two months from December 2012 constrained lending activity, with small and medium sized enterprises continuing to face significant challenges in accessing credit.

The second issue is the shift from local to foreign currency loans. This is also likely to affect the effectiveness of monetary easing on the real economy (see Figure 4). Three sectors absorb approximately 60 percent of all private sector credit, these being construction (23 percent), trade (20 percent) and personal finance (21 percent), with these sectors carrying the lowest risk of default. The sectoral concentration could worsen as commercial banks increasingly facilitate loans in foreign currency, for which the proportion in all loans has rapidly grown to a total of 41 percent,

Figure 4: Private sector credit: Construction, Trade and Personal Loans get the lion's share as borrowers prefer dollars



Source: BOU and World Bank staff calculations

7 Bank of Uganda, Structure of Interest Rates.

Infrastructure projects such as these in Bugungu underpinned fiscal spending

up from approximately 29 percent two years ago. The rising proportion of forex-denominated credit was seen at first as an opportunity for borrowers to obtain cheaper loans and to hedge the risks associated with the volatility of the local currency. However, the increase in the proportion of loans denominated in foreign currencies is creating an exchange-rate exposure risk for borrowers in non-tradable sectors, including transportation, communications, and the building, mortgage, construction and real estate sectors. In case of a depreciation of the local currency, it would become more expansive for those sectors to service their debt in foreign currency because most of their revenues are denominated in local currency.

> "Furthermore, the closure of the Land Office for more than two months from December 2012 constrained lending activity

1.3 Fiscal Policy Adjustments: A necessary response

In FY12, the Government curtailed its expenditures as a corrective measure to create additional fiscal space and to curb financial instability.[8] The overall fiscal deficit was reduced from a value equivalent to 7.2 of GDP in FY11 to 3.2 percent in FY12. This was mainly the result of decreases in spending on exceptional security measures and on power sector subsidies, which together were the main cause of the unprecedented increase in the FY11 deficit. At the same time, development expenditures increased compared to FY12, largely as a result of the expenditure on preparations for the development of the Karuma hydro power project and for a range of new road projects. Unfortunately, domestic revenues declined from a value equivalent to 12.7 percent of GDP in FY11 to 12.0 percent in FY12. Revenues generated through taxes on capital gains on oil transactions had provided a strong buffer with a value equivalent to 2.8 percent of GDP during FY11. However, the value of such revenues declined to only 0.8 percent of GDP in FY12.

At the beginning of FY13, Ugandan policymakers resolved to use fiscal policy to stimulate the economy. This resolve was reflected in the FY13 budget, which projected an increase in the level of public expenditures by a value equivalent to 1.4 percent of GDP, with an increased emphasis on expenditure on infrastructure. Almost one-third of the FY13 budget was allocated to supporting

8 FY10 and FY11 witnessed high spending and a large deficit as expenditure increased to mitigate the impact of the global financial crisis, and later to support security and election-related spending. The budget deficit almost doubled to 7.1 percent between FY10 and FY11, while substantial budget re-allocations were also incurred.

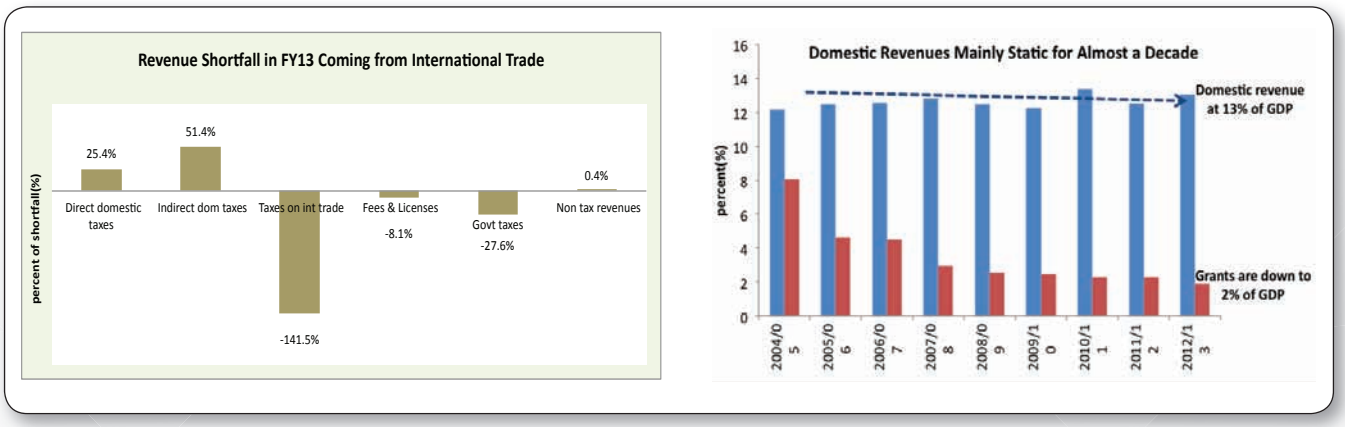
major road works; the rehabilitation of water ferries; the initial design of the standard gauge rail; and the construction of the 600MW Karuma hydro-electricity dam.

However, the implementation of the FY13 budget[9] was negatively impacted by shortfalls in revenue resulting from lower than forecast levels of tax collection. During the first three quarters of the year, the total value of collected tax revenue was 3.4 percent lower than targeted, mainly on account of lower than expected levels of revenue from taxes on international trade, which account for 45 percent of total tax revenue. For such taxes, the Government achieved only 89.6 percent of its targeted level of revenues. The value of revenues derived from income taxes levied on small and medium taxpayers was also lower than anticipated. In addition, the total value of revenues collected from fees and licenses was only 84 percent of the targeted level, and 2.1 percent lower than the total value of such revenues collected in the same period last year. Overall, the total value of tax revenues (excluding taxes on oil) for the year is estimated to have reached a value equivalent to 12.5 percent of GDP in FY13 (see Figure 5). This performance is better than in FY12, when the corresponding figure reached a value equivalent to 12.0 percent of GDP, but is lower than the target established in the budget of 13.3 percent of GDP (see Table 1).

Budget execution was affected by the governance scandals that erupted in the Office of the Prime Minister and the Ministry of Public Service during the second quarter of the year. The suspension of at least US$ 372 million[10] in aid from the Joint Budget Support Framework (JBSF) development partners was equivalent to a value of approximately 1.5 percent of GDP (see Box 1). However, the total value of grants declined less drastically in the budget, to a value equivalent to 1.7 percent of GDP, down from 2.3 percent in the previous year, thanks to a higher rate of disbursement in externally-funded investment projects.

The Government managed the shortfall in revenues by under-spending, especially in development sectors. Capital investment releases were 15 percent below target by March 2013. This lower than targeted level was mainly

Figure 5: Uganda's domestic revenue collection: Not much change in FY13



Source: Ministry of Finance Planning and Economic Development, WDI and World Bank

9 The time of this analysis, since the fiscal budget implementation data is only available for three quarters, the assessment of performance for the year FY13 can only be made for the three quarters.

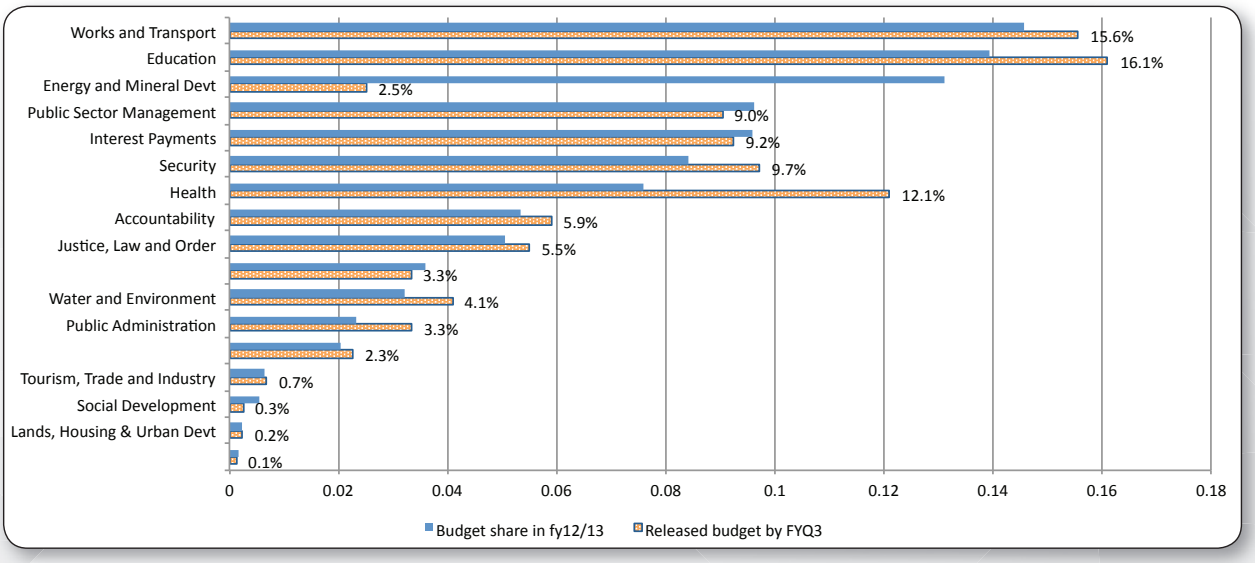
10 Of this amount, about US $100 million had been anticipated in the GOU budget.

due to underperformance in the Government funded budget, for which releases were 18 percent below target. By contrast, the donor funded development budget was fully released at targeted levels. The slower pace on the Government side was largely due to significant delays in the implementation of key investment projects, including delays to the construction of the 600MW Karuma hydro-electricity dam. As a result of these delays, only 12.2 percent of the Energy and Mineral Development budget had been released by the end of March 2013. By that time, a few sectors had executed their budgets in line with the established targets, including the health sector (101 percent), in which previously delayed programs were executed, and the water and environment sectors (81.4 percent). However, expenditure on public administration exceeded targets by 22 percent. As a result, the overall allocation profile was significantly different from that which had been envisaged (see Figure 6). This begs the question of whether the budget was able to achieve its objective of stimulating the economy. The picture is expected to become even more mixed as a supplementary budget of a value equivalent to 5 percent of the approved budget is discussed. However, the total spending is expected to remain below the level projected in the initial budget, which stood at a value equivalent to 20.0 percent of GDP, as it edged closer to a level equivalent to 18.6 percent of GDP, executed during FY12.

> “Attracting investors, particularly foreign investors, into strategic sectors can have a significant impact on job creation.

The under-spending was expected to be higher than the shortfall in revenues, resulting in a lower than anticipated overall fiscal deficit. The deficit for the first three quarters of the year reached a value equivalent to 3.1 percent of GDP, although this was expected to increase to 3.9 percent by the end of the year. However, this was still below the level of 4.1 percent allowed for in the annual budget. The deficit (excluding grants) was expected to reach a value equivalent to 5.6 percent

Figure 6: Gaps between budget allocations and actual disbursements



Source: Ministry of Finance Planning and Economic Development, WDI and World Bank staff calculations

Box 1: Aid Disruption following Governance Scandals in Uganda

Following the discovery of the mismanagement of public funds of a total value of US$ 90 million, a number of development partners decided to suspend on-budget development assistance amounting to a total value of US$ 372 million, or 46.71 percent of total external assistance and equivalent to 7 percent of the FY13 budget or 1.5 percent of GDP. This decision was announced in December 2012.

In an effort to restore the confidence of donors and general public, the Ministry of Finance, Planning and Economic Development (MOFPED) prepared an action plan, the so-called High Level Government Action Plan Matrix (HLAM). The HLAM includes a series of measures aimed at strengthening the fiduciary environment, including internal audit functions. The HLAM sets out seven Key Results including the repayment of funds to the development partners and for administrative and legal sanctions against individuals named in the Auditor General's report.

By June 2013, there had been satisfactory progress in implementation of the HLAM according to a joint assessment by development partners. As a result, the World Bank released its budget support, the Ninth Poverty Reduction Support Credit (PRSC-9), equivalent to a value of US$100 million and representing 27 percent of the frozen aid. In addition, the Fourth Joint Assessment Framework (JAF-4) re-triggered as the basis for further disbursement of frozen aid.

The authorities addressed the partial aid freeze by reducing spending and by increasing borrowing on the domestic market. Most financial variables (in particular, the inflation rate and exchange rate) remained stable, hence the short term impact of the partial aid freeze was limited - the IMF estimated a total value of 0.75 percent of GDP in FY13. It is prolonged suspension of aid that could be more severe on growth and poverty in the medium term. First, the reduction in expenditure on key social infrastructure is likely to have a negative impact on poverty reduction. Second, the reduced levels of public capital expenditure could result in delayed productivity gains. Third, suspension has resulted in the dismissal of key development partners' funded staff in MDA's.

Source: World Bank

of GDP, which is also below the figure projected in the budget of 6.4 percent.

In spite of the partial aid freeze, the fiscal deficit in FY13 is still being funded mainly through external financing rather than through domestic financing. In line with the budget, the level of external financing (excluding grants) was expected to reach approximately 2.4 percent of GDP in FY12. This represents 59 percent of the overall deficit. The value of revenues derived from grants, equivalent to 2.3 percent of GDP in FY11 and FY12, was expected to decline to about 1.7 percent in FY13. Domestic borrowing was expected to increase to a value equivalent to 1.5 percent of GDP in FY13, up from only 0.1 percent of GDP in FY12. This projected increase was nonetheless lower than originally anticipated in the budget.

Carpenter in Kasese

Table 1: Central Government Operations: FY09 - FY13

In percent of GDP	FY10	FY11	FY12	FY13 Budget	FY13 Est.
Revenues and grants:	14.7	18.4	15.6	15.8	14.7
Domestic revenues	12.2	16.2	13.3	13.6	13.0
o/w Tax revenues	11.7	12.7	12.0	13.3	12.5
Grants	2.5	2.3	2.3	2.3	1.7
Total expenditure	19.6	22.8	18.6	20.0	18.6
Recurrent	12.3	15.3	11.2	10.2	10.5
Development	6.6	7.1	6.9	9.7	7.7
Overall balance	-4.9	-4.3	-3.0	-4.2	-3.9
External Financing	2.2	1.4	2.4	2.3	2.3
Domestic Financing	2.1	2.9	0.1	1.8	1.5
Memorandum items:					
Public debt stock	24.6	32.9	32.2	35.2	35.2
o/w External	15.3	19.5	19.7	24.0	24.0
Domestic	9.3	13.4	12.7	11.2	11.2

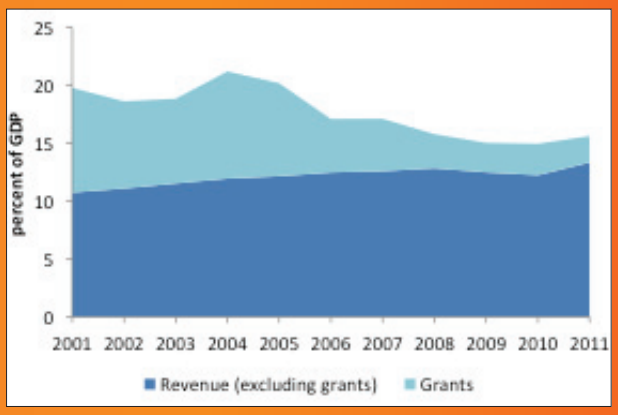
Source: Ministry of Finance, Planning and Economic Development, IMF, and World Bank

Since debt relief, Uganda's public debt stock has increased to a value equivalent to approximately 29 percent of GDP by the end of FY13. However, this is still far below pre-HIPC levels. With the decline in the value of grants exceeding the value of higher domestic revenues, Uganda has accumulated higher primary deficits since FY09, particularly in FY11. This has led to increased borrowing on both external and domestic markets. The accumulation of debt has resulted from new external loans, which are mainly being used to finance infrastructure-related projects, including the development of energy and transportation infrastructure. Such borrowing was contracted on highly concessional terms, with most loans sourced from the IDA (74 percent) and other multilaterals (12 percent). Even so, the value of public and publically guaranteed external debt increased modestly from US$ 1.5 billion (equivalent to 12.3 percent of GDP) in FY07 to US$ 3.5 billion (16.5 percent of GDP) in FY13. This could rise to US$ 5.85 million if all committed debt is disbursed. The total value of domestic debt is equivalent to 10 percent of GDP, with such debt constituting 45 percent of the total by the end of FY13.

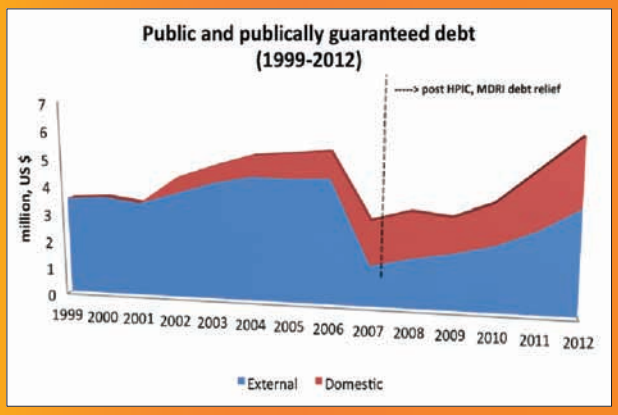
Uganda still has space to borrow. However, prudent fiscal management is necessary to ensure that such borrowing remains sustainable over time. According to recent IMF/World Bank debt sustainability analyses, the debt service ratios have remained within established thresholds for low income countries, indicating low levels of fiscal and debt distress. Intensified efforts to collect revenue, together with efficient investment to generate faster growth, will ensure that the country does not revert to pre-HIPC debt levels.

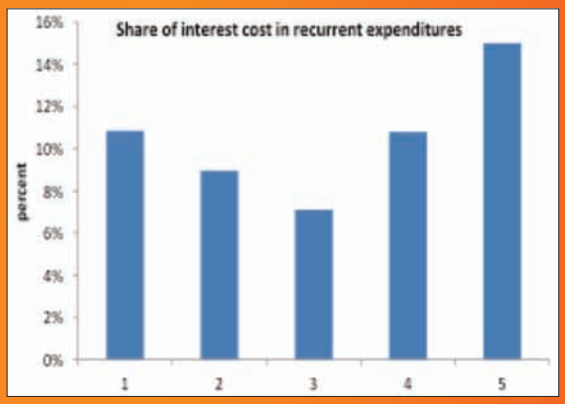
Box 2: Could Uganda's debt revert to pre relief levels?

Increasing primary deficit as domestic revenues fail to substitute reduced aid (grant) dependency



Fiscal vulnerability rising as shorter term high cost domestic debt increases





Source: Ministry of Finance Planning and Economic Development and World Bank

Fiscal vulnerability has increased with the higher level of domestic debt, the bulk of which has a shorter maturity profile and carries a higher interest rate burden. Because it comprises mainly short term securities with maturity periods of less than one year, 50 percent of domestic debt matures within the year. At 15 percent, this debt also has a higher average interest rate, compared to about 1 percent for the external debt. Consequently, the burden of debt service payment on the budget has become significant, accounting for approximately 10 percent of total expenditure.

1.4 External balance improves, even as trade prices disfavor Uganda

Uganda's overall position in terms of its transactions with the rest of the world has marginally improved, largely due to a decline in imports. During the first half of FY13[11] , the current account deficit amounted to a value of US$ 942 million, significantly lower than the half yearly averages of US$ 1,080 million for the previous year

11 Bank of Uganda, Balance of Payments Position, May 2013


Tilda Holdings

(see Figure 8). This was partly due to the growth in the volume of exports of goods and non-factor services by 6.8 percent, although the decline in the volume of imports by 4.7 percent had a more significant impact in terms of reducing the trade deficit. Another factor was improvements to the services account to offset the deterioration in the income account as foreign companies transferred dividends at the end of the year.

With prices for Uganda's exports declining during the first half of FY13, most of the growth in trade has come from increases in the volume of exports. On average, export prices in the first half of FY13 were 15 percent below their value in the corresponding period of FY12. The increase in the volume of exports has occurred as a result of exporters' deeper involvement in the regional market, facilitating growth in the value of exported merchandise by 11 percent, with the bulk (46 percent) of the growth being driven by exports to EAC and COMESA markets. There has been a reduction in industrial exports, as traders continue to face significant non-tariff barriers in South Sudan. The volume of merchandise imports declined, particularly in the case of consumer and intermediate goods. The share of capital intensive goods to the import bill, including machinery and equipment, has remained roughly constant. With lower global fuel prices, the volume of petroleum imports has increased as Government and FDI funded capital investments have progressed.

> "Fiscal vulnerability has increased with the higher level of domestic debt, the bulk of which has a shorter maturity profile and carries a higher interest rate burden.

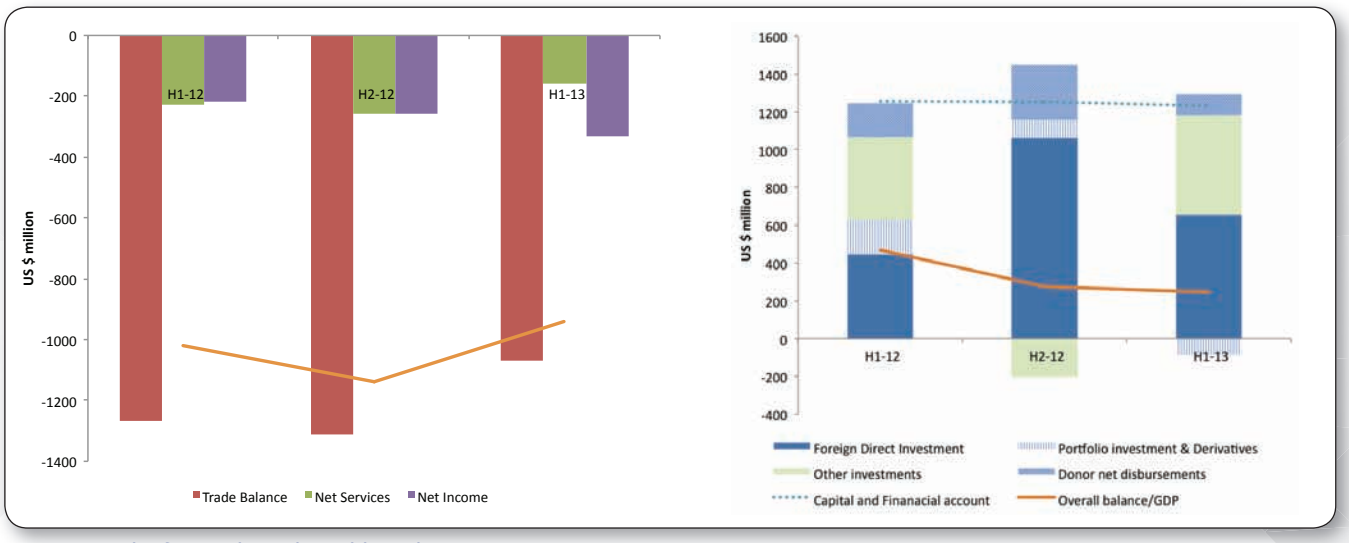
Uganda continued to attract long capital inflows, as short term inflows reversed. The total value of FDI amounted to US$ 657 million in the first half of FY13, higher than the sum of US$ 447 million reported during the same period in the previous year. Approximately US$ 635 million in additional capital account flows mainly took the form of increased deposits out of the country by domestic banks. While this helped offset the deceleration in the value of net disbursements by donors, it was also the result of a deliberate measure by commercial banks to adjust their portfolios as they reduced their holdings of domestic securities in face of the decline in domestic interest rates. With the Treasury

Mukwano Industries boosted the growing manufactured goods exports

securities interest rate declining, investors withdrew from Uganda a total value of US$ 117 million that had been invested in government securities during the first half of FY13. This more than reversed the value equivalent to US$ 86 million that they had invested in these securities in the same period in the previous year.

The overall improvement in the balance of payments position has resulted in only a marginal build-up of foreign exchange reserves. However, these improvements have propped up the value of the Ugandan shilling. The value of foreign exchange reserves increased by US$ 242 million during the first half of FY13, before declining by US$ 55 million during the third quarter. At that time, the level of reserves was insufficient to maintain the buffer of four months import cover, which existed at the end of FY12. The value of the shilling has remained stable in both real and nominal terms for most of FY13, despite some volatility throughout the year. While the value of the shilling declined following the governance scandals and subsequent suspension of aid, it regained much of this lost value during the first quarter of FY13. By June 2013, the value of the shilling relative to the US dollar was only 4.4 percent lower than in June 2012.

Figure 7: Current account improves, but reversal of portfolio flows worsening the overall external position in FY13



Source: Bank of Uganda and World Bank

2. Economic Outlook

Despite challenges including the substantial decline in budget support, Uganda's economy is expected to continue to recover into FY14 and FY15 as a result of renewed macroeconomic stability, improved agricultural production, and the continued expansion of rapidly growing sectors such as construction, telecommunication, and financial services. In the medium term, dividends from increased investments to remove binding constraints to growth and measures to improve the efficiency of public expenditure are expected to boost the economy, enabling it to achieve higher rates of growth. In addition, increased investment in oil production is expected to boost economic activity. However, risks remain, including risks related to failures to appropriately manage the transition from aid dependence without falling into oil-dependence or to select and implement optimal investment projects. In addition, the economy may be affected by regional insecurity and/or turbulence in the global economy.

2.1 Good growth prospects for FY14 and the medium term - but don't take it for granted

The World Bank forecasts that the rate of growth of the Ugandan economy will rise to approximately 6.5 percent[12] in FY14 and to 7.0 percent in FY15. The inflation rate is projected to remain in the range of 5-6 percent, while the current and fiscal imbalances will remain under control. The overall fiscal deficit should amount to a value equivalent to 3.5-5.5 percent of GDP over the next two fiscal years, allowing for a significant increase in development expenditures and given prudent debt management. The current account deficit should amount to a value equivalent to around 12-14 percent of GDP, as no major shocks are expected in either trade or capital flows, with the increase in FDI expected to a large extent to be offset by an increased volume of imports. In the medium term, an optimistic scenario assumes that existing uncertainties in fiscal management will be properly managed and levels of agricultural production will benefit from good weather. The scenario also assumes the further development of higher productivity sectors, particularly services and manufacturing, boosted by higher demand resulting from both ongoing urbanization and increased regional integration. With the implementation of large infrastructure projects and with the exploratory and other activities by oil companies, the construction sector is also expected to be a key driver of growth in the coming years.

For FY14, economic recovery will benefit from a sustained increase in the availability of banking credit to the private sector. Easier monetary policies have already led to a more rapid increase in the level of forex-denominated private sector credit, which in turn has boosted some construction activities. As commercial banks continue to adjust their lending rates for local currency denominated loans; as the Land Offices returns to full business; and as borrowers adjust to more stable economic conditions, private sector credit is expected to continue to accelerate. Improved global economic conditions and the increased growth of regional markets will also facilitate a recovery in investor confidence. These developments will further boost a growth in the level of private investment in the medium term. The growth of private investment, the value of which increased from a sum equivalent to 18.9 percent of GDP in FY12 to an estimated 19.5 percent in FY13, will continue to gain momentum and is forecast to gradually increase to a value

12 This is higher than the government's projection of 6.0 percent because of more optimistic assumptions regarding private sector recovery and the impact of construction works on major public investments that have been delayed.

Box 3: Summary of assumptions for the medium term outlook

i. A combination of lower inflationary pressure from exogenous factors (particularly lower international prices for food and oil), and improved liquidity management will ensure that Uganda's inflation rate remains below 7 percent in FY14 and in FY15;
ii. Fiscal policy will continue to be prudent and supportive of economic growth and poverty reduction, with a gradual increase in public investments, as it also increases the level of government revenue;
iii. Overall investments will gradually increase to a value equivalent to 20 percent of GDP by FY15, as confidence in the economy grows and public investments support the activities of private investors;
iv. The current account deficit will remain weak, with a value in excess of 10 percent of GDP on average in FY14-15, even as the trade deficit gradually declines. The value of exports is expected to increase as a result of efforts by the Government to raise productivity in the agricultural sector and as a result of strengthened links between traders within the regional market. The rate of growth in the value of imports will gradually decline from the figure of 12.2 percent recorded in FY12 to an average of 8.0 percent for FY14 and FY15.

Box Table 1.1: The Medium Term Macroeconomic Framework, Baseline Scenario

Indicator	FY12	FY13	FY14	FY15
GDP growth	3.4	5.0	6.5	7.0
Private investment (percent of GDP)	18.9	19.5	19.8	20.1
Public investment (percent of GDP)	5.8	5.8	8.1	8.4
Revenues (percent of GDP)	13.3	13.0	15.0	14.5
Grants (percent in GDP)	2.3	1.7	1.5	1.3
Expenditures (percent of GDP)	18.6	18.6	20.2	21.2
External financing	2.4	2.3	1.9	2.5
External current account deficit (percent of GDP)	12.0	10.4	12.2	14.1
Exports growth (percent)	15.8	9.5	8.0	9.0
Imports growth (percent)	12.2	5.4	8.5	7.5
Inflation (percent)	23.5	6.0	6.2	5.0

Source: World Bank staff estimates

Box 4: The National Budget for FY14 Highlights

Theme: The Journey Continues: Towards Socio-Economic Transformation for Uganda

Building on earlier efforts to achieve transformation and consistent with the NDP and the recently launched Vision 2040, the FY14 budget represents a continuum of strategic policy focus on the spending side, and an ambitious revenue mobilization effort.

Sources of funds: Sources of revenues: Total resources amounting to Shs 13.2 trillion, of which 80 percent is derived from domestic sources.

Sources of funds	
1. Domestic tax revenue	64.4
2. Domestic non-tax revenue	2.1
3. External grants	5.6
4. External borrowing	13.3
5. Domestic borrowing	14.6

Approximately Shs 1.2 trillion in additional resources from domestic taxes will constitute the largest increase in resources as government tries to widen the tax base, improve tax administration and enhance transparency.

The main revenue measures are to:

Expand the scope of withholding tax agents;

Remove VAT exemptions on hotel accommodation, water supply for domestic use, and wheat and flour;

Increase taxes and fees on petrol, diesel, kerosene, cigarettes, alcohol, motor vehicle registration, motorcycle registration, alcohol, mobile money transactions and promotional activities, insurance policies, and international incoming telephone calls.

Additional measures to raise tax effort over the short to medium term will include modernization, and streamlining of tax laws to improve general tax compliance, review of the petroleum value chains, and support Uganda Revenue Authority to improve tax administration to raise compliance through focus on different types of tax payers, expansion of tax audits, enforcement of use of tax identification numbers - in acquisition of trading licenses, and clean-up of the VAT register.

Profile of Expenditures: Total expenditure is Shs 13,169 billion, which is equivalent to 20.8 percent of GDP. Of this, 50 percent is recurrent, 32.3 percent development expenditures, and 17.7 percent is interest and statutory expenditures. Local governments are expected to manage 15 percent of the budget. About 32 percent of the budget is allocated on infrastructure, as shown in the box below:

Spending Allocation	
1. Works and transport sector	18.9
2. Education	13.3
3. Energy and minerals	13.2
4. Public sector management	8.8
5. Security	8.2
6. Interest Payments	7.7
7. Health	7.4
8. Accountability	5.2
9. Justice Law and Order	4.6
10. Public administration	3.1
11. Water and environment	3.0
12. Agriculture	3.0

Much of the external resources are meant for the development budget, for which 50 percent will come from external sources.

The proposed budget forecasts an increase in Central Government spending to constitute 71.1 percent, Local Government spending will constitute 15.1 percent. Recurrent expenditure will account for approx. 50 percent of the budget, with wages and salaries decreasing to approx. 18.4 percent. Non-wage recurrent expenditure will account for 18.8 percent and development expenditure will account for 32.3 percent.

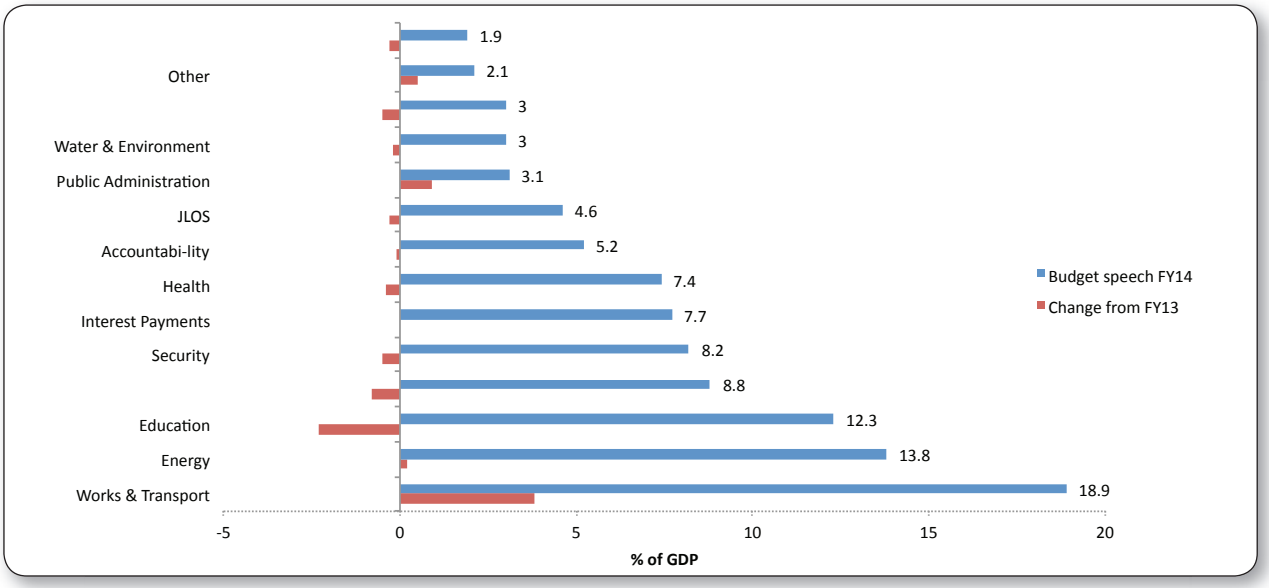
Source: Budget Speech, FY14, delivered on June 13, 2013

equivalent to approximately 19.8 percent of GDP in FY14.

Fiscal policy will support growth if it reduces uncertainty, particularly in spending. The Government budget for FY14 promises to further stimulate economic growth through an expansion in public expenditures by about a percentage point of GDP (see Box 4). For this stimulus to be fully effective, it must be accompanied by two necessary measures: (i) a strong effort to achieve value for money from the increased expenditure; and (ii) a stronger budget execution

> A concerted effort to increase the value of collected revenues is necessary to compensate for the expected decline in external financial assistance

Figure 8: Fiscal strategy focusing on key constraints



Source: Ministry of Finance Planning and Economic Development, Budget Speech FY14

to limit deviation from the planned allocation of public resources. According to the Budget speech and as stated in the Budget Framework Paper for 2013/14-2017/18, the Ugandan Government plans to stimulate aggregate demand and supply through higher overall spending and an increased emphasis on capital expenditures.

The increased emphasis on capital expenditure is aimed at addressing the existing infrastructure deficits, which continue to be a major constraint on private sector development. In FY14, allocations for the development of infrastructure, particularly transportation and energy, constitute 33 percent of the budget (see Figure 10). These budget allocations are expected to support major road works, interventions to support water transport development (especially the rehabilitation of the water ferries and the construction of new port at Bukasa on Lake Victoria and other landing sites), and the rehabilitation of Tororo-Packwach and Kampala-Kasese railway lines . In addition, construction of the delayed Karuma (600MW) and Isimba (188MW) power generation projects and several mini-hydro projects is scheduled to commence. At same time, the authorities are placing increased emphasis on improved efficiency and effectiveness in the social sectors,

> The country's production of oil will dramatically change Uganda's economic outlook

Oil well in the Albertine region

including through efficiency measures to address absenteeism in the educational sector. Amongst the social sectors, the most significant budget allocation in the FY14 budget is for the educational sector (13.3 percent of the total), while the health sector received a total of 7.4 percent. Overall, fiscal policy remains aligned with the strategic priorities established through the NDP and the Vision 2040. It is expected that these measures will help to improve the country's stocks of physical and human resources in the medium- to long-term.

The Government has proposed new measures to mobilize a higher level of domestic revenues in FY14. However, the total value of such revenues is expected to increase only marginally to a sum equivalent to 13.4 percent of GDP, compared to 13.0 percent in FY13. At 13 percent, Uganda's revenue effort remains less than half of neighboring Kenya, and one of the lowest in the SSA region, which averages 18 percent. A concerted effort to increase the value of collected revenues is necessary to compensate for the expected decline in external financial assistance, with the quasi-elimination of budget support, and to finance the significant increase in public spending. The Budget speech proposed new measures (see Box 4) to cover this gap through efficiency measures in the areas of tax administration and tax policy. While these are commendable, additional mobilization from these measures seems to be limited, while some of them would need to be weighed against their poverty impact.

No significant changes in Uganda's external position are expected during this year. Rather, forecasts indicate that increases in FDI will be offset by deteriorations in the trade balance. Uganda's export earnings are expected to increase by 9.5 percent in FY14, driven by a modest rise in international commodity prices. However, the rate of growth in the volume of imports will also remain high as a result of the need to purchase inputs to support infrastructure development. The current account deficit will remain in the range of 12 percent of GDP. The capital balance should remain roughly unchanged, as the expected decline in official transfers following the recent governance scandals should be offset by a higher level of FDI, particularly in extractive activities.

Over the medium term, the rate of growth of the economy could exceed the historical rate of 7 percent. The main driving factors for accelerated growth should be improved infrastructure, increased private sector activities and trade, and increased levels of agricultural productivity. Building on earlier efforts, the Government plans to increase access to markets and to lower transport costs by building additional rural feeder roads. New interventions are planned to improve access to irrigation; to ensure a higher rate of usage of the appropriate

fertilizers and seeds; and to promote private-public partnerships in the area of warehousing. The performance of the agricultural sector over the medium term also depends on the success of the Government in controlling crop diseases, particularly the coffee, cassava and banana wilt diseases. The rate of growth of the industrial sector could accelerate, boosted by improved infrastructure (particularly an improved energy supply) and through the implementation of other growth-enhancing reforms and interventions aimed at streamlining business operations. In addition, the growth of the services sector, including growth in the banking and telecommunications sub-sectors throughout the EAC, will also contribute to the positive macroeconomic outlook. Considering that Uganda is currently ranked 120th out of 185 countries surveyed in the World Bank's "Doing Business" survey, it is clear that the potential benefits of an improved business environment are significant.[13]

It is uncertain when oil production in Uganda will commence or what the extent of its reserves is. However, even during the preparatory phases, the activities of the oil sector will have a significant impact on the economy. Uganda has proven oil reserves of at least 800 million barrels, although the actual figure may be closer to 3.5 billion barrels. With this level of reserves, production could reach 150,000-200,000 barrels per day over a 25-year production period. Revenues derived from oil could potentially double the Government's total revenues in less than 10 years, contributing up to US$ 3 billion, assuming oil prices remain at their current levels. With this level of revenue, Uganda will not be totally dependent on oil revenues. Natural resources

> "A decline in the global economy could result in a corresponding decline in the volume of Uganda's trade, reducing its export values.

will nonetheless have a significant impact, placing considerable pressure on government regulatory and oversight systems. If current estimates of the country's oil reserves are correct, the level of Uganda's dependence on oil would place it in the company of countries such as Azerbaijan, Sudan, and Trinidad & Tobago, rather than classic petro-states such as Angola, Equatorial Guinea, and Nigeria. However, in the long-term, it is clear that the country's production of oil will dramatically change Uganda's economic outlook.

The timing of the commencement of oil production depends on the availability of production infrastructure, including refineries and possibly pipelines. The Government's agreement with a number of oil companies to build a small refinery suggests that limited production of about 30,000 barrels per day, primarily for domestic use, could begin within two to three years. Full-scale oil production will require investments to increase the capacity to refine oil for regional markets or the construction of a pipeline to export crude oil for global markets. According to the Budget speech, the construction of the Kenya-Uganda and Uganda-Rwanda pipeline will be expedited in light of recent oil discoveries in Kenya. This will require large FDI inflows by multinational companies, even though plans are to use a public private partnership. In addition, the development of this pipeline will require regulations for the effective management of the pipeline across regional borders and at the

13 During 2012, Uganda's ranking in "Doing Business" improved from 123rd to 120th, on account of (i) strengthened insolvency process(i.e. rules on creation of mortgages clarified, duties of mortgagors and mortgagees established, priority rules defined, remedies for mortgagors and mortgagees provided, and powers of receivers increased), and (ii) easier processes for transferring property (i.e. title registry records digitalized, efficiency of the assessor's office increased, even though transferring property was made more difficult and time consuming with the introduction of a requirement for property purchasers to obtain an income tax certificate before registration, resulting in delays at the Uganda Revenue Authority and the Ministry of Finance)

Port of Mombasa. The construction of the pipeline may take up to 5-7 years.

2.2 Risks: External shocks, declining aid, poor weather and political will

The most important challenge facing Uganda relates to fiscal management. For the past two decades, Uganda has been dependent on aid, with official assistance contributing to almost half of its budget at least until FY05. Since then, the contribution of foreign assistance to the budget has declined, although in FY12, the value of such assistance was still equivalent to one quarter of total expenditure. In a sharp decline, in FY13, the contribution of foreign assistance is forecast to have reduced to only 19.0 percent. The prospects of oil revenues and the issues related to the Government's fiduciary systems have provided a rationale for several donors to cease providing budget support.

With the expected lower level of aid inflows, government will need to manage the transition to oil as a source of revenue. However, this transition period may be as long as 5-7 years. The authorities expect to manage this transition by increasing tax revenues, borrowing reasonably on financial markets for productive projects, partially relying on private financing through PPPs, improving the efficiency of public spending (value for money), and retraining from increasing recurrent spending. Such a strategy will rely on managing two risks. First is to increase domestic revenues, since Government has been unable to achieve this goal over the past years. The level of tax collection is still largely below the economy's potential. Achieving a higher level of tax collection would require revision to current generous tax exemptions and a closer look at the level of taxes paid by formal and semi-formal enterprises.

> "A decline in the global economy could result in a corresponding decline in the volume of Uganda's trade, reducing its export values.


Casual Labourer - Kasese

The second risk is the good governance in the use of public money. As the recent corruption scandals demonstrate, this will be a significant challenge. The focus of fiscal policy has been on achieving efficiency in the area of public expenditures, and this will continue into the future. However, the government's ability to achieve this goal depends on its capacity to allocate its resources towards

the optimal development of priority sectors/ projects in a transparent way, achieving value for money in projects (e.g. Karuma hydro dam cost of US $ 3.7 million per MW of installed power versus comparable projects), and cutting the excessive expenditures on public administration. To achieve this, good governance will be critical.

A lack of discipline on the part of the Government in the area of expenditure may also create risks to the macroeconomic and fiscal outlook. Such a lack of discipline may be significantly influenced by political factors. Lack of restraint in the face of demands by powerful interest groups, including demands for selective pay rises, could derail Uganda's fiscal position, resulting in shifts in expenditure towards non-planned, non-priority areas. For example, the recent supplementary budget includes a significant increase in the allocation for the State House and Ministry of Foreign affairs, at the expense of allocations for productive purposes. Moreover, the inappropriate prioritization of infrastructure investments and their ineffective implementation could also lead to the ineffective use of public resources. Unfortunately, there is no guarantee that a high level of development expenditure, in and of itself, will lead to increases in the stock of physical capital. Despite the allocation of significant resources to the development budget, these will have limited benefits if they are used to finance non-capital expenditures or if the maintenance of existing infrastructure is neglected.

Uganda remains vulnerable to a number of external shocks, including shocks related to fluctuations in prices of its main exports and imports, and regional security. As has been clearly demonstrated over the past few years, volatile commodity prices and financial distress in industrialized countries can affect the local economy to a significant degree. In particular, increases in world food and energy prices can cause or exacerbate domestic inflation, as occurred in early 2010. The risks associated with a prolonged slowdown in the Euro zone, or in emerging countries such as China and India, cannot be discarded. Global commodity prices, including oil prices, remain volatile. A decline in the global economy could result in a corresponding decline in the volume of Uganda's trade, reducing its export values. It could also result in lower capital inflows, including inflows from remittances and in the form of aid. In case of such a decline in the global economy, the economic forecast will need to be revised downwards as a result of the significant additional pressures on the balance of payments, which might precipitate a depletion of foreign currency reserves or depreciation in the value of the local currency. While depreciation in the value of the shilling would ensure exports remain competitive, it could also lead to increases in inflation. The country's trade prospects are also influenced by the security situation in neighboring countries such as Sudan, Burundi and the Democratic Republic of Congo (DRC). Recent threats by Egypt to other riparian countries over the use of the Nile river water could be another risk to regional security, trade and growth.

The potential impact of adverse climatic conditions can be enormous, especially for an agrarian economy such as Uganda's. The agricultural sector contributes to approximately a quarter of Uganda's total GDP and employs approximately three-quarters of its workforce. Unfavorable climatic conditions, particularly poor rains, and plant diseases, including banana wilt and cassava mosaic, could reduce the level of agricultural production and affect the living conditions of a vast number of households in rural areas, as occurred during the 2010-2011 Greater Horn of Africa drought. Although this drought did not affect Uganda directly, it is estimated to have reduced food production, resulting in a decline of about three percentage points in GDP.

Lastly, Uganda's economic performance may be affected by deterioration in the political climate. Anxiety about the forthcoming 2016 presidential and parliamentary elections and possible unrest associated with these elections may undermine

> the agricultural sector continues to be the primary employer for the largest proportion of the workforce

Drying Maize in Kisoro

economic recovery by increasing uncertainty and disrupting business, especially in urban areas. This situation could be exacerbated by increased tensions over the use of oil revenue, resulting in conflicts between national and local interests.

2.3 For the jobs outlook, does it matter which parts of the economy grow?

Uganda will have to manage the macroeconomic risks highlighted above to achieve robust growth that can generate an increasing number of productive jobs for its population. As has been demonstrated in the World Bank Development Report for 2013, macroeconomic stability, rule of law, an enabling business environment and human capital are the foundation to generating good jobs. Indeed, many countries that have high growth rates also have low levels of frank unemployment. However, in such countries, the sectors that are driving this growth are also the sources of employment for their labor force.

In the past two decades, the Ugandan economy has passed through a transformation, with the services sector now being the main source of growth. In the period from the 1990s to the 2000s, the contribution of the agricultural sector to GDP has declined from 45 percent in the 1990s to 27 percent in the 2000s. At the same time, the contribution of the manufacturing sector has increased only moderately. Rather, growth has been driven first by a boom in the services sector in the 1990s, and then by a boom in the construction sector in the latter part of the 2000s (see Figure 9).

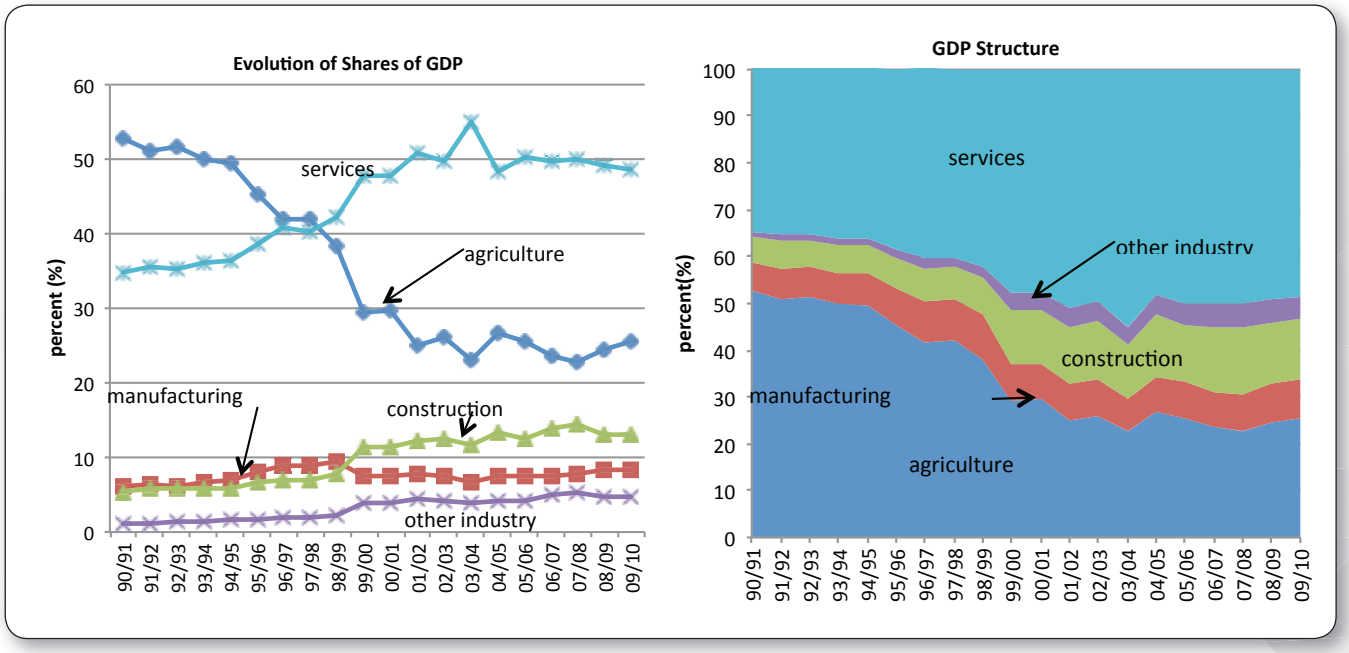
The agricultural sector remains important, with the possibility that its contribution is underestimated by the National Accounts. According to the Uganda Bureau of Statistics (UBOS) 2010 Census of Business Establishments, agribusiness was the fastest growing business sector over the decade. Indicative numbers for agricultural yields from the national household surveys also suggest productivity improvements, while at the same time the level of poverty amongst households engaged in agriculture has declined significantly. These developments, together with

the strong export performance of agricultural commodities, suggest that agriculture may have grown faster than the average of 2.6 percent postulated in the national accounts, which depict a decline from the figure of 3.7 percent recorded in the 1990s. Even so, it is clear that the contribution of agriculture to GDP has declined as new sectors have become drivers of economic growth.

The services and construction sectors dominate Uganda's new economy, while the manufacturing sector has been growing much more slowly. The services sector now contributes to 45 percent of the total GDP. The rate of growth of the manufacturing sector declined from 13.8 percent in the 1990s to 6.6 percent in the 2000s. This decline was partly because manufacturing was the sector hardest hit by the shocks during the latter part of the decade, including the slowdown in demand in regional and global markets as well as infrastructure deficiencies.

Despite the transformation of the Ugandan economy, the proportion of the population employed in the various sectors has not reflected the changes in the relative contributions of these sectors to growth. In particular, the agricultural sector continues to be the primary employer for the largest proportion of the workforce, with more than 70 percent of the Ugandan labor force primarily employed in this sector. The majority of the remainder is employed in the services sector, with manufacturing only absorbing a small portion. The bulk of those employed in agriculture also remain occupied in subsistence activities: with 5.1 percentage points, non-monetary agriculture remained the largest contributor to employment growth, in spite of its minimal contribution to value addition. However, between the decades, labor has been quite mobile. The move out of the agricultural sector over the latter part of the decade contrasts with the fast growth in employment in agriculture in the period from 2003 to 2006. Reflecting this shift, other sectors, particularly the informal manufacturing, commerce, construction, transport and communications, and education sectors, employed a greater proportion of the labor force over the latter half of the decade. Furthermore,

Figure 9: Services took off earlier, but the construction boom drove most of the recent structural transformation

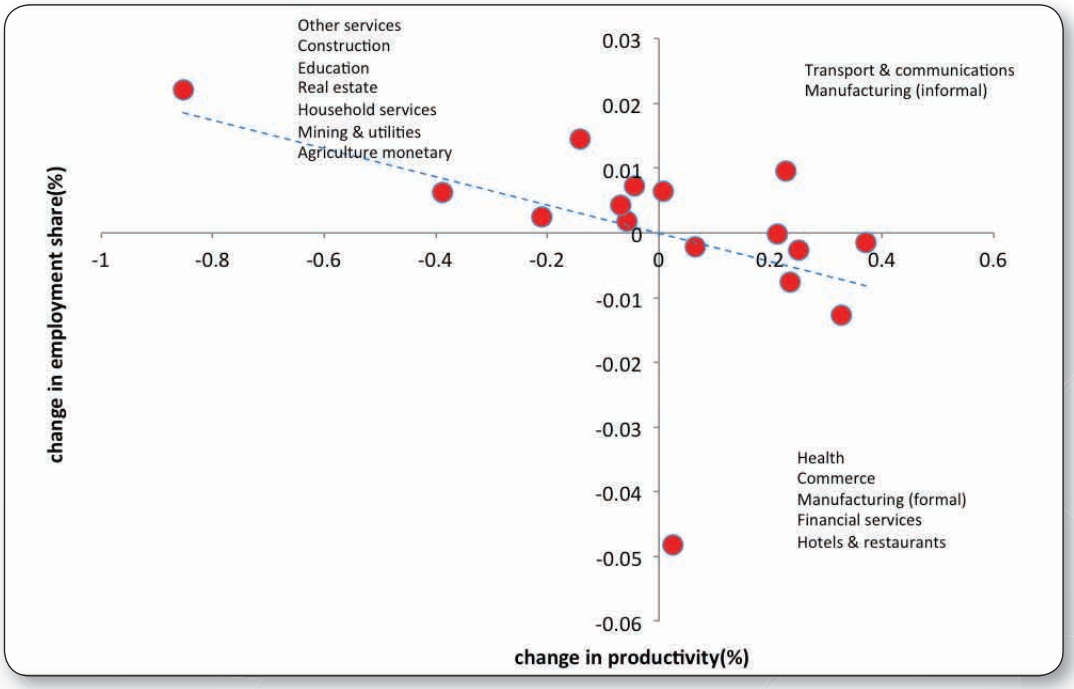


Source: Uganda Bureau of Statistics

a number of workers also engage in secondary activities that could lead to a more permanent shift into other sectors.

The challenge for the Ugandan economy is two-fold. First, the sectors such as communication and financial services that have contributed the most to the recent economic growth episodes are not necessarily labor-intensive. They have raised their productivity but have become less labor-intensive. Hence, they have failed to create a great number of new jobs for a rapidly growing labor force. For example, in the financial sector, the output per worker has doubled in the period from 2003 to 2010. The proportion of the workforce employed in the sector declined by 34 percent during this period. Second, the sectors that employ the largest proportion of the workforce have not necessarily achieved high productivity gains over the past decade. This is particularly the case in the agriculture, construction and real estate sectors. As a result, the improvements in labor productivity within sectors such as formal manufacturing, commerce, hotels and restaurants, transport and communications, financial services, and health, has been marginal an hence offset by large declines in such productivity in other sectors[14] . In short, to be successful, Uganda should achieve a higher rate of economic growth with a higher proportion of its labor force employed in sectors that have achieved the most significant productivity gains. The second part of this update explores these issues in greater depth.

Figure 10: Sectors with positive productivity change not necessarily employing more workers: Uganda 2003-2010



Source: Uganda Bureau of Statistics; National Household Surveys and National Accounts

14 This decomposition analysis matches sectoral output to employment to help provide some indications on how the evolution in per capita income growth was related to changes in employment rates, output per worker, and the population structure.

PART 2:
JOBS: CREATING MORE PRODUCTIVE EMPLOYMENT OPPORTUNITIES FOR MORE OF UGANDA'S CITIZENS

- The agricultural sector is the largest source of jobs in Uganda, accounting for more than 70 percent of all employment. However, other sources of employment are growing faster, especially in the urban areas, where jobs are more diversified toward manufacturing and services.

- While most people are employed, the majority of workers are stuck in low productivity jobs, both in the informal and formal sectors.

- Uganda's labor market has been and will continue to be driven by the rapid expansion of the labor force, which is growing as a result Uganda's rapidly expanding working population and other demographic changes, an increasing rate of urbanization, and by a changing structure of production, especially in urban areas.

- The job challenge will differ by location. For the rural areas, both the transformation of the agricultural sector and increases in the productivity of non-farm enterprises should provide opportunities for better jobs. For urban areas, the removal of constraints to small and medium firms' survival and growth will result in increased employment opportunities in more productive sectors.

- The Update recommends that Uganda's job policy agenda should focus of five pillars:

    - To improve farming jobs by raising productivity in agriculture;
    - To support productivity growth in informal or household based enterprises;
    - To support the growth and to improve the productivity of firms, especially small and medium sized enterprises and export oriented firms;
    - To provide the labor force with essential skills; and
    - To promote a more efficient urbanization process that can support firm growth.

- These five pillars will require immediate actions but those will take time to have a concrete impact on the ground. For this reason, Uganda needs to adopt measures in the short term to hasten job creation such as promoting growth of larger industries in light manufacturing and exportable products; improving the business environment for strategic sectors and clusters through industrial zones; creating linkages between large and small firms, and building better urban infrastructure to facilitate transport of people and goods.

3. Jobs: Connecting to prosperity

The issue of jobs resonates with almost everyone. Policy makers, politicians, and the general public are constantly involved in discussions on how to 'create jobs' or, to be technically correct, how to 'create an enabling environment that generates a sufficient number of productive jobs'. As elsewhere in the world, Ugandans want good jobs that can secure them a decent standard of living, a better future for themselves and their families, and social acceptance. In various interviews conducted by the World Bank between 2009 and 2013, Ugandans expressed their aspirations regarding jobs (see Box 5).

3.1 Why should we be concerned about jobs?

An adequate supply of productive jobs is essential for Uganda's successful economic development. Ensuring that the majority of the able-bodied population of working age has access to gainful employment is the means by which Uganda will reduce poverty, achieve economic transformation, and ensure social cohesion.[15] First, the availability of remunerative employment determines the living standards of individual workers and their

Box 5: Job Aspirations – Different Perspectives, Same Visions

Youths have big expectations as to what they can achieve, as responses of youths between the age of 15-24 years randomly asked what they want to be in future:

"I want to do network marketing or network business and to be a millionaire";

"I want to set up my business because the jobs in the country are less paying. In five years' time, I hope to start my own business either here in Kampala or in the village";

"Following the economic crisis, it is hard to find a well-paying job, I plan to be self-employed in the freight and logistics industry";

"I would like to be a Bank Manager or an accountant";

"I want to be a pilot";

"I want to set up a printing factory and major in advertising and graphics";

"I want to go abroad because there are no jobs in Uganda";

"I would like to be a doctor in the next five years";

"When I finish school, I would like to work with the internal affairs or the UN or at the airport";

"I plan to do construction work or anywhere I can earn an income-- In Uganda, nothing is guaranteed";

"I plan to be a procurement officer or a manager";

"I want to go for further studies and do a course in Bio-Kinetics";

"I want to be a trained nurse to work in the hospital or in the UN";

"When I grow up, I want to live in the city. I want to be an engineer to care for peoples' vehicles, and other means of transport including boats and airplanes".

Source: Documentary on Youth Employment, World Bank, 2011

15 See details in World Bank 2012, World Development Report 2013: Jobs. Washington DC. World Bank

Teacher in Mubende - A job that carries both individual and social value

dependents. Jobs provide incomes to workers, the level of which determines their standard of living. Fundamentally, people work to make a living, either by earning cash or other in-kind remuneration to meet their basic needs, such as food, clothing, shelter and water. Whether by securing a job in an established business or organization after completing education, obtaining higher yields on the farm, or setting up a small enterprise, a job is the primary means by which individuals meet their basic needs. In Uganda, growth in employment, whether in the wage sector or in self-employed, household-based enterprises, has been a critical means of reducing poverty.

Secondly, the proportion of the population employed in productive jobs is strongly related to a country's ability to facilitate economic transformation. The development of new products, new modes of production and new markets is achieved through the constant reallocation of productive resources, including labor, into higher productivity areas. In the case of Uganda, whose economy is largely driven by the natural resources and agricultural sectors, this could involve a movement of labor from less productive to more productive sectors, such as from agriculture to industry, or even within agriculture, with a shift toward high yield crops. The faster workers move from low to higher productivity activities within the economy, the faster the pace of transformation. In contrast, economies can stagnate and decline if people remain stuck in low productive, non-transformative employment.

Third, jobs are a key determinant in how people view themselves and relate to each other. Hence, jobs are a major factor in the achievement of social cohesion. The distribution of jobs within society and perceptions regarding access to opportunities can shape society's expectations for the future and perceptions of fairness. The aspirations of Uganda's youth have been shaped by whether their parents have jobs and the types of jobs they have. Jobs are a means of achieving empowerment, enabling individuals to encounter new ideas and interact with people of different backgrounds. However, lack of employment opportunities can lower levels of both trust and civic engagement and may even result in social conflict. This can be the case even where the rate of unemployment is low, if people feel that available jobs don't match their

> Uganda's per capita GDP grew above 3.0 percent, despite an extremely high rate of population growth over the 1990s and first decade of 2000s.

skills, qualifications and aspirations. This is often the case for Ugandan youths who have completed post-primary education.

The challenge of job creation can be complicated because jobs have both private value for individuals and social value for the country. The private value of jobs relates to the levels of remuneration received by an individual. The social value relates to the role of labor in the generation of more rapid economic growth and transformation. Take an example of a high paying job in the fruit-juice making industry in Kampala, the capital city. In terms of the level of remuneration received by the individual worker, this may be regarded as a highly desirable job. By holding such a job, the individual worker may also be contributing to the country's long-term growth through the production of goods that may have value on domestic and global markets. By contrast, a rural farming job, down in the outskirts of Masaka district, which involves difficult working conditions, substantial variability in earnings and no formal social protection, may be considered less desirable by jobseekers whose qualifications create viable alternatives. However, people working in such jobs may also make a major contribution to Uganda's development. By the same token, there are jobs that may be attractive to individuals, but that do not make a significant contribution to development, while other jobs may be neither attractive to individuals nor promote development. The challenge for Uganda is to ensure the availability of a sufficient supply of productive jobs to enable a larger proportion of its population to contribute to the country's economic development while at the same time enabling individual workers to achieve their personal aspirations for a better life.

Over the past two decades, Uganda's economic growth created jobs, but mainly in low productivity areas.. Uganda's per capita GDP grew above 3.0 percent, despite an extremely high rate of population growth over the 1990s and first decade of 2000s. The proportion of the population living below the poverty line declined from 56 percent in 1992 to 24 percent in 2010. This was partly because this growth was able to generate employment opportunities. However, these opportunities occurred mostly in low-value added sectors, generating few improvements in labor productivity and thus limited increases in wages. Today, Uganda's labor force consists of approximately 15 million individuals. With the world's most youthful population (48.3 percent under 15 in 2010[16]) and with a welcome increase in female participation in employment, Uganda has had the world's fastest growing workforce. In contrast, the total number of off-farm jobs in businesses with a fixed location is just over 1 million[17] , having grown fast over the past decade. This has left the bulk of the labor force in the agricultural sector and the non-agricultural informal sector. At the same time, the increasing difficulty faced by the approximately 300,000 individuals who graduate from universities and technical colleges every year in obtaining appropriate employment confirms the rate of job creation is slower than the growth in demand for appropriate jobs, largely due to the rapidly expanding size of the labor force. There is also a mismatch between the skills of such jobseekers and

16 As per United Nations Population World Population Prospects - 2010 Revision, April 2011

17 UBOS: Census of Business Establishments (2010). Note, this Census does not necessarily reflect "formal" business – these businesses are not necessarily registered for tax purposes. Their defining feature is they have a premise that was visited by enumerators who walked the length and breadth of Uganda conducting the census.

the demand for their skills by firms. Employment surveys also suggest that the majority of jobs are considered to be casual, providing only short periods of irregular employment. Therefore, the country still faces a challenge in creating 'good' jobs to support the country's economic transformation and to facilitate the achievement of social cohesion.

The recent decline in economic growth has certainly intensified the need to create a greater number of more productive, better remunerated jobs. Like elsewhere, slower growth results in a decline in employment opportunities due to the slower expansion of many economic sectors. Uganda's economic slowdown has been visible in labor-intensive sectors, including agriculture, construction and manufacturing.

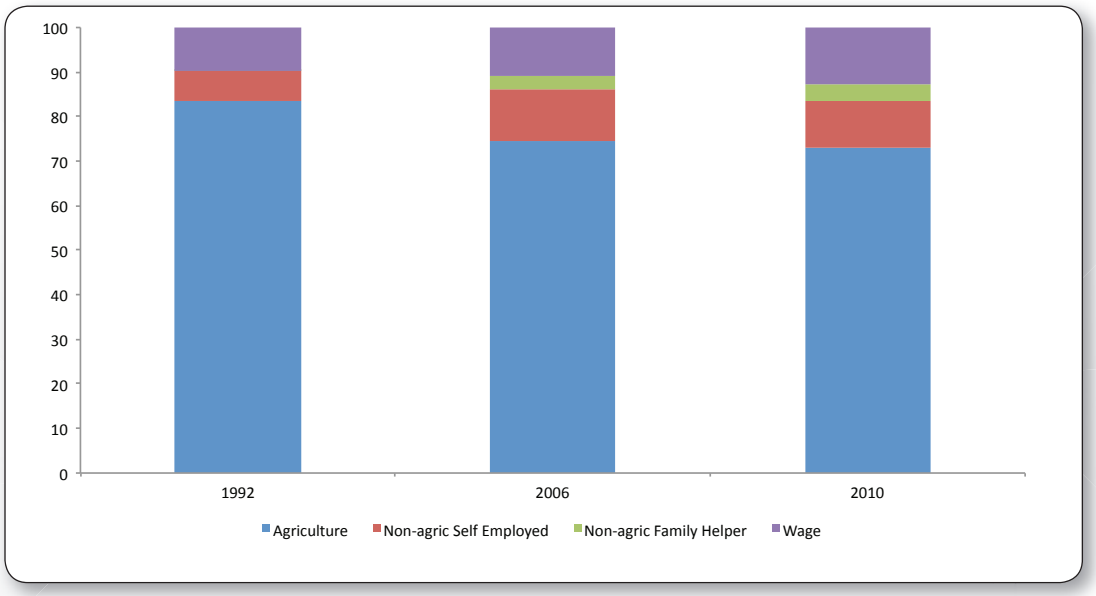
This part of the update explores a set of policy options intended to assist Ugandan policymakers to implement policies to enable the creation of a sufficient number of productive jobs for its rapidly growing young population. We start by describing the main sources of employment in the country and then attempt to identify the factors that will shape the structure of the domestic labor market in the coming years. This double analysis will allow us to suggest a comprehensive set of policy recommendations that will be articulated around five pillars.

3.2 What jobs do Ugandans do?

Overall, the participation rate of the population in the labor market is high because people cannot afford to be unemployed. The agricultural sector has remained the major source of employment. New jobs have emerged in the non-agricultural sector, in urban areas. The challenge is to ensure that this shift will result in a higher level of productivity both for individuals and for the economy as a whole.

Uganda's job landscape is rapidly evolving, but agriculture remains the most important source of employment. For purposes of analysis, Uganda's job landscape can be defined in terms of the three main categories of employment[18]: the agricultural sector, the non-agricultural informal sector, and the non-agricultural formal enterprise sector, a large component of which includes the wage sector. By 2010, 73 percent of working Ugandans were primarily involved in the agricultural sector, a

Figure 11: Sources of jobs: Most Ugandans work in agriculture



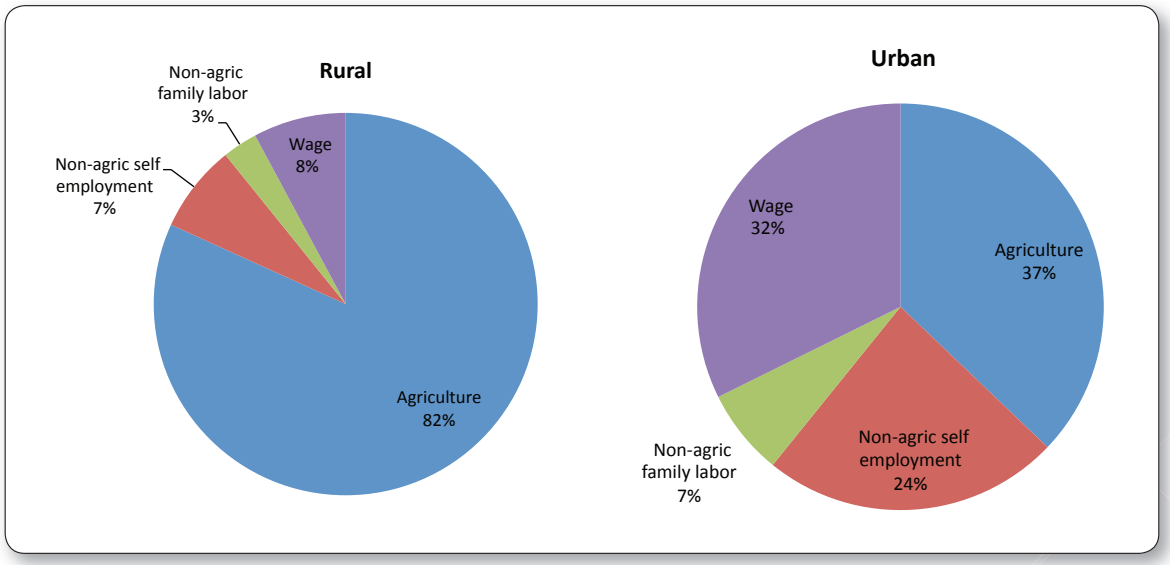
Source: Uganda Bureau of Statistics, National Household Survey, 1992/93, 200/06 and 2009/10

18 This categorization is not mutually exclusive. Jobs in agriculture can also fall into the self-employed or family enterprise sectors.

slight decline from the figure of 85 percent at the turn of the 1990s (see Figure 11). In both formal and informal non-agricultural sectors, the greatest proportion of jobs was in the construction and services sector, with manufacturing accounting for only 3.3 percent of the total number of jobs. These categorizations relate to primary employment, although it should be noted that many individuals are involved in a number of secondary activities that span a number of sectors.

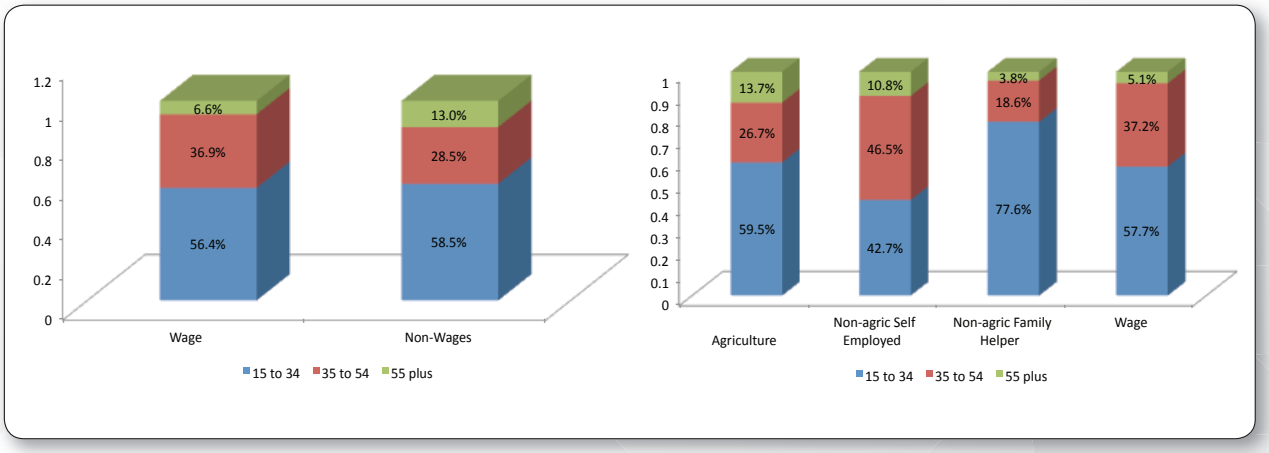
Job opportunities differ according to location and workers' characteristics. First, unsurprisingly, the share of agricultural jobs is higher in rural areas (82 percent) than in urban areas (37 percent). By contrast, the vast majority of wage workers are concentrated in cities (see Figure 12). Furthermore, approximately one out of three urban workers is active in the informal or family non-farm sector, while this proportion is only one of 10 in rural areas. The second characteristic concerns the young age of workers, since people between 15 and 34 years of age account for more than half (56 percent) of the working population. They are almost equally distributed between non-wage and wage occupations, and across farm and non-farm jobs (see Figure 13).

Figure 12: Big differences in the jobs Ugandans do in Rural and Urban areas



Source: Uganda Bureau of Statistics, National Household Survey 2009/10

Figure 13: Uganda's Youth Taking a Proportionate Share of Jobs by 2009/10

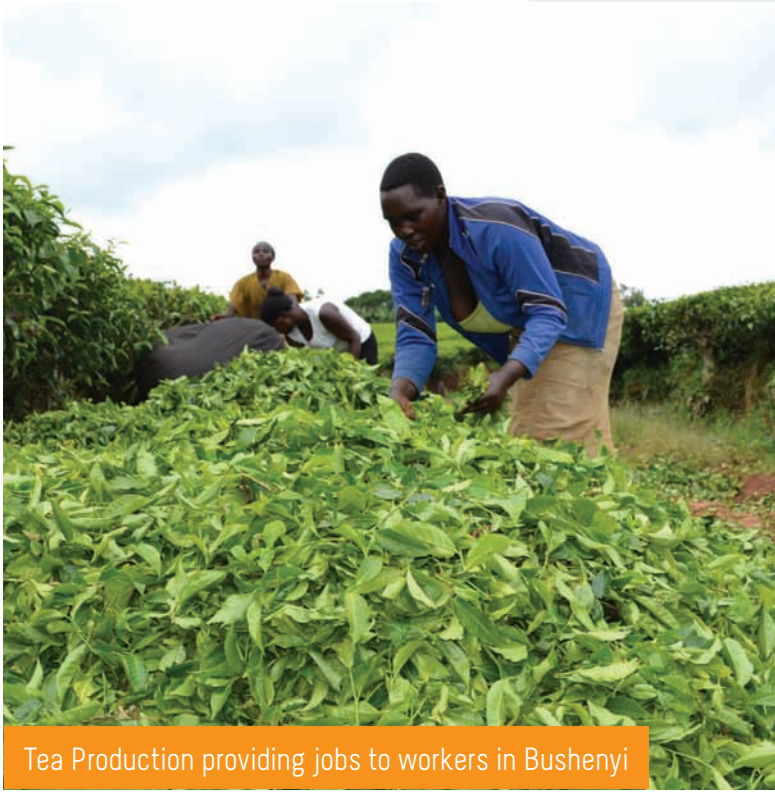


Source: Uganda Bureau of Statistics, National Household Survey 2009/10

3.2.1. The agricultural sector: Still the largest source of employment but at a cost of its productivity

The agricultural sector remains the most important source of employment in Uganda, even with the gradual structural change noted above. The vast majority of the workforce engaged in agriculture, especially those in rural areas, has varying but generally low levels of productivity. The principal activities in this sector include crop farming, animal husbandry, and fishing. Only about 5 percent of job holders in the agricultural sector are in the wage sector. Still, given the small relative size of the wage sector, agricultural workers who receive wages constitute a significant proportion of that sector, with a quarter of all wage-paying jobs being in the agricultural sector. Such jobs often involve employment in the production and management of traditional cash crops, coffee, tea and tobacco. However, an increasingly large proportion of such jobs involve non-traditional wage jobs in the poultry and dairy industry. The bulk of employment in the agricultural sector involves subsistence or family labor, for which it is hard to quantify the levels of remuneration. This is explained by the low level of commercialization of agriculture: in 2005/06, out of all households engaged in the agricultural sector, the most commercialized quintile of households sold no more than 50 percent of their output. The most commercialized farms are large farms, which contribute to only 4 percent of the total output of the sector. The vast majority of farms are small farms that do not hire external labor. Hence, jobs on such farms fall into the self-employed or family enterprise sectors.

The proportion of the workforce employed primarily in the agricultural sector declined during the 1990s. However, this proportion has remained almost constant over the past decade, with people moving in and out of the sector. In the period from 1992 to 2003, a large proportion of the population moved out of agriculture, reducing the share of the workforce employed in this sector from 85 percent to about 73 percent. Since then, labor has moved in and out of this sector depending on economic and climatic conditions.[19] In good times, labor has moved back into the sector to take advantage of improved prices, under which circumstances the sector has helped households move out of poverty. But when conditions were not conducive, they shifted out or increased their level of involvement in secondary economic activities.



Tea Production providing jobs to workers in Bushenyi

Workers moving back to agriculture might be doing so for different reasons. For some of these workers, the decision to make the shift may come as the result of defensive strategies, driven by hard conditions in off-farm jobs. Nonetheless, a proportion of labor may have moved back into agricultural sub-sectors with higher levels of productivity, including export crops (tea, coffee) and maize and beans, notably in the first part of 2000s (see Box 6). This would be good news for the agricultural sector.

19 According to the 2005-2010 panel survey, 15 percent of people working in the agricultural sector by 2010 had been employed in other sectors by 2005.

Box 6: Shift Back into Agriculture not necessarily labor market deterioration

There was a sudden increase in proportion of the labor force employed in the agricultural sector during the first half decade of the 2000s. Rather than this being a labor-market deterioration, since employment was shifting back into a lower productivity sector, possible explanations include:

Better prices: Higher prices in agriculture could have also encouraged households to supply labor to the agricultural sector. Prices for food and non-food crops were at historical lows in 2002/3 (25-35 percent below the 1999/00 levels), and rose back up to the level of 1999/00 in 2005/6. This may have encouraged some workers to re-enter the agricultural sector. It is clear that new entrants chose this sector, especially males, perhaps encouraged by price trends, and possibly at the expense of school. Labor force participation for males under 14 in family farming went up by 40 percent, while school enrollment went down for this age group in rural areas. The lack of comparable individual earnings data on non-wage activities between the two periods makes it difficult to look beyond prices at returns to labor in agriculture vs. non-agriculture sectors.

Growth of commercial agriculture: An increase in employment in agriculture does not mean that there is no structural transformation. Much of the growth in agricultural employment was in wage employment, and primarily in the Western region (where 40% of this employment is located). This region benefited from significant investments in agricultural processing during this period as well as higher prices for the main plantation crop, tea, which should have benefitted farmers, especially commercial farmers. Wage employment in agriculture might have had a higher marginal productivity than non-farm household enterprise or self-employment for those with limited skills and education.

Fragility of non-farm enterprises: The sector which appeared to lose its share is non-farm household enterprise. Research in African countries has shown that as start-ups, these enterprises are fragile. In better economic times (e.g. higher prices), after a business failure, households may try their luck in farming, or in the wage sector first, rather than creating another new enterprise. (Daniels, 1999).

Changes in questionnaire design. There were multiple changes in the 2005/6 questionnaire, which were designed to improve identification of labor market activity and participation. We tried to correct for this in the analysis but we could not make the data fully comparable (see technical annex). Thus at least some part of the observed increase in employment may be simply an improvement in measurement rather than real events.

Source: World Bank, 2009. "Sharing Growth: Recent Labor Market Outcomes and Poverty Reduction."

Agricultural transformation - Flona Commodities Bugerere, east of Kampala

3.2.2 Non-agriculture informal enterprise sector: The biggest source of employment in urban areas

As in many other developing countries, a large proportion of Uganda's workforce is employed in the non-agriculture informal sector. Involvement in this sector is predominant in urban areas, but is also quite significant in rural areas amongst those who have tried to diversify away from agriculture. By 2009/10, 14.1 percent (2.1 million) of the workforce was involved in non-agricultural informal sector enterprises, with 54 percent owning and managing their own business. This sector is characterized by self-employed individuals or small, privately owned enterprises producing mainly services or simple consumption products. About 86 percent of the informal sector jobs are household based[20].

Jobs in the informal sector are normally at the lower end of the productivity spectrum. The majority of the informal sector enterprises are engaged in retails sales, but a big number are also manufacturers. A large numbers of Ugandans employed in these enterprises work as metal welders, crafts makers, brick makers, dress makers, fish mongers, butcheries, food vendors, street vendors, boda-boda (motorcycle) riders, and carpenters, amongst other similar occupations. Within the rural areas, manufacturing activities take the form of brick making, charcoal manufacture, and other natural resources based production. A significant proportion of such businesses are involved in the manufacturing of beverages, particularly in the northern region. Tailoring is another common activity in the informal manufacturing sector.

Jobs in the informal sector enable workers to diversify their source of income and provide a means to avoid the threat of poverty. At the same time, these jobs are characterized by limited

Musoke at work in his home based workshop - Nsambya Kampala

security, highly flexible earnings, and sometimes an involuntary choice. For most informal workers, remuneration and working conditions depend on specific, personal agreements between them and their employers. The nature of these agreements varies according to the tasks implemented, the location, and the time of the year, as well as the bargaining power of each party involved. Particularly for family enterprises, those employed receive irregular payment for their labor, or payment only in the form of food and lodging. In total, it is estimated that 31 percent of informal sector workers do not receive cash payments for their labor (UNHS 2009/10). Job insecurity is pervasive, wages are highly flexible and substantially lower than those in the formal sector, and workers receive very few benefits from their employers. Labor laws do not apply or are enforced extremely weakly, at best. Workers rarely benefit from any form of social insurance. Most of those involved in such activities operate without stores or fixed locations. Only 15 percent of informal enterprises in the trade sector operate in specialized fixed locations, most commonly urban market stalls. Employment in the informal sector often serves as a risk management mechanism, enabling a household to diversify its sources of income. As such, it may reflect a voluntary choice. In other cases, businesses remain

20 By 2005/06, 55 percent of urban households and 38 percent of rural households reported that they operated a household-based enterprise (HE).

within the informal sector because of high barriers to entry or lack of perceived benefits related to the formalization of their business. However, this sector includes a significant proportion of those who may be described as 'reluctant entrepreneurs': many of those who operate businesses within the informal sector do so because they believe that they have no other options on the labor market[21].

As a recent World Bank study[22] indicates, the main constraints to raising productivity and growth of informal enterprises are inadequate capital, lack of business and technical skills, and a lack of fixed locations to conduct their business. Lack of capital and limited access to credit is the leading constraint. More than 85 percent of businesses in informal firms did not have access to any form of formal credit facilities in the 12 months preceding the survey conducted in 2010. Amongst the majority of businesses in both urban and rural areas, start-up capital, if any, came from the household's own savings. Only 2.6 percent of household enterprises in urban areas and 1.5 percent of such businesses in rural areas gained access to credit facilities offered by microfinance institutions as sources of capital. When available, the cost of credit is high. At the same time, due to the lack of business experience and skills, the level of profitability of informal enterprises is usually too low to recoup the cost of credit. Concurrently, the low levels of financial literacy of business operators reduce the rate of utilization of formal financial services. The lack of business and technical skills is closely linked to the limited education and the lack of opportunities to acquire technical skills through traditional apprenticeships or similar means. The major source of training for artisans is through traditional apprenticeships, with mentors who lack formal training and teaching skills. Business skills are rarely acquired through any formal means, except by the privileged few who attend post-secondary education or technical training. Most informal firms are constrained in their activities because they do not have specific locations from which to operate their business. This makes it hard for them to develop a regular clientele or, because of the lack of storage capacity, to extend their activities. Many firms operate in the streets without authorization, resulting in repeated clashes between business operators and law enforcers. Often, owners suffer losses or damage to their merchandise in the process of such clashes and allegations of bribery and extortion are rife. All these factors increase the risk of failure for informal enterprises.

> "Lack of capital and limited access to credit is the leading constraint.

3.2.3 The non-agricultural formal enterprise sector – small but growing

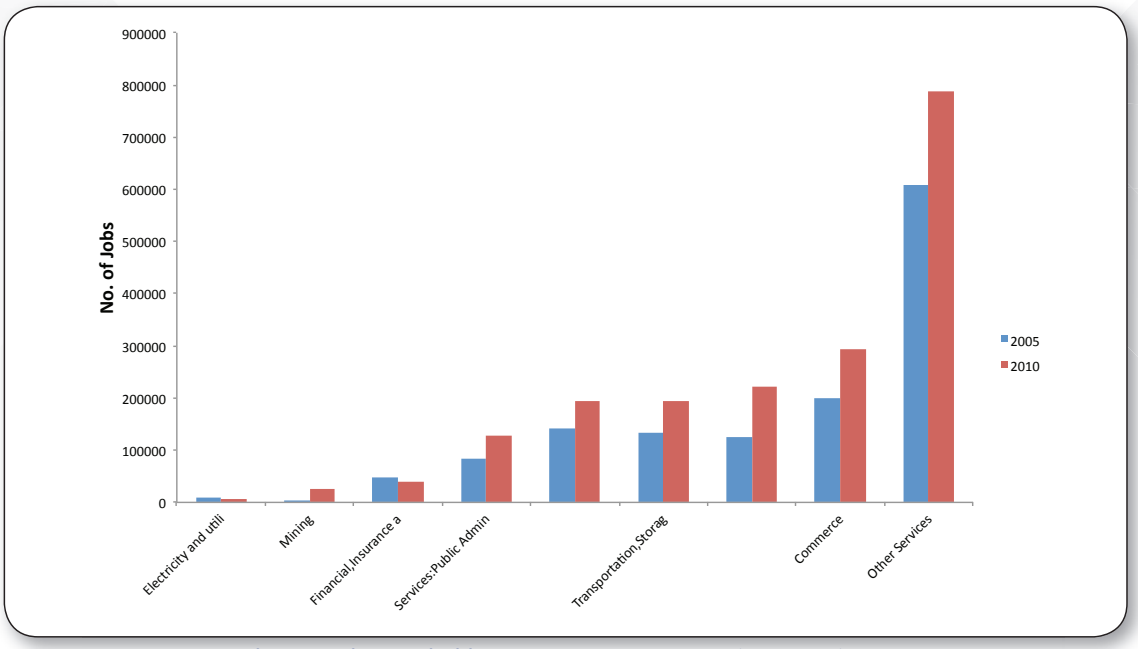
According to the 2009/10 National Household Survey data, approximately 14 percent of the labor force, or 2 million workers, is employed in the non-agricultural wage sector, mostly within the formal sector.[23] With only about 300,000 jobs in the mainstream public sector, the majority of wage jobs are thus provided by the private sector. Over the past two decades, the growth rate for private non-agricultural wage and salary jobs averaged about 7.3 percent per year, with the bulk

21 See Abhijit V. Banerjee & Esther Duflo, 2007. "The Economic Lives of the Poor," Journal of Economic Perspectives, American Economic Association, vol. 21(1), pages 141-168, Winter.

22 Bakeine (2010). Uganda Country Study Report: Raising Productivity and Reducing the Risk of Household Enterprises. World Bank, Washington DC.

23 Formal sector comprises the public sector, medium and large enterprises that hire workers on the basis of formal contracts. These workers and employers are subject to various labor market regulations, including reasonable working conditions, take home pay (particularly in the public sector), fringe benefits such as pension and health care and job security.

Figure 14: Uganda's Wage employment has grown rapidly across all sectors, 2005/06 - 2009/10



Source: UBOS Integrated National Household Surveys Data Base 2005/06-2009/10

of this growth occurring in the latter part of the decade. The number of wage jobs has increased in all sectors, except finance and insurance (see Figure 14). The growth in jobs, however, must be weighed against the rapid expansion of the labor force, with a particularly large influx of young workers with an aspiration to join the white-collar wage sector, and against the very low base. The wage sector has absorbed about 20 percent of the youngest net new entrants into the labor market. Ensuring that this sector continues to grow is important for Uganda, especially given that this sector is to a large extent driving the transformation of the economy.

The service sector is the major contributor to both job creation and value added in formal enterprises.[24] Comparing the number of firms and jobs in the 2001 Business Register and the 2011 Census of Business Establishments[25] conducted by the Uganda Bureau of Statistics reveals that the services sector is not only the largest contributor to growth in value added, accounting for more than 45 percent of GDP, but that it is the largest and fastest-growing provider of employment in the formal economy, accounting for 92 percent of all new formal sector jobs by 2010/11. In this area, the shift in the employment structure has matched the structural transformation of the economy.

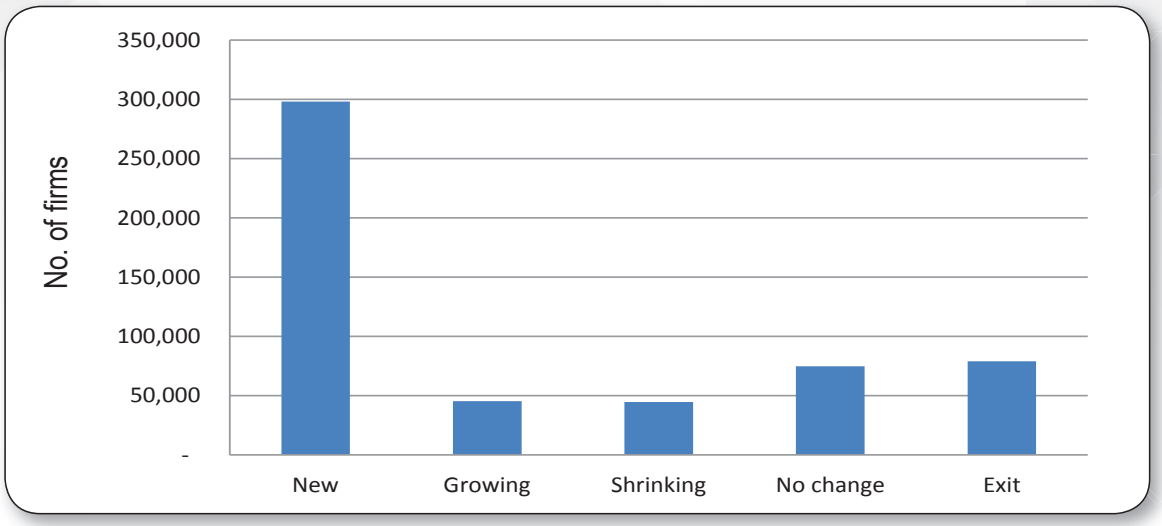
Most of Uganda's net formal sector job creation in the first decade of 2000s was driven by the creation of new businesses. When the enterprises that have existed through the decade[26]

24 Formal enterprises may sometimes hire informally. For the purposes of this analysis, all reported employees are formal otherwise they would not be reported in official government surveys.

25 The Business Register 2001 and Census of Business Establishments 2011 cover all firms that have a fixed establishment, and hence provide extended coverage of firms than the standard definition of formal (registered) firms or wage employment per se. In Uganda, the national accounts for the formal sector rely on the Uganda Business Enquiry to collect information on operating statements and balance sheets of over 4,700 firms sampled to be representative of the sectors of the economy. Here we use the 2001 and 2011 UBIs to analyze the effects of structural change on aggregate productivity.

26 This was based on analysis of a panel of firms that existed between the first census (Uganda Business registered of 2000/01) and the second (Census of Business Establishments of 2009/10, created by Uganda Bureau of Statistics,

Figure 15: Uganda: Formal Firm Entry, Exit and Churning during the 2000s



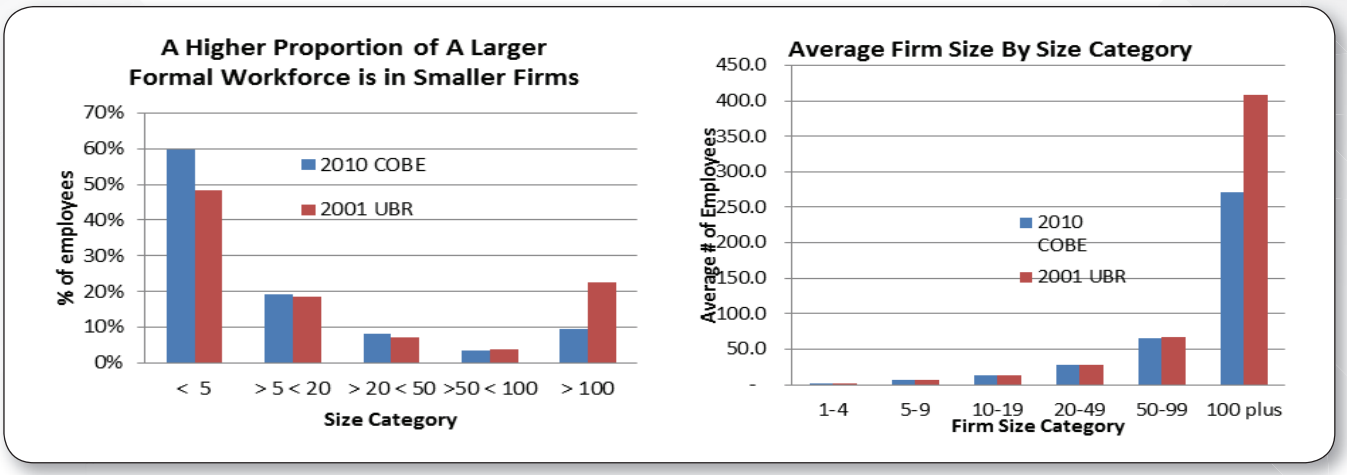
Source: UBOS Censuses of Business Establishments, 2000/01, 2009/10

are compared, it shows that the number of new jobs created was almost equal to the number of jobs lost as some firms, referred to as "shrinking firms", downsized (see Figure 15). On a net basis, jobs created by newly established businesses greatly exceeded both jobs lost as some firms shrunk and others died, here referred to as "exits".[27] The total number of businesses that were established during this decade accounts for approximately 79 percent of all Ugandan firms operating in the formal sector, and provided 74 percent of all jobs in this sector. This phenomenon has become even more apparent over the recent past, as approximately 60 percent of formal sector jobs were in businesses that were established in the preceding 5 years. As a result, the rate of growth in jobs in the last five years accelerated to 13 percent per annum, from 9 percent in the first part of 2000s.

There has been a rapid expansion in the number of formal jobs in small firms, but large firms have downsized and reduced the average rate of employment by formal firms. Micro enterprises increasingly dominate the formal job landscape in Uganda. By 2010/11, 60 percent of formal jobs in Uganda were in micro enterprises (firms employing less than 5 workers), with a further 18 percent in small firms (employing between 5 and 20 workers). Larger firms accounted for only 12 percent of jobs. Following through firms that existed through the decade suggest that for every 100 workers the medium sized enterprises had employed at the beginning of the decade, they recruited about 1.6 additional workers. The small- and micro-sized enterprises recruited 20 to 25 employees, implying that when they survived, these firms created jobs faster than their larger counterparts. In contrast, the larger firms have reduced employment. On average, firms with over 100 employees reduced the number of workers they employ from approximately 400 employees in 2001 to about 260 employees in 2010 (see Figure 16). In addition to the new firms being smaller, those that existed through the 2000s also reduced staff through restructuring and through the privatization of various services (such as financial intermediation, electricity services and construction). Overall, the average number of employees at formal firms shrunk from 3 employees in 2000/01 to about 2.4 employees in 2009/10.

27 Growth in enterprise employment in an economy is the net effect of hiring by new business entries, job losses from exits, and the growth and shrinkage in employment of the firms which survive over time. From the panel of firms that existed between the two censuses of 2000/01 and 2009/10, we determine which firms entered, and which ones have survived through the panel period, and hence we can estimate exits as the balancing item. This method underestimates entrants that exit between censuses.

Figure 16: Most of the work force is in micro firms, with large firms getting smaller during the 2000s



Source: UBOS Censuses of Business Establishments, 2000/01, 2009/10

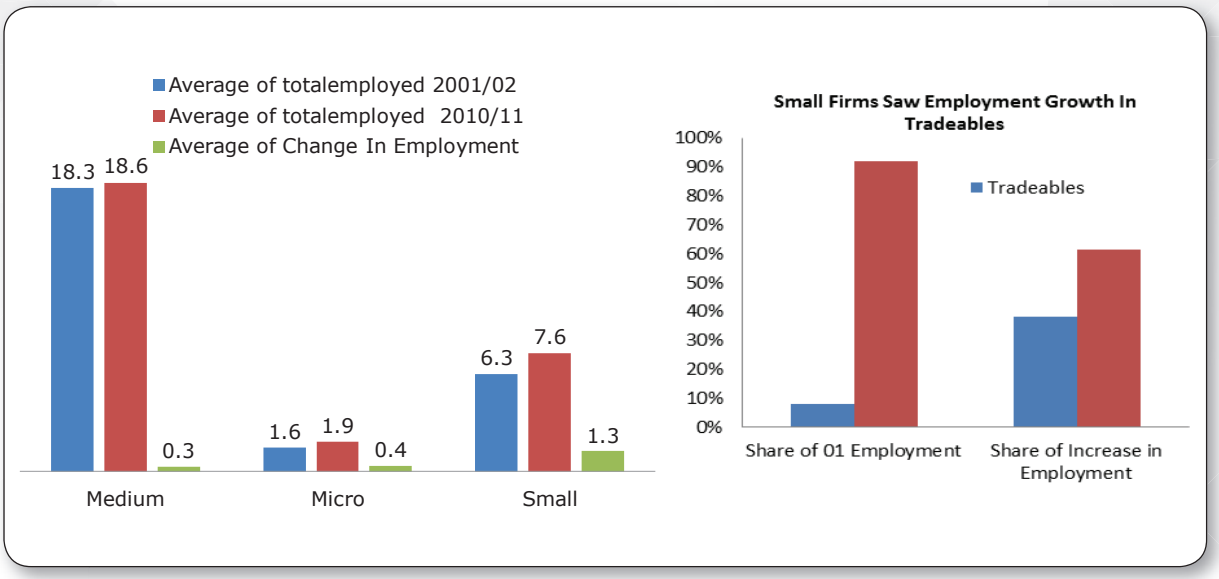
Very importantly, firms producing traded goods increased the number of workers they employ to a significantly greater extent than firms involved in non-tradables. Small producers of tradables[28] accounted for 38 percent of the new jobs created (see Figure 17, right panel), despite the small total proportion of the workforce employed at such enterprises, which was a mere 8 percent in 2001. This could have positive implications for Uganda's growth for three reasons: i) small firms engaged in the production of tradables appear to have a higher level of labor productivity (value added per worker) than small firms engaged in the provision of services, so the expansion in the workforce of these enterprises could drive increases in productivity in the economy;[29] ii) Uganda needs to export in order both to generate learning externalities from trade and to limit growth in the current account deficit; iii) these sectors may provide a significant number of further employment opportunities if they continue to grow and to increase the volume of their exports, since their ability to create jobs is not limited by the size of the domestic market. Uganda exports very few, if any, services, but is increasingly exporting tradables, including metal products to Sudan and Congo, grain mill products to Kenya, and processed foods to global markets. Also, the production of tradables facilitates a more rapid integration of the economy with regional and global economies.

Green house farming, one of the road to higher productivity agriculture

28 Traded goods include agriculture, fishing, mining, food processing and manufacturing.

29 Example: manufacturers have between 37% and 64% higher real value added per worker than firms in hotels and restaurants or retail and wholesale.

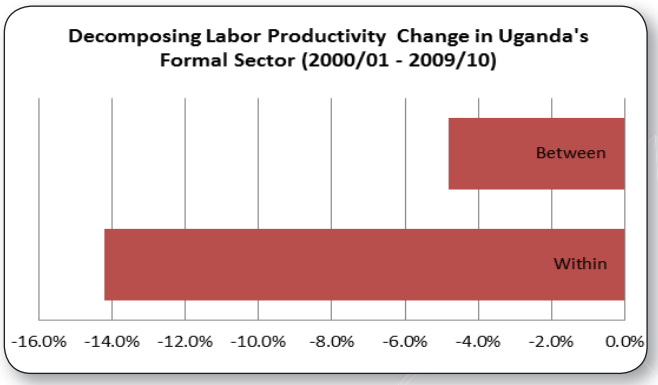
Figure 17: Smaller firms grew through the decade of 2000s, especially in traded goods



Source: UBOS Censuses of Business Establishments, 2000/01, 2009/10

Overall, the structural transformation within Uganda's formal sector is growth reducing as it has not enhanced worker productivity. This is because the bulk of new jobs in the sector have a lower average value added per worker than pre-existing formal sector jobs. Uganda is yet to benefit from the type of growth-enhancing structural change that has characterized the transformation of high-growth countries in Asia.[30] These benefits came both from improvements in productivity within product categories and from the movement of factors of production across product categories. The average real value added per worker in formal firms in Uganda has fallen by 19 percent between 2000/01 and 2009/10[31]. Changes within product categories accounted for a 14.2 percent reduction, while changes between product categories accounted for a 4.8 percent reduction in average real value added per worker (see Figure 18).[32]

Figure 18: Structural transformation has not resulted in enhanced productivity per worker in the formal sector in Uganda



Source: UBOS Business Register 2001, COBE 2011, UBI 2002, UBI 2012

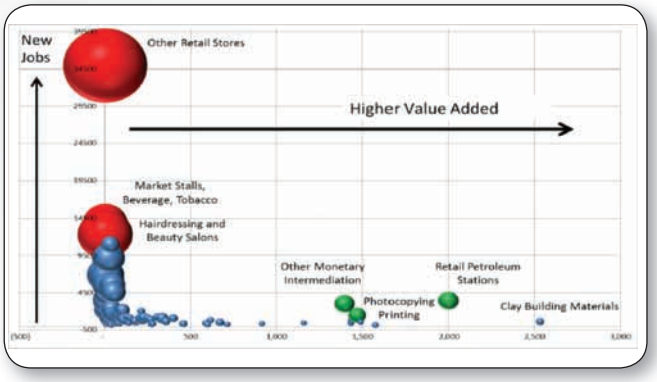
As is common in Latin America, this kind of growth-reducing structural change has come about because the number of jobs in high productivity sectors has declined while the number of jobs in low productivity sectors has increased (see Figure 20). Firms that have recorded increased levels of productivity have done so through the deployment of new technology which partially replaced labor, as has also been the case in the financial services sub-sector.

30 MacMillan, M. and Rodrik, D. (2011) "Globalization, Structural Change, and Productivity Growth", NBER Working Paper No. 17143. June 2011

31 Estimates derived from a panel of firms in the Uganda Business Inquiries 2001/2 and 2010/11. Unfortunately this could not be broken down by firm size.

32 Unfortunately UBOS did not create a panel of firms through the UBI, so it is not possible to assess the effects of churning: i.e. whether within products, labor and capital is moving from unproductive to productive firms, though the Bank staff is also investigating the path of average productivity by firm size in products.

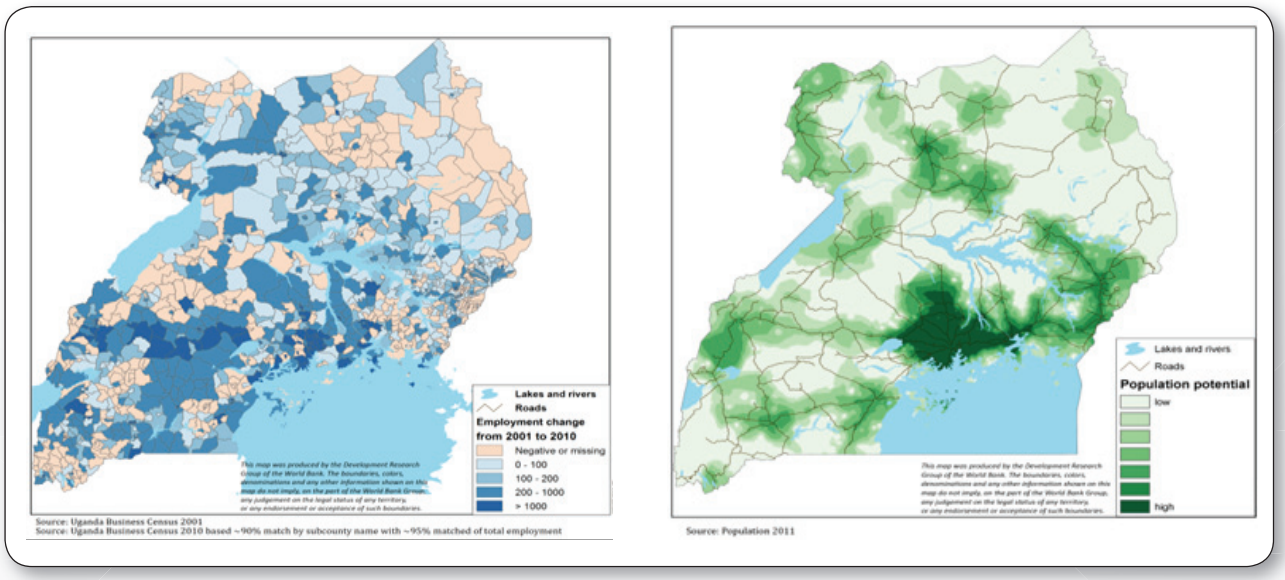
Figure 19: Low value services dominated non-household-based job growth during the 2000s[33]



The few exceptions have been in traded goods products with relatively high value added, where more workers have been employed over the decade. These products include processed food products and other manufactured items, including metal products and plastics. Metals and processed food products have begun to show significant export potential in the sub-region. Both product types are associated with wide differences in labor productivity and firm sizes within the sector. This suggests there may be scope for economic growth by linking smaller firms to the value chains of larger exporters.

In terms of location, the highest proportion of jobs in the formal sector is found in or near urban areas[34] and along transport corridors. Firms select their location on the basis of access to markets and infrastructure, as well as to gain benefits from the agglomeration effect. In the period up to 2010, there has been a pronounced concentration of employment opportunities in the formal sector around the Kampala corridor, which covers Greater Kampala, Wakiso, Mukono, and Jinja; the eastern corridor, which covers the Kenya border area (Soroti, Lira, Gulu through to Arua); the south-west corridor, which consists of Masaka, Mbarara, Kabala and the Rwanda border area; and especially in the western corridor out to Kasese and Fort Portal, through Mubende and Kyenjojo Districts. These areas also show the highest degree of economic density when a population-adjusted market accessibility index is used (see Figure 20). Overall, the majority of employment opportunities in the formal sector continue to exist in the central

Figure 20: Formal Jobs are increasingly concentrating in urban areas



Source: UBOS Business Register 2001, COBE 2011, UBI 2002, UBI 2012

33 We use changes in average real labor costs as proxy for real wages. The size of the bubble depicts the level of productivity of the product in relation in others. The higher a product is in the y-axis, the higher has been its contribution to job creation.

34 These maps are based on sub-country data. Town councils are coded in the 2010 COBE data which allows the distinction on administrative boundaries of urban areas; rural here is non-urban.

Workers migrate to Kampala in search of good jobs

region, although the North has an increasingly large share in terms of net allocation of jobs. In fact, the data suggests that some firms have relocated back to the North since the conflict has ended.35 Arua, in the North, seems to be booming as a result of a resumption of trade with DRC and Sudan, and accounts for most of the new jobs in the formal sector in the Northern Region.

However, it is not clear that Uganda is yet reaping the full potential in terms of job creation from the opening up of regional markets. The corridor running from the Uganda-Kenya border through Soroti, Lira and Gulu to the border with Sudan is a major transport corridor for trade with South Sudan. A large proportion of this area is also heavily populated. Somewhat surprisingly, aside from Arua, the level of new job creation on the main trade transport corridors across Uganda's borders to Sudan and Kenya has been relatively insignificant. For the border areas in the north, this may also be related to the lingering effects of conflict. However, the extent of formal job creation in the western corridor from Kampala to Kasese is far greater than can be explained by population-weighted access to markets. By comparison, job creation in the corridors to the East has occurred to a far less significant degree.

In summary, net job creation in the formal sector in the decade following 2001 was almost entirely driven by newly established micro firms, largely in the retail and restaurant sub-sectors, with job creation being concentrated in Greater Kampala and in two corridors to the West. Approximately 65 percent of the firms that existed in 2010 had not been in business for more than 5 years. Most new firms are micro enterprises, particularly in the domestic market orientated services sector. The big increase in employment in these new micro service firms, coupled with the decline in the number of jobs at larger firms, seems to have resulted in a growth-reducing structural transformation in the formal sector in Uganda. There was a decline in weighted-average real labor productivity of about 19 percent over the decade. This is corroborated by the fact that at the national level, per capita income growth over the past decade has benefitted minimally from improvements in workers' productivity.

35 This is evidenced by the fact that exits estimated for the North as the residual of existing firms less entrants and net growth of survivors turned out to be negative.

4. What will be the drivers of the jobs agenda in Uganda?

The job outcome has been driven by the transformation of the economy, demographic changes, and the process of urbanization. These factors will continue to operate into the future. In the short and medium term, the agricultural sector will remain a large employer, principally in rural areas. However, a more diversified labor landscape is emerging in urban areas, where more jobs will be created in services and in light manufacturing, both in the informal and formal sectors.

4.1 The demographic change: The vital need to improve human capital

Uganda has the highest fertility rate and one of the youngest populations in the world. Hence, it has the fastest growing labor force in the world. A typical mother in Uganda today gives birth to about 7 children, about the same number she would have had in the 1960s. This is far higher than the average number in Kenya or even Tanzania. However, today's mother is far more likely to see more of her children survive to adulthood, thanks to the slow but steady reduction in infant and child mortality rates. Adult Ugandans are living slightly longer than previous generations, with the extension in average life expectancies from 44 years in the 1960s to 54 years today. These three factors (high fertility rates, higher survival rates and longer life expectancies) are driving a demographic change characterized by a fast growing, very youthful population.

These demographic shifts have implications for labor market outcomes and jobs. In the past, the huge population growth already constrained overall improvements in labor productivity, as the market absorbed a fast-growing but largely uneducated labor force. The rapid population growth also comes with a fast increase in demand for jobs by new entrants. Today, 68 percent of the working population is below 34 years of age. Even the most optimistic scenarios for reduced fertility rates do not forecast a change in the proportion of young workers in Uganda's workforce. On the other hand, the burden to the working adult population increased with the increased number of children and elderly who are dependent on workers. In the future, over the next decade, with the rate of growth in the country's labor force already over 4 percent per year, Uganda will be adding an average of one million new workers, with varying levels of educational attainment, to the labor market every 2 years.[36]

Rapid population growth can be positive for economic growth. If new workers can find decent jobs, the increased population will contribute to higher demand and supply. An increase in employment will certainly lead to a higher level of demand for goods and services, which will in turn boost local production. Higher employment, if accompanied by productivity gains, will also enhance production capacities or reduce the final prices of goods for consumption. In countries where population growth has generated such fast growth (also called the demographic dividends), fertility rates were reduced to achieve a reduction in the dependency ratio. In addition, jobs were created fast enough to absorb the rapidly expanding labor force and the labor force was adequately skilled to meet the demands for these jobs. In Uganda,

36 Source: UBOS Population projections, and an assumption of 82 percent participation rate

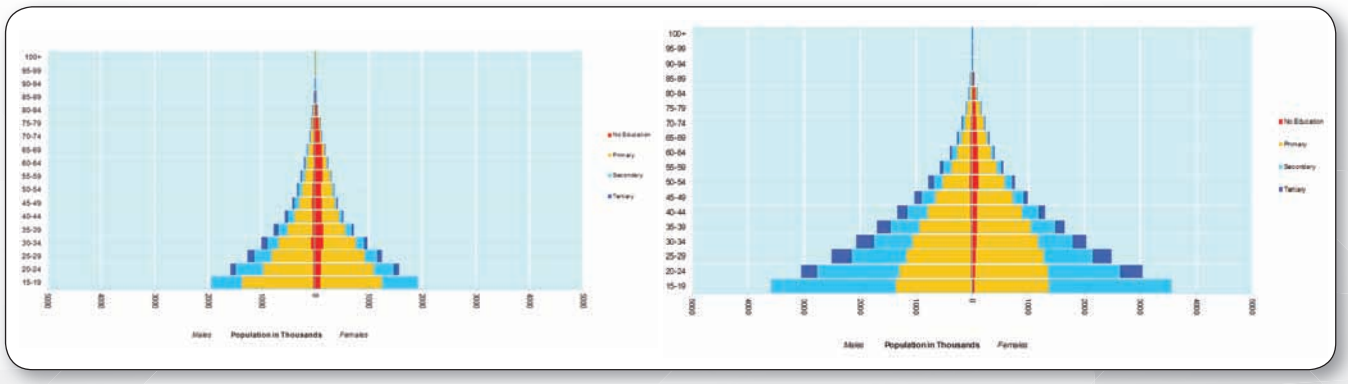
the great challenge is ensuring that these three conditions are met.

To reap a demographic dividend, Uganda must first undergo a demographic transition, which will bring down the high dependency ratio, and allow more resources per person to be invested in human capital formation. The majority of the Ugandan workforce has neither attained education beyond the primary level nor acquired specific technical skills. The proportion of the working-age population with a level of educational attainment beyond the primary level was only 28 percent by 2010. Although the current drive to achieve universal secondary education is expected to eventually reduce the proportion of the population with such low levels of attainment, it is projected that at current rates of improvement, only half of the labor force will have completed primary education by 2030 (see Figure 21).

Skilling, even at the foundation level, is a significant factor in the allocation of labor among sectors and in the different market segments. A higher level of educational attainment increases the likelihood of participation in the wage and self-employment sectors and decreases the likelihood of participation in agriculture. While only 25 percent of individuals who terminate their education after graduation from primary schools have a wage job, more than 60 percent of those with post-secondary education or university degrees have such a job. Within the formal sector, high productivity, capital-intensive firms employ a larger proportion of better-educated and better-skilled workers, with a number of firms importing managerial and technical skills.[37] In the informal sector, the skills gap mainly relates to a lack of technical and entrepreneurship skills. Absorbing labor into the modern wage sector in Uganda will require a better educated and more highly skilled labor force than is currently the case. If more rapid improvements to human capital do not take place, the majority of the labor force will remain in low productivity sectors. In addition, the limited availability of skilled labor could have pushed firms to select capital-intensive options instead of relatively labor-intensive options. Of course, the lack of availability of skilled labor has prevented productivity gains, creating a vicious circle. To be employed, workers needs to be productive, and to be productive they need to have skill. This implies a vicious circle between the demand for skills and improving worker and firm productivity.

Recent reforms in education have increased rates of enrolment. At the same time, the quality of education provided is often still limited, with severe implications to the formation of foundation skills. Universal primary education (UPE) has equalized access to primary education, but quality

Figure 21: Uganda's fast growing workforce: Will it get smarter fast enough? (2010 and 2030)



Source: UBOS for 2010 and World Bank staff projection based on Lutz, Goujon and Sanderson 2007, International Institute for Applied Systems Analysis (IIASA), and the Vienna Institute of Demography model

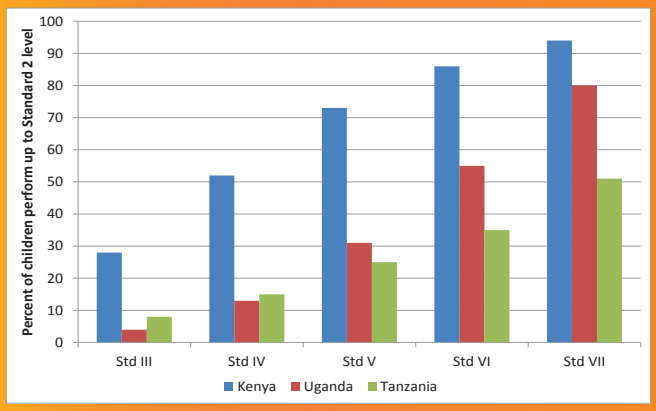
37 See World Bank 2009. An Assessment of the Investment Climate in Uganda; April 2009. Washington DC.

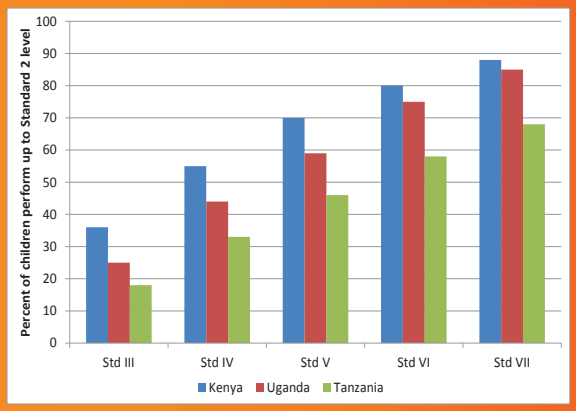
of outcomes lags in comparison with other countries in the region (see Box 7). Completion rates vary substantially across different regions and areas. The rate of transition to secondary education is also very low outside of the Central region.

The fast population growth will magnify challenges related both to youth employment and the skills gap. The modern sector has only been able to absorb 20 percent of new entrants onto the labor market, implying that many young Ugandans have difficulty finding work. One of the key elements of a successful human capital transformation will be a faster demographic transformation through better education (particularly for girls), improvement to health services to lower infant mortality, and

Box 7: Quality of education at foundation level needs to improve

The introduction of Universal Primary Education (UPE) in 1997 has proven to be very successful in increasing primary school enrolment, as well as reaching the poor. However, the implementation of the UPE reform did not benefit from proper planning. A direct consequence of the increase in enrollment has been a degradation of the quality of education, which can be observed in learner outcomes. Uganda's learning outcomes are the worst in the region, as comparative indicators below suggest.





This decrease of the quality can be explained by various factors related to both demand and supply.

- On the demand side, learners' attendance and parents' involvement are critical for good performance. Pupils are often absent due to competing activities and their involvement in child labor. Quite clearly, the outlawing of parent teacher associations and the UPE reform has created a moral hazard problem. Parents attach less value to education, partly due to the fact that they don't have to pay. In addition, they now have less of a role to play in the school development planning process, reducing the level of responsibility for their children's education. Therefore there is little demand for accountability and little support provided to their children (food, scholastic materials).
- On the supply side, the increase in levels of enrollment has not been followed by an increase in the number of classrooms and/or teachers. In addition, the level of teachers' effectiveness is a serious concern. Often, schools are not allocated a sufficient number of teachers, despite which levels of absenteeism are usually high. Many schools do not meet basic minimum standards in terms of scholastic materials, latrines, adequate classrooms. Therefore, in most cases, the learning environment is not appealing to either pupils or teachers, contributing to low performance.

The government of Uganda's ongoing efforts to improve educational quality need to be strengthened. So far, they have included the provision of key inputs—predominantly qualified teachers, instructional materials, a curriculum, and physical infrastructure.

Source: Uwezo, 2011

The communication sector is one of the fastest job creators

expansion in the use of family planning services.[38] There is a vicious circle between the demand for skills and improving firm productivity. The education system faces the immediate challenge of supplying a literate and disciplined labor force. It will only achieve this through four complementary measures: (a) improving access to and the quality of primary and secondary level education; (b) reducing the mismatch between supply and demand of skills through closer coordination between the public and private sectors; and (c) taking care of the large proportion of youth left out of school.

4.2 The changing economy is driving changes to jobs in urban areas

Even with a decline in the share of the contribution of the agricultural sector to the economy, the overall proportion of agricultural jobs in the economy will not change much in the short run. If the transformation of the economy continues on its current path, the number of the workforce employed in the services sector and in the manufacturing sector could double by 2020. Even so, a large proportion of the workforce will remain in the agricultural sector in the coming years, as demonstrated by an assessment of the impact of structural transformation under different scenarios of factor productivity improvement.[39] In each of these scenarios, productivity improvements may facilitate a rate of economic growth of 7 percent, while the structure of production continues to change such that the contribution of the agricultural sector to GDP declines to 18 percent. However, a significant number of workers should continue to be occupied in agriculture not because of Uganda's comparative advantages in this sector, but because this is a residual employer, with a significant proportion of those working in this sector doing so irrespective of its levels of productivity (see Figure 22).

Improving productivity can help those employed in the agricultural sector to secure better jobs in the short to medium term. First, improving productivity in agriculture while allowing its outputs to be sold freely in domestic and external markets could help improve wages and salaries and better enumerate agricultural labor. Most of the productivity gains are expected to be achieved through better use of inputs, technology, and capital. Secondly, productivity improvements in the sections of the industrial sector that have linkages with agriculture can result in demand for productivity improvements in agriculture, and similarly drive increases in wages in the agricultural

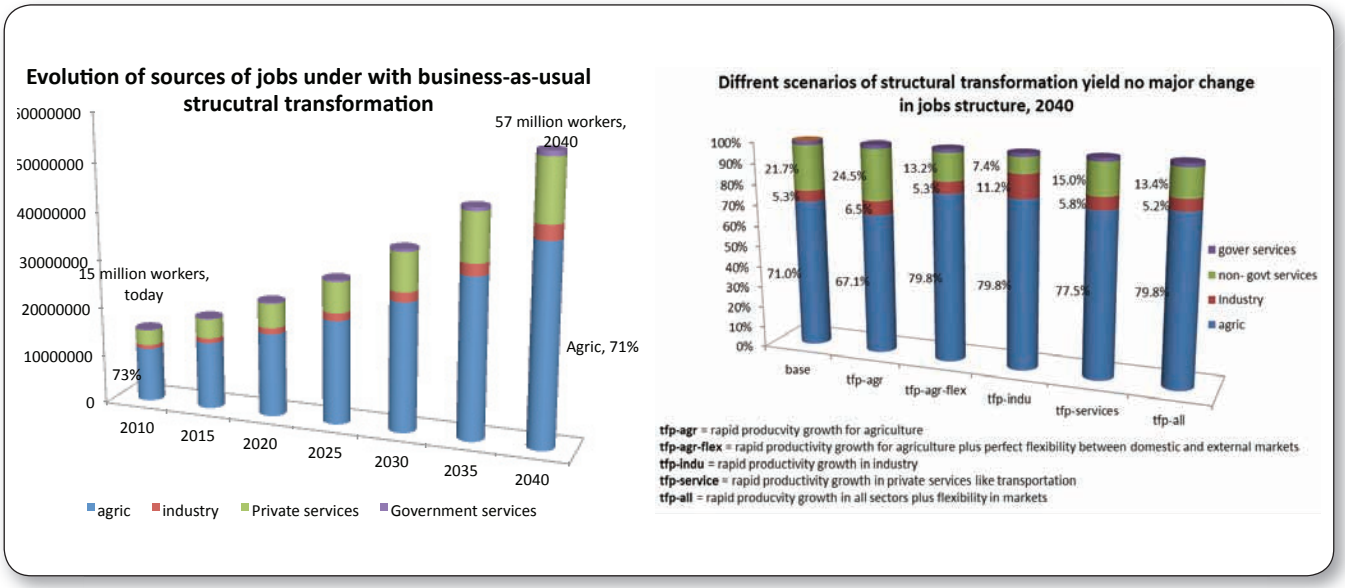
38 World Bank 2011, Demography and Growth in Uganda. Washington DC

39 World Bank 2013, (forth coming); Uganda: From Structural Change to Economic Transformation for Prosperity. Washington DC

sector. Third, productivity improvements facilitated by the expansion of private services, such as transportation, could increase access to markets both domestically and abroad, and therefore improve the attractiveness of the agricultural sector. In the longer term, agriculture should be expected to create fewer new jobs, especially if the sector becomes increasingly capital-intensive and decreasingly labor intensive, as has occurred in many countries, such as India and Thailand. This scenario requires that labor moves out of agriculture faster and hence requires the faster creation of non-farm jobs.

The emergence of the oil sector may have little direct impact on the structure of jobs, given that the oil industry is capital intensive rather than labor intensive. However, the development of this industry will have spill-over effects on other industries. Oil has been termed "black gold" in Uganda, because of the hope that it will provide higher incomes and better standards of living for a significant proportion of the population. Oil was discovered in the Albertine region, which is shared by Uganda and DRC. Most production will come from the bordering district of Hoima, with the Government having already decided to refine its oil both for domestic consumption and for export. However, the question that still lingers is how the average citizen will be able to participate in and benefit from the production of oil, other than from handouts enabled by increased state revenues. Instead of such handouts, the challenge is to enable participation through the creation of employment opportunities. The number of jobs in the oil sector itself will certainly remain limited. In fact, experience from elsewhere suggests that the oil sector cannot in itself be a significant source of employment opportunities, but that non-oil sectors should be encouraged to expand, hence creating jobs. In these terms, oil can contribute to job creation in three ways. Firstly, Uganda can leverage oil to become a catalyst through inter-sector linkages with oil-related or highly energy intensive industries. Secondly, the country can build infrastructure that will enhance local development through well-targeted growth poles or clusters. Thirdly, Uganda can use oil revenues to promote non-oil, labor intensive activities and to support the provision of education and skilling programs to allow a larger proportion of the labor force to participate meaningfully in the production process.

Figure 22: Agriculture will continue to be the largest source of jobs in the short to medium term, whether or not the sector becomes more productive



Source: World Bank Staff Forecasts

4.3 Ongoing urbanization: Increasing demand for more jobs in urban areas

Uganda remains a largely rural economy, with four out of every five Ugandans currently living in rural areas. However, with its expanding population and with rural-urban migration, Uganda has started on the path towards urbanization. The Government's official estimates suggest that 13 percent of Ugandan live in urban areas[40]. This number is increasing by 4.5 percent per year, with this figure likely to accelerate with rising incomes. While the proportion of the population living in urban areas is highest in Central Uganda, the rate of urbanization is highest in the East. The high rate of urbanization across the country is driven by the increasing mobility of Uganda's workers, contributing to the transformation process.[41]

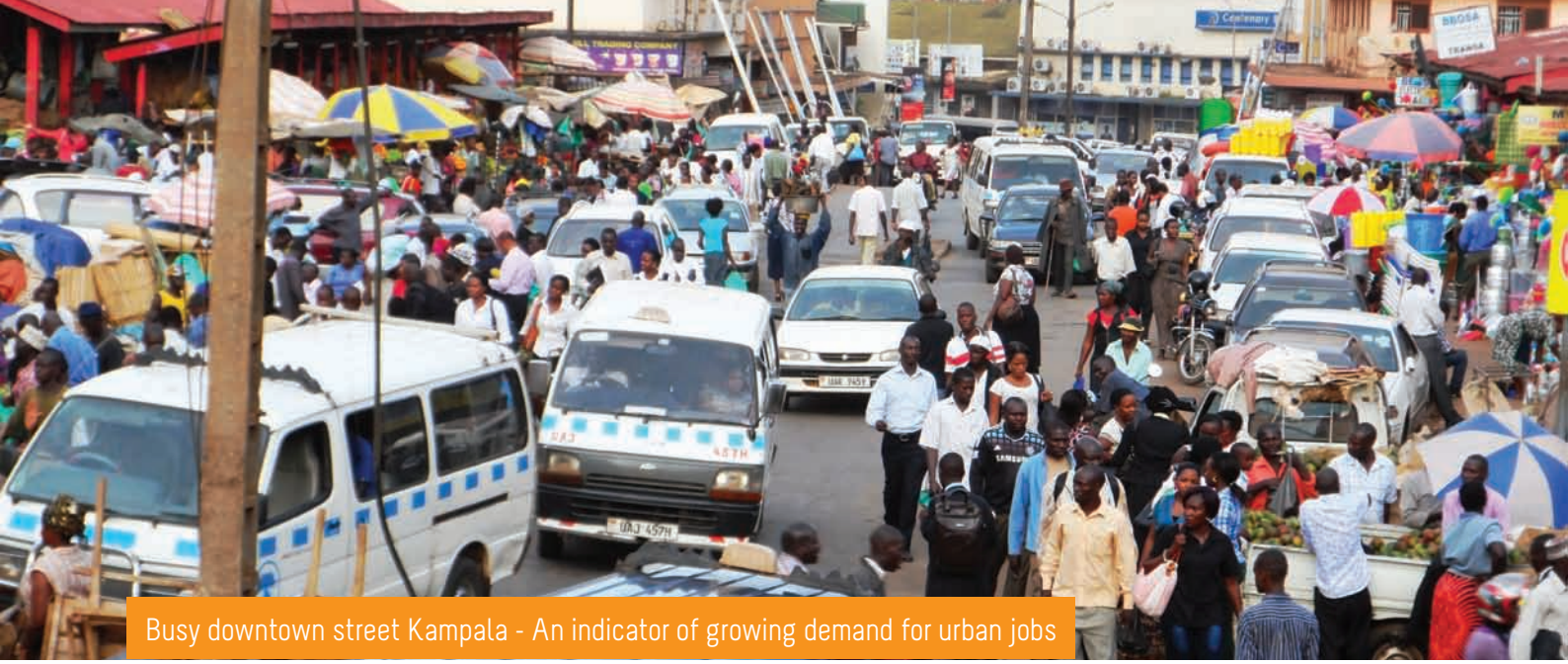
The urbanization process has been mainly driven by the increasing concentration of non-farm activities. Already, there is a significant concentration of high productivity businesses and higher commercial value agricultural production. Most formal businesses are located around the Lake Victoria crescent, which encompasses the Southern, Central, and Western regions of the country. Much of the industrial activity is clustered around large towns and along major transport corridors. The proportion of manufacturing firms located within urban areas has increased from 70 percent in 2001 to 86 percent in 2010. If firms continue to seek and utilize the benefits of agglomeration economies (both within the same industry and for overall diversity), market access, and infrastructure endowments, then they will continue to concentrate, as has occurred in many other developed and developing countries. The denser areas, most likely urban areas, will be the engine of formal job creation.

In line with the increased concentration of economic activity, many new non-farm jobs are being created in urban areas where most of Uganda's firms, especially those involved in higher value, more productive activities, are concentrated. In many cases, workers' non-farm jobs are not always their primary occupation. Even so, this marks the beginning of a transition away from agriculture. This shift has been driven by the higher average level of education of residents in urban areas; by opportunities created by urbanization, which results in easier access to finance and infrastructure; and by agglomeration effects. As a result, in urban areas, a more balanced production structure that depends much more on high-value-added activities and provides more and better-paying jobs is currently developing. This will continue into the future (see Figure 23).

The policies required to improve the employment situation in urban areas will be significantly different from those required in rural areas. Improved productivity in the agricultural sector will provide better jobs for those who remain in the sector, particularly in rural areas. In addition, measures to support the transfer of labor from the agricultural sector to other sectors are also required. By contrast, in urban areas, policies should promote a higher ratio of creation of jobs in services and light manufacturing, with a specific emphasis on promoting the establishment and survival of small firms. It is important to address the constraints faced by small firms, given their importance in terms of the creation of job opportunities. In addition, transformative productivity growth is likely to be driven by middle and large size firms that also have the ability to support increased regional and global economic integration. A longer term focus on transformation cannot ignore the potential contribution of large and middle sized firms.

40 This is based on administrative definition of urban areas. Uganda's rate of urbanization rate is almost double at 25 percent when density and proximity to urban infrastructure are taken into account (referred to as the agglomeration index of urbanization).

41 World Bank (2012), Uganda Promoting Inclusive Growth: Transforming Farms, Human Capital and Economic Geography, Washington DC

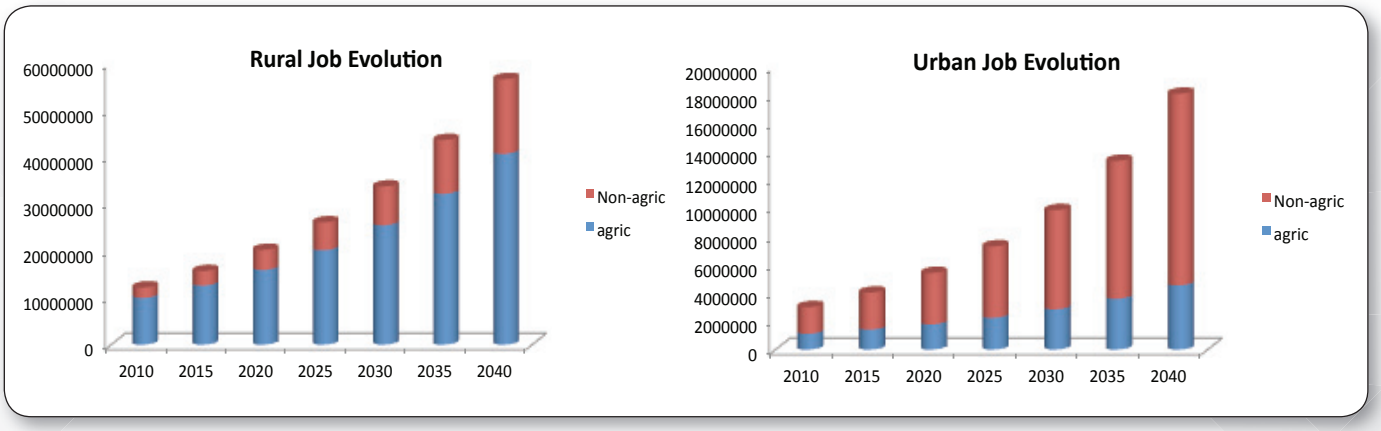


Busy downtown street Kampala - An indicator of growing demand for urban jobs

Overall, labor mobility has been a significant part of Uganda's transformation process. In the future, the challenge will not be to prevent people from moving, but to prevent them moving for the wrong reasons. Migration decisions depend on both pull and push factors. The most important pull factors consist of economic opportunities and jobs. Worldwide, people move to large cities to find employment, because these cities are centers of economic activity. However, people can be pushed off their land by population pressure, natural calamities that make cultivation nonviable and severe declines in agriculture productivity. Droughts and conflicts are not uncommon in Uganda, with both of these acting as push factors. Another important push factor has been the lack of adequate social amenities in economically lagging areas. In such cases, while market forces push for the concentration of economic activity, large disparities in the provision of public services persist. This often acts as factor motivating migration from rural to urban areas, adding to congestion costs rather than contributing to agglomeration benefits.

Whatever the driver of the job landscape and wherever workers are located, they will need jobs. It will take a deliberate policy drive to achieve a further diversification of jobs into areas of higher productivity, both between and within sectors. This may involve a shift from subsistence activities into commercial activities in non-traditional sectors, with increasing returns to scale and a shift from capital-intensive industries into labor intensive industries.

Figure 23: Urban Profile Versus Rural Profile



Source: World Bank staff forecasts

5: Uganda's jobs agenda: How to create more productive jobs for a rapidly expanding labor force

Looking forward, Ugandan policy makers need a comprehensive strategy both to generate transformative employment for its labor force and to enhance growth. A continued structural transformation that results in declines in levels of labor productivity will be growth-reducing. The existence of large intra- and inter-sectoral productivity gaps can be optimistically interpreted to indicate significant potential for rapid economic growth through labor moving into the higher productivity activities. Across locations, a growth enhancing structural transformation in Uganda can continue to occur, mostly driven by rural workers engaged in low value added farming activities moving to towns to seek jobs in more productive sectors.

In the context of this challenge, Uganda's strategy should address one key issue: How can the Ugandan labor market absorb an increasing labor force while facilitating ongoing improvements to productivity? A key point emphasized by the 2013 World Development Report on Jobs is that each country has specific characteristics that affect the composition of its labor force and its deployment, and that there is no universal means of facilitating a transformation that applies to all countries. Similarly, within any particular country, there can be a regional or sectoral divergence in economic structures and job profiles at different points in time, which suggests that a multi-dimensional solution is required. With this in mind, the Ugandan policy maker must address the issue of productive employment creation in terms of two aspects. The first and most critical is to create more productive jobs in farms and firms, while the second is to equip the labor force with skills to allow it participate meaningfully in the production process. In both cases, the emphasis will be different depending on whether the policies are applied to rural areas or urban areas.

5.1 A multi-dimensional strategy for creating productive jobs

In the context of Uganda's current and future economic structure, demographic patterns, and rural-urban dynamics, the job strategy can be defined in terms of five main pillars. These pillars are described in detail in this following section.

Pillar 1: Creating better jobs on the farm will be the result of increased productivity within the agricultural sector. This will be particularly significant for rural areas, where 90 percent of farming jobs are located. Because the majority of Ugandans will still work in the agricultural sector, a significant effort is needed to improve levels of productivity within this sector. This will ensure that those workers who remain within the agricultural sector receive high levels of remuneration for their services. Uganda's agricultural sector would perform better if poor rural infrastructure, the

> "The first and most critical is to create more productive jobs in farms and firms

Box 8: What would it take to improve Uganda's Farms?

1. New technologies to raise farm yields and mitigate the negative impact of pests and diseases, as well as climatic changes:

- Stronger links between research and advisory services at the local level and between advisory services and farmers need to be promoted, especially for small farmers;
- Organizing small farmers (including women) into groups brings high dividends because it helps attract service providers and reduces the fixed costs associated with such programs;
- Irrigation and insurance schemes to help farmers manage climatic risks.

2. Land security and an appropriate human settlement policy:

- Strengthen the security of land tenure through stronger laws to remove the current ownership overlaps, land wrangles, and disputes. Appropriate land legislation, including revisions to some provisions of the Land Amendment Act of 2010) can help address land right uncertainties
- Strengthen security of land through registration and titling of land.
- Cultivate public trust and adopt policies geared toward engendering government commitment to protecting land rights, especially in the customary owned land in the high-potential agricultural terrain of the north.

3. Better access to agricultural credit

- Strengthening savings and credit institutions - a more effective system of savings and credit cooperative organizations (SACCOs) needs to extend outreach within rural areas and specifically to tailor access to rural finance to the needs of smallholder farmers;
- Legalizing leasing arrangements - An independent leasing law would streamline the legal framework for leasing and hence ease access to large capital investments, especially for mechanization;
- Promoting innovations in the financial system - Given the collateral situation, designing new approaches to credit risk management, such as the use of better monitoring technology (e.g., fingerprinting) and commitment savings programs, should help. Conversely, new innovations in ICT, such as mobile money, can help overcome required institutional frameworks for traditional credit institutions and can provide easy and cheaper access to finance.,
- Promoting grant-matching schemes for farmers and use of warehouse receipts would result in increased access to finance.

4. Improved environment for agriculture commercialization:

- Improve the connective infrastructure from producing areas to markets, both domestic and external. This emphasis would require a more efficient system of allocating resources for infrastructure investments, including choosing between road maintenance and new road construction, and prioritizing road investments that are based on agricultural potential, cross-border trade opportunities, and load consolidation;
- Improve the investment climate for agro processors and agribusiness to boost demand for farm produce, the bulk of these businesses operate at only 50 percent capacity due to high costs of operation; and
- Improve the institutional framework to support delivery of agricultural services:

Source: World Bank, 2012. "Uganda Promoting Inclusive Growth: Transforming Farms, Human Capital and Economic Geography."

undercapitalization of farmers, the high cost of inputs, and the lack of access to modern technologies and inputs did not severely constrain the level of farm productivity. Past public sector failures, which have constrained farmers, especially small farmers, from accessing and using new technologies, land security rights, and low levels of access to credit, have to be addressed, if a transformation of the agricultural sector is to be achieved (see Box 7). Current Government efforts, including efforts to improve rural infrastructure and to restructure the National Agricultural Advisory Services, are a step in the right direction.

Even as agriculture provides better jobs to farmers in the short to medium term, the transformation of the agricultural sector will drive workers to move to other, higher productivity sectors. Thus, a large proportion of workers employed within agriculture will have to consider other options in the longer term. These options may involve a diversification toward non-farm activities, sometimes on a temporary basis, and/or migration to urban areas where the concentration of firms offers new opportunities. These options are examined in fuller details below.

Pillar 2: Making the informal sector more productive, especially in urban areas: A large proportion of the labor force will also remain employed as 'jua kalis' and in household based enterprises, as is the case in many developing countries. To enable productivity improvements in the informal enterprises sector, which employs almost half of the labor force off the farm, these enterprises will require access to capital, training in entrepreneurial and technical skills, and permanent sites from which to operate. This can be realized through the following measures:

- ***Increasing access to finance:*** This can be achieved by lowering the perceived default risk; by bringing financial services closer to the informal sector; and by lowering the cost of delivery of loans. The Government should therefore strengthen SACCOs and support the provision of credit through NGOs, such as BRAC, whose low-cost delivery models incorporate these elements and effectively reach the informal sector. Increased access will also be driven through innovations related to mobile banking. The demand-side interventions should focus on increasing financial literacy in order to raise awareness and increase the demand for financial services and on providing business training to raise the profitability of NFEs so that credit can be used effectively.

- ***Supporting skills training:*** The Government's skills training policy should be reoriented toward technical and entrepreneurial skills. First, the quality of apprenticeships can be enhanced by training trainers through short courses to upgrade the skills of mentors so that apprentices receive higher quality training. Another sensible strategy to improve business skills is to offer short courses to informal firms, with a focus on core skills (e.g., preparing a statement of revenues and expenses), and then encouraging these firms to use professional business development services, access to which can be augmented by subsidizing the provision of services to groups. This model has been successfully applied by the Uganda Gatsby Trust's business development services program and the Private Sector Foundation Uganda's enterprise skills linkages program. An alternative is to offer entrepreneurship training as part of the credit provision process by organizing loan applicants into groups and training them in entrepreneurial and technical skills before loans are disbursed, a strategy that has been effectively used in National Agricultural Advisory Services (NAADs) and BRAC schemes.

- ***Improving the business environment for informal firms through the formulation and implementation of the appropriate local government policies:*** Local government authorities should focus on providing solutions

> Local government authorities should focus on providing solutions to the constraints facing informal firms, including lack of access to workspace. This would involve a change in the authorities' attitude towards informal activities.

to the constraints facing informal firms, including lack of access to workspace. This would involve a change in the authorities' attitude towards informal activities. Local government authorities need to collaborate with informal operators, enlisting their active participation in urban planning and policy formulation. This could be achieved through the implementation of incentives that will also ensure revenue flows to local governments. Such measures should include: a) unifying and standardizing taxes paid by small businesses, and publicizing the ceilings for maximum local taxes/fees payable; b) designing and conducting local tax awareness programs for informal firms; c) reviewing enforcement methods and implementing an anti-corruption program to minimize the incidence of unnecessary destruction of informal firms' property and livelihoods; and d) designating viable worksites for informal firms in local government plans. All these measures can ultimately increase local revenue generation through economic growth by fostering a higher level of stability and increased growth for NFEs.

Experiences from other countries suggest that these constraints have to be addressed simultaneously to have maximum impact. In Brazil, for instance, matching grants that provide capital and work stations and that require the workers to train for particular skills have been very successful in raising productivity in these activities.

Pillar 3: Develop the formal enterprise sector by improving survival, growth and productivity of formal firms: This sector will continue to be the source of innovation and the driver of transformation of the economy, and will remain largely concentrated in urban areas. As in other parts of Africa, Uganda's formal sector, in particular the manufacturing and service sectors, still employs a small share of the total labor force. Even so, policies to shift Ugandan workers from relatively low-productivity agricultural and non-agricultural informal sector activities have to start with this sector. The low productivity of Ugandan firms is also confirmed by past investment climate surveys, which grade Ugandan firms very poorly compared to most other countries in Sub-Saharan Africa. Although wages in Uganda are low, total factor productivity is lower in the manufacturing sector in Uganda than it is in the African and East Asian countries that have achieved success in the area of export-oriented manufacturing.

Improvements in firm productivity have been constrained by factors including the high cost of energy and transportation infrastructure and by the lack of access to finance, land, business development services, and skilled labor. The current government interventions notwithstanding, business surveys continue to highlight high transport and energy costs, lack of access to finance, limited business services and lack of skilled labor, as major constraints to firm productivity growth. A recent study by the Government[42] also shows how skills gaps, poor management practices and weak

42 Government of Uganda, 2013, Firm Dynamics and the binding constraints to employment growth in Uganda

Fish processing factory - One of the formal enterprises in Uganda

> Develop the formal enterprise sector by improving survival, growth and productivity of formal firms

governance have constrained firm growth and job creation. These constraints have different levels of impact depending on the size of the firm and on whether or not it is a newly established business.
In view of these developments, the main policy agenda for developing the formal sector should focus on:

- ***The establishment of an environment that enables small firms to survive and grow:*** Such firms are the biggest source of productive employment in the formal sector. The constraints faced by such firms, including high infrastructure costs and lack of access to finance and business development services, mean that the lifespan of such businesses is often extremely short. The interventions should not necessarily aim to increase the size of these businesses, but to ensure that they survive. If a larger number of these firms survive, then they can drive an expansion in the availability of employment opportunities in the formal sector.

- ***The promotion of a higher level of integration with regional and global economies through the implementation of open trade policies and by increasing the level of competitiveness of strategic sectors:*** Sectors that are integrated with the rest of the world are not limited by the domestic market. The manufacturing and modern services sectors are characterized by increasing returns when such integration occurs, as is clearly demonstrated by the Chinese experience with manufacturing and the Indian experience with services.

- ***Supporting the growth of larger firms. Transformative productivity growth is likely to be driven by middle- and large-size firms, particularly in terms of supporting a higher level of integration with regional and global economies.*** However, while Uganda's large firms down-sized following privatization programs between 1990s and early 2000s, very few new large firms have been established since them. In terms of higher integration with other economies, Uganda has a number of sectors with great potential to create significant employment opportunities, including building materials, metals, fish processing, grain products and plastics if they can be supported in terms of achieving a higher level of export-oriented value-addition. Building export competitiveness will be mainly achieved through a focus on larger firms. In sectors with weak value chain linkages, including the agricultural sector, it is important

A robotics training lab, Fundi Bots in Gulu - Innovative approaches to providing skills outside the school environment

for stakeholders along the value chains (including farmers, traders, and processors) to collaborate and create strong commercial links to maximize gains and to accelerate the level of commercialization, which is strongly correlated with the level of productivity.

- ***Investing in measures to facilitate increased density for firms to benefit from economies of agglomeration:*** As in many other countries, Ugandan firms locate their operations where they can benefit from agglomeration, both within their own industry and from overall diversity, market access, and infrastructure endowments. These benefits tend to outweigh the costs resulting from congestion and increasing wages and prices. Initially, investments in infrastructure will need to focus where such clusters are already forming, particularly in the Southern-Eastern corridor covering Mbarara, Kampala, Jinja, Mbale, and Tororo. To facilitate the formation of clusters, instruments for localizing interventions, such as industrial zones, can be used. These should not be tied to specific activities, but should rather create a conducive environment to support agglomeration.

> "Education plays a major role in allocating labor across sectors

Pillar 4: Skill the labor force: Education plays a major role in allocating labor across sectors and in ensuring the location of labor at low and high productivity levels. Those firms that want to recruit more skilled workers to facilitate their adoption of modern technology and new capital in their production processes do so by mainly importing. This increases their cost of operation. On the supply side, labor productivity is influenced by a range of factors, including health, education, and the level of skills of workers. Uganda has minimal

> Building export competitiveness will be mainly achieved through a focus on larger firms.

labor market rigidities.[43] Skilling of the Uganda's labor force is a twofold challenge. Measures should be implemented to ensure the availability of such labor.

- ***Accelerating improvements to the quality of both primary and secondary education and ensuring a higher rate of graduation.*** This will remain the foundation for the development of a capable labor force. In spite of interventions at the primary and secondary levels, Uganda still lags behind its regional neighbors in terms of its population's level of educational attainment. With the student population increasing by about 2 percent each year, the pressure on the educational system is also increasing. Reforms to the educational system need to be implemented rapidly to absorb the increased number of students while at the same time addressing high dropout rates, low completion rates, and low levels of achievement in terms of the proportion of students attaining the desired standards of proficiency at various levels.

- ***Equipping the labor force with the requisite skills to support the transformation of the economy in a manner that ensures a high level of inclusion.*** At Uganda's current stage of industrialization, the main demand is still for relatively unskilled labor. However, with a transition to more productive, higher value-added activities, there is an increasing demand for more highly skilled labor. As the country makes the transition towards intensified involvement in higher productivity activities, the labor force must be equipped with requisite skills to support the transition. These plans must include strategic choices related to: (a) the institutional framework that will support the transformation process; (b) the level of private sector involvement in skilling, which will determine the amount of public money to be allocated in both the short and long terms; and (c) the mechanisms that will strengthen private sector participation and coordination. Learning from the experiences of other countries, the government should encourage a higher level of engagement of the private sector in skills provision. Although large firms can be encouraged to integrate training through their own capacity-building programs, partnerships between the public and private sectors are often useful to promote vocational and on-the-job-training programs for small and medium enterprises (SMEs) that do not have the human and financial resources to implement such programs on their own. Initiatives such as Enterprise Uganda need to be promoted

> In spite of interventions at the primary and secondary levels, Uganda still lags behind its regional neighbors in terms of its population's level of educational attainment

43 World Bank, 2013 Doing Business, Washington DC.

and expanded to meet the demand for skills. In addition, mechanisms must be developed to generate sustainable financing through collaboration with the private sector.

Pillar 5: Promoting a more efficient urbanization process to support firm growth and job creation in urban areas: Geographically, the majority of formal jobs will continue to be in urban areas. Together with regional integration, policy makers need to ensure a smooth urbanization process, particularly in the central to western corridor, where the bulk of formal and higher productivity jobs are being created. Concerns about regional inequality and disparities between the more urbanized Central region and less urbanized areas and the size and rapid growth of Kampala may tempt policy makers to implement measures to encourage the location of businesses in smaller towns and less urbanized areas. However, such a move would be counterproductive: businesses locate in these corridors because they benefit from access to a range of financial services and from access to a strong consumer market, none of which are available elsewhere in the country. For smaller towns, where urbanization is just starting, improvements in agriculture and agro-processing will increase demand for their services. For firms to fully benefit from locating in urban areas, they must be able to access these services. The key means to achieve this include the following:

> Promoting a more efficient urbanization process to support firm growth and job creation in urban areas

Kampala City

- ***Implement policies that allow firms to use land for higher value activities:*** This will be realized if there are good physical plans that guide development in urban areas, well developed infrastructure to support the movement of goods, people and information, and land policies and institutions that allow land to substitute for capital (see Box 9);

- ***Reduce congestion costs that counteract the benefits of urbanization:*** Uganda's urban transport systems should be better designed to meet the needs of users and to ensure a high level of coordination with land-use planning. At current income levels, many motorized transport options are unaffordable for the poor, yet even the small percentage that uses motorized transport can be caught in costly traffic congestion. In the short term, it is important to provide a wide range of service levels and modes at different price levels. In the longer term, policies for taxing motor vehicle use within the urban areas and a greater supply of public transport choices will be necessary measures to ensure the development of properly functioning urban areas;

- ***Implement measures to encourage increases in the movement of products across boundaries:*** Efficient regional transport normally depends on efficiently working urban areas, which form the nodes for the different transport systems. At present, the high cost of transport to connect Uganda to the rest of the world is partly due to costs arising from congestion in urban areas, where most of the trade corridors also pass. Even though Uganda needs to work with neighbors to improve the regional coordination of transport investments, cleaning up its own urban transport system is a step towards reducing transport costs and ensuring easy access to markets, both within and out of the country;

Street vending in Kampala, an attraction for migrants in the city

- ***Minimize regional gaps in access to basic services, in particular education and health:*** These gaps have adverse consequences for social inclusion. Education and health are portable assets and are vital for the integration of the large proportion of Uganda's rapidly growing and young population, many of whom are expected to move into urban areas in the next few years.

> "Implement policies that allow firms to use land for higher value activities

Box 9: What would it take for land to be used increasingly for high value activities over time?

Land policies and institutions must be reformed to support a more efficient urbanization process. To date, the major effort is being devoted to increasing formal tenure security, including through a computerized land information system and through the opening up of zonal offices to register land. This will increase the share of land that is registered, from the meager 18 percent by 2010. Such efforts should be expanded to cover the entire country. These measures will need to be accompanied by the following measures:

1. Instituting credible systems to value land;

2. Creating incentives for landowners to rent out land. This will lower the cost to private users, in particular firms setting up businesses. Such incentives may take the form of taxes on idle land, amongst other measures;

3. Empowering the urban authorities to plan for public infrastructure development. Short of re-visiting the provisions of the 1995 constitution related to the private ownership of land, measures to improve local urban authorities' finances to acquire land and protect rights-of-way for infrastructure improvements are a must. In addition, specific actions to improve local urban authorities' finances should include (a) improving the coverage of and level of compliance with property taxes; and (b) reconsidering the system of fiscal transfers from the central government to local governments to increase the proportion of state revenues are available to local governments (until 2010, urban areas received less than 4 percent of total transfers to all local governments);

4. Cultivating public trust and adopting policies that reaffirm government commitment to protecting land rights, especially in the customary owned land in the high-potential agricultural terrain of the north.

Improving urban services, critical for firm growth

5.2 Towards a priority set of actions for faster job creation

The policy agenda is complex and the impact of many of the measures proposed in this update will likely mainly be realized only in the medium to long term. Nonetheless, most of the proposed measures should be implemented now for that impact to be realized. Given that 73 percent of the labor force is still employed in the agricultural sector, the highest priority lies in ensuring raised productivity within this sector. In this regard, current efforts to transform agriculture are commendable. However, people are also moving off the farm and must continue to do so to achieve improved productivity within this sector. Thus, the government must also pay equal attention to raising the productivity of off farm sectors. The first point of action in the non-agricultural sector lies in addressing constraints on firms that can drive productivity growth.

The following five short term measures might be adopted as measures to achieve a rapid impact on the job creation agenda:

1. **Facilitate the growth of large firms by supporting the development of clusters and full value chains for strategic sectors, in particular, light manufacturing, exportable products, and building and construction, and the oil industry:** Large firms can increase employment rapidly because they drive transformative productivity growth and have significant potential to support a higher level of integration with regional and global economies. Strategic interventions in high potential sectors can have high pay offs. In this regard, Ethiopia's leather industry offers good lessons (see Box 8). Attracting investors, particularly foreign investors, into strategic sectors can have a significant impact on job creation. Such an approach should focus on building the entire value chain, as was the case in the Ethiopian leather industry. Uganda's producers of exportable products can continue to create increased levels of employment if, in addition to overcoming constraints to lower production costs, they access deeper regional markets through lower transport costs and through the removal of non-tariff barriers. In addition, in anticipation of the increased export of processed food, with important backward linkages to agriculture, industries involved in the production of foods and beverages, phyto-sanitary certification, plastics, packaging, and transport logistics, should be encouraged, as such businesses would complete the value chain. A similar approach could be applied to other value chains in the building materials, oil production, and beef production sectors.

2. **Improve the business environment by industrial zoning and innovative financial solutions:** This will require a sharper focus on matters in addition to business regulations. One way to create an enabling environment for a large number of firms at the same time is to promote the formation of clusters. Industrial zoning is one useful instrument to promote the exploitation of economies of scale to reduce transaction costs, improve connectivity, increase access to finance, and to facilitate the transfer of technology and innovation. The Government plan to build industrial parks needs to consider improving the business environment for firms in already forming clusters. In addition, access to finance can be improved by introducing a leasing law to foster lending without collateral and to ease access to machinery and capital. Furthermore, innovations such as the introduction of a collateral registry and the legalization of factoring as a financial instrument to enable SMEs to use their contracts with larger firms to access finance from financial institutions should be introduced. These improvements to the business environment will also help small and medium sized enterprises that are the largest source of employment.

Worker at Tilda Holdings

3. **Create linkages between large industries and small and mainly informal manufacturers:** This is potentially beneficial to both large and small firms. It would raise the level of productivity of small formal firms and informal firms and lower the cost of inputs for the large firms. Special incentives for the few large steel and mills manufacturing industries could encourage them to establish linkages with the jua kalis (artisans). This can build on the current practice of collecting scrap metal that is fed into steel mills or plastic scrap that is collected by recycled into large plastics industries;

4. **Create a matching grant for the informal sector operators:** To raise the productivity of the informal sector, the Government could introduce a matching grant that provides capital and workstations and requires recipients to improve their skills;

5. **Build urban infrastructure to better facilitate the movement of people and products:** In addition to major transport corridors that government has been constructing, the development and maintenance of urban infrastructure must become a priority if firms are to grow.

> "Creating linkages between large industries and small firms would raise productivity of small firms while lowering cost of inputs for large firms

Box 10: Improving Light Manufacturing - Lessons from Ethiopia's Leather Industry

Ethiopia has accorded special attention to its leather industry since mid-2000s, aiming to address the constraints to its competitiveness and attracting leading investors into the country. This offers three key lessons in identifying and resolving constraints to light manufacturing industry:

1. Identify the potential - Ethiopia realized that it has the potential to become globally competitive in large segments of light manufacturing which if successful, would create millions of productive jobs. It would achieve this by leveraging its labor cost advantage (low wages combined with high labor productivity in good-practice firms) and comparative advantage in the natural resource industries (agriculture, livestock, and forestry). With one of the highest livestock population in the world, Ethiopia identified the leather industry as one of the sectors to promote the country's light manufacturing potential.

2. Identify the constraints – A careful assessment of the strategic industries highlighted key constraints with the key message that Ethiopia was competitive, but inefficient in the leather industry. These constraints were:

Problems with inputs for key industries (including the lack of quality leather and high input costs representing more than 70 percent of the production cost

- Poor trade logistics (critical for apparel)
- Poor access to industrial land
- Poor access to finance
- Poor skills, which particularly affected smaller firms.
- Lack of a commercial livestock sector
- Sheer inefficiency - Relative to China and Vietnam, the industry suffered from high absenteeism of staff, high wastage of materials, outdated technology, and unused capacity. Nonetheless, unit costs for Ethiopia were still lower than in China! Even though higher than Vietnam, Ethiopia still enjoyed an advantage of raw inputs, compared to Vietnam which has to import.

3. Identify a short list of specific policy interventions – In spite of larger problems of competitiveness, a few policy interventions were expected to go a long way toward addressing the main constraints identified. Specific interventions that have been implemented over the past five years and are expected to have a short-term impact include:

- Ban of export of raw hides prior to 2008, 150% export tax on semi-processed leather (wet blue) starting in 2008, and 150% export tax on unfinished leather (crust) starting in 2011.
- Exemption from income tax (2 to 8 years holiday for investors)
- Tax free equipment import, exemption of imported inputs for export purposes from indirect taxes, and a duty draw back scheme; Improved services (shortening period of license, renewal of permits etc);
- Credit guarantee scheme to provide working capital for exporters;
- Allotment of finance for loan for those engaged in export activities;
- Provision of access to infrastructure and land at reduced lease rates for those engaged in export through establishment of industrial zones
- Provision of work stations and technical assistance to small shoemakers
- Creating linkages with foreign investors in marketing and production; and Improving the transport and transit services.
- Cost sharing scheme for foreign experts

Huajian Shoe Factory : Shoe Assembly Line

Impact so far - Early indicators are suggesting positive impact on Ethiopia's leather industry and job creation potential

1. Number of large and medium scale manufacturers of leather and its products doubled from 54 to 114 between 2000 and 2010, which is 5% of all Ethiopia's manufacturing and 6% of its manufacturing jobs.
   It has 26 tannery industries, 13 mechanized large shoe industries, 13 leather goods and garments industries. There are also numerous informal sector operators.
2. Foreign investment taking off and creating employment and raising productivity of local firms through technological transfer: Out of a total of 33 firms in the industry, 20 are Ethiopian, eight from China and India, and five from other non-Asia countries. Planned investments by one Chinese firm exceed US $ 2.0 billion. Of the 20 Ethiopian firms, 85 percent have made learning trips to China, 50 percent to India, 65 percent import materials from China, while all of the local firms have access to India's technical assistance
3. Leather industry - Increased exports and imports and some evidence that trade has led to technical assistance from India. All Chinese investors in tanneries had previously purchased from the local tanneries.
4. Manufacturing of leather products - Foreign firms export ladies shoes - Local firms produce men's shoes for export and local market. Hong Kong company New Wing, which has two production bases in mainland China, bought a factory in May 2011 and began operation in Sept 2011.

Statistical Annexes

1. Key Macroeconomic Indicators

Indicator	Unit measure	2005/6	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13p
Population	Millions	26.7	27.6	25.6	29.6	30.7	31.8	32.9	34.1
GDP	USD	9,958	11,903	14,440	15,596	15,246	14,791	16,904	20,973
Per capita income	USD	372	431	565	527	497	465	513	615
GDP growth	%	10.8	8.4	8.7	7.2	5.9	6.7	3.4	5.1
Gross Domestic Savings	as % of GDP	13.2	16.0	15.9	12.2	12.2	11.3	10.2	13.3
Gross Investments	as % of GDP	21.2	23.6	23.0	23.5	24.2	24.7	25.2	26.5
Inflation (period average)	%	6.6	6.8	7.3	14.2	9.4	6.5	23.4	6.2
Exchange Rate (period average)	UGX/USD	1825.10	1777.99	1696.45	1904.70	2029.90	2323.40	2568.83	2611.72
External Sector									
Exports - Goods and Services	Million USD	1,041.2	1,473.8	2,073.0	2,216.4	2,317.3	2,297.8	2,676.9	2,808.8
Imports - Goods and Services	Million USD	-1,969.0	-2,495.2	-3,510.4	-4,062.2	-4,116.8	-4,671.1	-5,289.7	-5,496.0
Current Account Balance	Million USD	-314.5	-342.0	-902.7	-1,258.6	-1,435.0	-1,686.3	-2,070.5	-2,380
Balance of Payments (overall balance)	Million USD	198.23	703.85	562.99	-45.70	210.89	-581.22	731.37	83.59
Foreign Reserves	Million USD	1408.3	2090.8	2684.4	2442.0	2384.7	2044.0	2346.1	2,713.8
External Debt	Million USD	4464.4	1466.8	1687.0	2046.4	2343.4	2904.9	3972.3	4,823.9
Foreign Direct Investment	Million USD	512.04	718.28	760.58	785.22	692.72	755.07	1065.34	1,309.63
Tourism Earnings	'000 USD		449	590	564	662	805		
Monetary Sector									
Average Deposit Rate	%	2.6	2.2	2.2	2.1	2.0	2.6	3.3	3.1
Average Lending Rate	%	16.1	16.9	18.2	18.8	18.2	19.2	24.6	25.1
Growth in Money Supply	%	16.4	17.4	31.1	25.0	31.7	25.9	15.7	11.6
Government Finance									
Total Domestic Revenue	as % of GDP	12.5	12.6	12.8	12.5	12.2	13.3	13.1	14.5
Tax Revenue	as % of GDP	11.8	11.9	12.3	11.8	11.7	12.7	12.5	12.6
Non Tax Revenue	as % of GDP	0.7	0.7	0.5	0.7	0.6	0.6	0.6	0.6
Total Expenditure	as % of GDP	18.6	18.6	17.9	17.3	19.6	22.8	19.4	19.9
Recurrent Expenditure	as % of GDP	12.3	11.5	11.8	10.9	12.3	15.3	11.1	10.3
Development Expenditure	as % of GDP	6.0	6.1	5.6	5.6	6.6	7.1	6.9	9.4
Grants	as % of GDP	5.4	4.5	2.7	2.6	2.5	2.3	2.3	1.9
Fiscal Balance (overall)	as % of GDP	-0.8	-1.5	-2.4	-2.2	-4.9	-4.3	-3.0	-3.4

Note: Figures for fy12/13 are provisional/projections
Source: IMF, UBOS

2. Growth and Structure of Uganda's Economy

Growth and Structure of the Economy

Economic Activity	2005/6	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12
Real GDP Growth Rates (%)	**10.8**	**8.4**	**8.7**	**7.2**	**5.9**	**6.7**	**3.4**
Agriculture	0.5	0.1	1.3	2.9	2.4	0.7	2.2
Industry	14.7	9.6	8.8	5.8	6.5	7.9	2.4
o/w manufacturing	7.3	5.6	7.3	10.0	6.6	8.0	-1.0
o/w construction	23.2	13.2	10.5	3.7	5.9	7.8	3.2
Services	12.2	8.0	9.7	8.8	8.2	8.4	3.3
GDP at market prices (%change)	13.4	16.7	15.5	22.9	16.0	11.9	27.6
Shares of GDP (%) 2002 Prices							
Agriculture	24.1	22.3	21.4	23.1	23.6	22.7	24.4
Industry	22.8	25.2	25.8	24.7	24.9	25.3	26.4
o/w manufacturing	7.1	7.1	7.3	7.9	7.7	8.6	8.3
o/w construction	11.7	13.1	13.6	12.3	12.7	13.0	13.0
Services	47.2	47.0	46.9	46.4	45.5	46.2	44.3
FISM and net taxes	5.9	5.6	6.0	5.7	6.0	5.8	4.9
Contribution to Real GDP Growth (%)							
Agriculture	0.1	0.0	0.2	0.5	0.4	0.1	0.4
Industry	3.5	2.4	2.2	1.5	1.6	2.0	0.3
o/w manufacturing	0.5	0.4	0.5	0.7	0.5	0.5	-0.1
o/w construction	3.0	1.9	1.6	0.6	0.9	1.2	0.3
Services	6.0	4.0	4.8	4.4	4.2	4.4	1.6
Shares of GDP by type of expenditure (%)							
Final Consumption Expenditure	91.9	89.7	84.7	88.2	89.5	93.5	92.3
Households	77.8	76.9	73.5	78.1	79.8	83.6	83.6
Government	14.1	12.7	11.2	10.1	9.7	9.8	8.7
Gross Capital Formation	21.2	23.7	23.0	22.0	23.5	25.0	24.4
Gross fixed capital formation	21.0	23.4	22.7	21.7	23.2	24.8	24.1
Charges in inventories	0.2	0.2	0.2	0.3	0.2	0.2	0.3
Net exports	-13.1	-13.3	-7.7	-10.1	-12.9	-18.5	-16.7
Gross domestic saving (% of GDP)	13.2	16.0	15.9	12.2	12.2	11.3	10.2
Public	-1.2	-0.8	-0.1	0.9	-0.4	-5.3	-0.3
Private	14.3	16.8	16.0	11.3	12.6	16.6	10.5

Source: IMF, UBOS

3. Quarterly GDP Growth Rates FY2008/9 – 2012/13

Year	Quarter	Agric	Livestock	Fishing	Industry	Manufacturing	Electricity	Construction	Services	Wholesale & retail	Hotels & restua-rants	Transport & communicat ions	Financial services	Real estate activities	Other business	Public administrati on	Education	Health & social work	Other services	FISIM	Taxes on products
2008/9		2.9	3.0	-7.0	5.8	10.0	10.6	3.7	8.8	9.7	4.5	14.3	25.4	5.7	12.4	5.5	4.3	-3.2	12.3	21.7	11.8
2009/10		2.4	3.0	2.6	6.5	6.6	14.5	5.9	8.2	0.7	12.9	17.5	29.5	5.7	15.0	16.1	-1.3	0.4	11.8	69.1	5.0
2010/11		1.2	3.0	1.8	7.9	8.0	10.7	7.8	8.2	4.2	-0.7	14.1	19.5	5.7	8.6	11.6	9.9	5.7	11.4	28.6	7.4
2011/12		2.2	3.0	2.0	2.4	-1.0	8.7	3.2	3.3	1.8	19.1	11.6	-10.6	5.8	2.4	-13.6	-4.2	-1.0	13.8	-13.2	4.7
2007/8	Q4	1.0	4.5	-14.3	3.0	-1.8	5.1	5.5	4.7	4.8	7.3	28.6	-5.2	-0.7	7.0	8.8	-8.1	-12.3	8.1	-5.1	15.3
2008/9	Q1	2.3	5.8	-11.9	3.1	7.0	4.1	0.8	6.5	8.2	5.3	21.2	-9.3	-2.1	12.2	7.6	1.3	-5.0	12.3	-11.5	9.9
	Q2	1.6	8.3	-9.3	2.1	3.1	10.1	1.6	5.5	4.1	4.3	14.0	17.8	-0.6	9.7	2.5	2.9	-3.3	13.5	4.2	14.9
	Q3	1.9	-1.7	-4.2	5.0	6.4	5.5	5.0	8.4	4.0	2.5	11.3	46.4	11.9	12.8	4.6	5.9	-7.7	13.2	54.6	12.4
	Q4	5.8	0.2	-2.0	13.7	26.3	21.5	7.7	15.2	25.1	5.7	11.3	50.5	12.4	14.8	7.5	7.4	3.7	10.0	68.5	9.8
2009/10	Q1	-8.5	3.1	-0.3	8.0	11.2	17.6	6.1	9.8	-1.5	8.0	15.7	63.3	21.5	16.7	13.5	-0.7	-2.3	10.8	111.2	17.8
	Q2	12.6	2.1	1.0	7.1	6.2	9.8	7.8	10.0	-0.6	10.2	20.2	36.3	22.5	9.8	9.3	1.4	1.0	9.0	100.6	4.2
	Q3	6.2	3.2	5.7	8.8	11.3	22.8	6.1	7.4	6.5	21.0	12.9	18.4	-8.4	15.2	17.3	-0.9	5.3	13.1	52.7	-1.5
	Q4	0.0	3.6	4.4	1.9	-2.2	9.3	3.7	5.8	-1.4	13.2	21.1	12.4	-6.8	18.4	24.0	-5.0	-2.0	15.1	37.7	0.8
2010/11	Q1	5.3	3.1	2.4	4.0	-6.0	8.2	9.4	5.2	-2.1	2.6	10.7	13.6	-1.6	14.8	23.7	3.3	0.7	11.0	28.5	3.7
	Q2	3.7	2.9	0.4	11.0	17.6	12.5	7.4	9.4	13.8	0.4	10.2	22.9	0.2	15.3	22.6	1.5	-0.3	11.6	34.8	9.3
	Q3	1.4	3.1	2.8	6.3	6.0	11.4	6.7	8.7	3.7	-6.6	21.5	15.3	12.4	6.2	8.6	10.4	6.4	5.6	21.3	6.6
	Q4	-5.4	2.9	2.3	10.5	15.8	10.6	7.9	9.4	1.4	1.0	14.1	25.9	12.9	-0.8	-5.8	25.5	16.5	16.9	30.3	10.1
2011/12	Q1	11.3	2.7	2.5	1.7	7.6	10.4	-2.2	7.2	10.9	11.4	14.1	1.4	12.0	1.7	-11.8	-6.2	-3.4	19.3	1.1	2.5
	Q2	-3.6	3.0	2.9	-1.4	-8.8	7.4	1.1	1.6	-4.7	18.8	13.4	-13.0	9.9	1.4	-15.8	-4.0	1.1	6.4	-14.6	-0.3
	Q3	-2.5	3.0	0.6	2.9	-3.9	9.6	5.9	1.4	-2.9	23.1	9.2	-12.9	1.4	0.3	-17.2	-1.0	1.6	15.8	-11.8	10.9
	Q4	5.2	3.4	1.8	6.5	2.4	7.3	8.7	3.3	5.3	23.8	9.9	-16.7	0.2	6.3	-9.2	-5.6	-3.1	12.7	-12.3	6.1
2012/13	Q1	3.1	3.5	3.3	9.0	3.9	9.3	12.1	9.6	1.7	18.3	17.9	4.0	7.9	13.2	5.6	17.2	11.2	2.3	-7.2	4.1
	Q2	3.6	3.8	4.6	8.9	5.6	8.0	11.7	14.9	15.6	9.3	28.4	16.6	6.9	13.3	10.8	17.0	4.4	1.2	-5.8	7.9

Note: Growth rates for fy09/10 – fy12/13 were revised (by UBOS in March 2013) thus they are slightly different from rates published in first economic update
Source: UBOS

4. Fiscal Framework (as percent of GDP)

as % of GDP	2005/6		2006/7		2007/8		2008/9		2009/10		2010/11		2011/12		2012/13p
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Outturn	Budget
Total revenue and grants	**19.7**	**17.8**	**17.4**	**17.1**	**17.1**	**15.5**	**17.2**	**15.1**	**16.6**	**14.7**	**16.0**	**15.6**	**15.6**	**14.8**	**15.9**
Revenue	13.1	12.5	12.1	12.6	13.0	12.8	13.1	12.5	13.0	12.2	13.1	13.3	12.6	12.3	13.6
Tax	12.5	11.8	11.9	11.9	12.6	12.3	12.8	11.8	12.8	11.7	12.9	12.7	12.4	11.8	13.3
Nontax	0.6	0.7	0.2	0.7	0.5	0.5	0.3	0.7	0.2	0.6	0.2	0.6	0.2	0.5	0.3
Grants	6.6	5.4	5.3	4.5	4.1	2.7	4.1	2.6	3.6	2.5	2.9	2.3	2.9	2.6	2.3
Budget support	3.9	4.1	2.6	3.7	2.1	1.9	1.6	1.8	1.7	1.3	1.6	1.3	1.3	1.3	0.9
Project grants	2.6	1.3	2.6	0.9	2.0	0.8	2.5	0.9	1.9	1.1	1.3	1.0	1.7	1.3	1.4
Total Expenditure	**21.0**	**18.6**	**20.1**	**18.6**	**19.3**	**17.9**	**20.4**	**17.3**	**20.3**	**19.6**	**19.1**	**22.8**	**19.8**	**19.5**	**20.0**
Recurrent	11.8	12.3	11.2	11.5	11.1	11.8	10.5	10.9	10.3	12.3	11.7	15.3	10.0	11.3	10.2
Development	8.4	6.0	8.2	6.1	7.8	5.6	9.0	5.6	9.9	6.6	7.1	7.1	9.4	7.6	9.7
Overall balance															
Including grants	-1.9	-0.8	-2.7	-1.5	-2.2	-2.4	-3.1	-2.2	-3.7	-4.9	-3.1	-7.2	-4.2	-4.7	-0.4
Excluding grants	-8.5	-6.1	-8.0	-6.0	-6.3	-5.1	-7.2	-4.8	-7.3	-7.3	-6.0	-9.5	-7.2	-7.2	-6.4
Financing	**1.9**	**0.6**	**2.7**	**1.7**	**2.2**	**2.0**	**3.1**	**0.3**	**3.7**	**4.4**	**3.1**	**7.3**	**4.2**	**4.7**	**4.1**
External financing (net)	2.7	1.7	2.5	3.3	3.1	2.5	2.1	1.7	3.0	2.2	1.9	1.4	2.4	2.7	2.3
o/w Budget support	0.6	0.4	1.2	1.9	0.8	0.9	0.6	0.8	0.7	0.7	0.1	0.6	0.7	0.8	0.5
Domestic financing (net)	-0.8	-1.1	0.2	-1.7	-0.9	-0.5	1.0	-1.4	0.6	2.1	1.2	5.9	1.9	2.0	1.8

Source: IMF, MFPED

5. Balance of Payments (percent of GDP unless otherwise stated)

Variable	2005/6	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13p
Current Account (incl transfers)	**-3.2**	**-2.9**	**-6.3**	**-8.1**	**-9.4**	**-11.4**	**-12.0**	**-11.3**
Exports of goods	10.5	12.4	14.4	14.2	15.2	15.5	15.8	13.4
Imports of goods	-19.8	-21.0	-24.3	-26.0	-27.0	-31.6	-31.3	-26.2
Services (net)	-1.8	-2.3	-3.3	-2.8	-2.7	-4.5	-3.4	-2.6
Trade balance	-9.3	-8.6	-10.0	-11.8	-11.8	-16.0	-15.5	-12.8
Income (net)	-2.5	-1.9	-1.8	-2.0	-2.2	-2.2	-2.2	-1.9
Current transfers (net)	10.4	9.9	8.8	8.6	7.3	11.3	8.8	6.0
Capital and Financial Account	**8.8**	**8.9**	**8.2**	**8.0**	**10.3**	**7.5**	**13.2**	**11.7**
Capital account*	1.3	28.8	0.0	0.0	0.0	0.0	0.1	1.4
Financial account	7.6	-19.9	8.2	8.0	10.3	7.5	13.1	10.3
o/w direct investment	5.1	6.0	5.3	5.0	4.6	5.1	6.3	6.2
Overall Balance	2.0	5.9	3.9	-0.3	1.4	-3.9	4.3	0.4
Gross International Reserves (million USD)	1408.3	2090.8	2684.4	2442.0	2384.7	2044.0	2643.8	2713.8
Gross international reserves in months of imports	5.1	5.6	6.0	5.1	4.2	3.4	4.0	3.7

Note: Figures for fy12/13 are provisional/projections
Source: IMF, BoU

6. Monthly Imports of Goods, 2012-2013 (in USD million)

		2012												2013		
	Nature of Imports	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
	Formal Private Sector Imports:															
1	Animal & Animal Products	1.8	1.9	1.5	1.7	1.5	3.3	1.7	1.6	1.4	2.1	1.6	1.9	1.4	1.3	1.2
1	Veg Pdts, Animal, Fats & Oil	34.2	40.1	40.3	37.3	41.2	43.9	44.4	35.3	43.0	38.4	38.7	34.9	37.6	39.4	29.0
2	Prep Foodstuff, Beverages & Tobacco	36.7	28.4	25.7	22.8	25.5	19.1	16.1	18.0	14.2	16.8	16.7	19.5	19.6	17.7	18.8
3	Mineral Products (excl oil products)	30.0	26.4	36.5	31.5	35.1	35.7	30.9	30.9	22.0	12.7	10.2	7.8	12.1	11.7	10.1
4	Petroleum (Oil) Products	78.8	69.1	72.0	62.1	72.9	64.9	58.4	80.1	76.6	85.7	84.0	84.6	88.5	87.0	95.7
5	Chemical & Related Products	30.3	35.6	35.9	34.6	64.8	35.1	35.7	38.0	32.7	33.4	44.0	35.6	38.0	37.7	32.2
6	Plastics,Rubber, & Related Products	20.1	18.0	21.6	20.9	22.8	20.6	24.1	19.7	16.6	18.4	20.5	18.3	20.7	19.5	16.8
7	Wood & Wood Products	9.5	10.1	11.4	11.3	12.2	13.8	9.9	11.6	11.5	10.4	12.0	9.0	8.1	8.2	7.3
8	Textile & Textile Products	14.1	10.7	12.6	10.9	13.5	12.7	10.9	11.4	9.8	11.0	11.3	10.5	11.9	11.0	9.1
9	Miscelanneous Manufactured Articles	12.6	13.8	13.0	13.4	19.4	17.3	18.6	16.9	17.6	17.1	15.7	14.5	14.1	19.6	17.9
10	Base Metals & their Products	29.6	34.2	30.2	27.8	25.2	36.0	18.4	24.2	20.0	24.5	25.2	14.8	19.6	17.8	20.2
11	Machinery Equip, Vehicles & Accessories	86.2	94.2	116.3	105.3	116.2	145.6	119.4	120.3	134.6	119.7	111.0	77.6	86.4	71.5	89.9
12	Arms & Ammunitions & Accessories	0.003	0.003	0.000	0.011	0.000	0.000	0.008	0.002	0.013	0.041	0.017	0.003	0.009	0.000	0.008
13	Electricity	1.2	0.9	1.1	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.6	1.9
	Subtotal (formal private sector imports)	***385.2***	***383.2***	***417.9***	***380.0***	***450.8***	***448.4***	***388.8***	***408.5***	***400.4***	***390.7***	***391.4***	***329.3***	***358.5***	***343.0***	***350.0***
15	Other Estimated Private Sector Imports	6.2	4.0	5.4	5.0	4.6	3.3	3.0	4.1	3.8	4.6	3.9	4.9	4.9	4.6	4.8
16	Government Imports	66.7	50.7	31.1	29.7	19.0	55.7	11.9	44.9	14.9	20.8	43.2	32.2	25.8	38.2	16.7
	Total Imports (fob)	**458.1**	**438.0**	**454.4**	**414.8**	**474.4**	**507.4**	**403.8**	**457.5**	**419.1**	**416.1**	**438.4**	**366.4**	**389.2**	**385.8**	**371.5**
	Total Imports (cif)	**561.6**	**535.2**	**556.0**	**507.4**	**581.5**	**623.1**	**493.9**	**560.1**	**511.5**	**508.5**	**536.6**	**448.4**	**476.4**	**470.2**	**453.2**
	o/w freight	*99.1*	*93.2*	*97.4*	*88.7*	*102.6*	*110.8*	*86.3*	*98.3*	*88.5*	*88.5*	*94.7*	*78.5*	*83.5*	*80.9*	*78.2*
	o/w insurance	*4.4*	*4.1*	*4.3*	*3.9*	*4.5*	*4.9*	*3.8*	*4.3*	*3.9*	*3.9*	*4.2*	*3.5*	*3.7*	*3.6*	*3.5*
	freight as % of total imports cif	*17.65*	*17.41*	*17.51*	*17.48*	*17.64*	*17.78*	*17.48*	*17.55*	*17.31*	*17.40*	*17.65*	*17.51*	*17.53*	*17.20*	*17.26*
	insurance as % of total imports cif	*0.78*	*0.77*	*0.77*	*0.77*	*0.78*	*0.79*	*0.77*	*0.77*	*0.76*	*0.77*	*0.78*	*0.77*	*0.77*	*0.76*	*0.76*

Source: Bank of Uganda

7. Monthly Exports of Goods, 2012-2013 (in USD million)

		2012												2013		
ID	Nature of Exports	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
	Formal Exports:	**181.5**	**197.5**	**204.5**	**181.7**	**216.3**	**221.2**	**216.7**	**220.0**	**208.9**	**182.2**	**197.4**	**174.7**	**206.9**	**218.5**	**200.0**
	Manufactured/Semi processed goods	**53.0**	**54.5**	**55.5**	**52.3**	**63.6**	**64.8**	**57.0**	**64.5**	**53.1**	**47.1**	**51.2**	**49.0**	**49.3**	**47.4**	**51.3**
1	Base Metals & Products	9.2	12.7	10.2	9.3	11.5	10.7	12.8	12.7	12.6	10.2	11.1	10.6	9.0	11.1	11.1
2	Sugar	5.9	5.7	10.3	10.7	17.4	18.0	11.0	12.7	9.3	5.7	8.8	6.8	8.3	7.0	9.4
3	Fish & its products	12.5	12.5	11.8	10.6	12.0	10.4	9.4	8.1	8.5	9.4	8.8	7.6	8.8	7.9	8.8
4	Cement	8.5	7.0	8.0	8.8	8.6	10.0	9.7	11.2	9.2	8.8	8.2	9.0	7.2	8.6	9.7
5	Edible Fats and Oils	6.2	5.1	4.6	3.2	4.4	4.3	4.4	3.8	3.8	3.2	3.5	2.5	4.5	1.6	0.9
6	Soap	3.2	3.2	3.3	2.8	2.8	3.2	2.2	2.7	2.7	2.5	2.4	2.3	3.1	2.8	2.6
7	Plastic Products	2.2	2.5	2.3	2.6	1.8	2.4	2.5	7.3	2.1	1.8	2.5	2.8	3.2	2.5	3.1
8	Beer	1.6	2.0	2.2	1.8	2.2	2.5	1.8	2.1	2.0	2.2	2.3	2.8	2.3	1.9	2.0
9	Water	1.7	2.0	1.6	1.6	1.6	1.8	1.9	2.1	1.6	2.0	2.2	2.8	1.6	2.9	2.1
10	Baker's wares	2.1	1.8	1.3	0.9	1.3	1.3	1.5	1.8	1.3	1.2	1.5	1.7	1.4	1.2	1.6
	Traditional exports	**73.4**	**78.6**	**79.9**	**59.3**	**82.3**	**78.4**	**73.4**	**61.9**	**51.1**	**53.9**	**63.6**	**58.5**	**88.7**	**87.9**	**73.7**
11	Coffee	33.7	36.2	30.2	21.9	35.8	36.6	40.5	31.5	23.5	23.7	28.8	30.1	42.6	42.3	38.0
12	Cotton	9.3	11.4	16.3	12.6	9.3	9.2	1.5	1.6	1.3	2.3	0.8	0.3	2.9	5.9	6.1
13	Tea	7.4	4.2	3.0	3.7	8.3	6.4	7.1	6.5	5.8	6.7	8.0	6.8	8.8	6.9	5.3
14	Tobacco	7.0	6.2	5.7	2.7	5.2	6.7	7.9	5.2	2.2	2.9	6.3	4.3	7.3	8.4	6.0
15	Maize	1.7	5.0	8.3	4.1	5.3	5.3	2.9	5.0	8.0	5.0	5.7	2.9	6.2	4.8	3.4
16	Flowers	4.7	4.9	4.4	3.7	6.1	5.6	4.8	5.0	3.7	3.6	3.3	2.9	4.6	5.2	4.4
17	Hides & skins	2.5	3.5	4.0	3.6	4.9	4.3	3.2	3.2	3.9	4.0	3.2	1.0	0.6	1.2	0.9
18	Cocoa Beans	3.8	4.1	4.5	3.1	3.0	2.0	1.1	2.2	1.0	3.0	4.0	6.7	6.8	5.5	4.1
19	Simsim	2.0	1.3	2.0	2.2	2.9	0.6	0.3	0.0	0.3	0.4	0.1	1.1	4.0	4.5	3.4
20	Beans	0.3	0.7	0.6	0.7	0.3	0.7	3.0	0.7	0.6	1.5	2.3	1.3	1.3	1.4	0.8
21	Fruits & Vegetables	0.9	1.1	1.0	1.1	1.2	1.0	1.0	1.1	0.8	0.7	1.1	1.0	3.6	1.8	1.2
	Minerals	**1.5**	**2.5**	**1.4**	**1.7**	**2.2**	**1.4**	**2.1**	**2.8**	**1.5**	**2.6**	**1.2**	**1.1**	**1.7**	**1.4**	**2.3**
22	Cobalt	0.5	1.6	0.5	0.5	1.1	0.5	1.6	2.1	1.1	2.6	1.1	1.1	1.6	1.1	1.1
23	Gold	1.0	0.9	0.9	1.2	1.1	0.9	0.5	0.6	0.5	0.0	0.2	0.1	0.1	0.4	1.3
	Other exports	**53.5**	**62.0**	**67.8**	**68.3**	**68.2**	**76.7**	**84.1**	**90.8**	**103.1**	**78.5**	**81.4**	**66.1**	**67.2**	**81.9**	**72.7**
24	Cellular Phones	9.5	6.0	10.5	7.3	10.1	12.5	13.8	13.9	17.7	17.0	19.3	10.2	2.8	4.4	10.3
25	Crude oil	6.5	5.3	3.5	5.2	4.9	4.9	4.6	5.4	16.7	6.1	4.7	4.7	4.8	4.8	4.3
26	Rice	2.1	2.4	2.4	3.9	2.8	3.8	3.0	3.7	3.7	3.4	3.7	4.0	2.9	2.1	2.3
27	Electricity	1.0	1.5	1.4	1.7	1.5	1.4	1.0	1.2	1.2	1.1	1.1	1.1	1.4	1.3	1.5
28	Oil re-exports	7.1	11.7	12.2	9.5	15.7	11.4	12.0	12.6	12.0	12.1	10.9	11.5	11.2	10.0	10.7
29	Other items	27.4	35.1	37.7	40.7	33.2	42.7	49.7	54.1	51.8	38.7	41.7	34.6	44.0	59.2	43.7
	Informal Exports (Cross Border Trade):	**31.8**	**28.0**	**34.4**	**35.6**	**36.9**	**33.6**	**30.1**	**40.3**	**43.3**	**45.5**	**42.9**	**53.1**	**43.9**	**47.4**	**48.1**
1	Industrial products	19.4	16.5	22.2	22.9	23.5	20.2	18.0	24.8	24.3	23.4	24.1	28.1	23.3	24.9	25.4
2	Maize	1.5	1.8	1.6	1.8	2.1	2.4	2.2	4.6	4.7	7.0	5.4	7.9	8.2	7.6	7.9
3	Fish	2.7	2.5	3.1	3.5	3.9	2.8	2.9	3.0	3.6	3.3	3.3	4.1	3.3	3.5	3.6
4	Beans	2.6	1.3	0.7	0.8	1.0	2.2	1.5	1.3	1.6	2.3	1.7	3.2	1.8	2.8	2.6
5	Other grains	0.4	0.2	0.9	0.7	0.5	0.7	0.6	0.8	0.7	0.7	0.7	0.9	1.1	0.9	0.9
6	Bananas	0.6	0.3	0.5	0.5	0.5	0.5	0.6	0.5	0.6	0.7	0.5	0.5	0.5	0.5	0.5
7	Other agricultural commodities	4.3	4.9	4.6	4.7	4.9	4.6	3.9	5.1	7.6	7.8	6.8	7.7	5.2	6.7	6.5
8	Sugar	0.3	0.4	0.3	0.4	0.4	0.2	0.2	0.2	0.1	0.2	0.2	0.6	0.5	0.4	0.5
9	Other products	0.1	0.1	0.5	0.3	0.1	0.1	0.3	0.0	0.2	0.1	0.1	0.1	0.1	0.1	0.1
	Total Exports	**213.3**	**225.5**	**238.9**	**217.3**	**253.1**	**254.8**	**246.8**	**260.4**	**252.2**	**227.6**	**240.3**	**227.8**	**250.7**	**266.0**	**248.1**

Source: Bank of Uganda

8. Inflation Rates

Percentage Changes	2001/2	2002/3	2003/4	2004/5	2005/6	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13p
CPI (annual average)	-2.0	5.7	5.0	8.0	6.6	6.8	7.3	14.2	9.4	6.5	23.5	6.2
CPI (end of period)	3.5	2.4	5.0	4.7	5.2	7.8	8.0	12.5	7.8	6.3	24.3	3.4
Food (end of period)	-0.1	3.0	0.0	-6.1	-4.6	7.9	5.4	27.9	16.5	9.3	30.6	-2.6
Non Food (end of period)						7.3	7.9	8.9	6.7	5.7	20.3	6.6

Note: Figures for fy12/13 are provisional/projections
Source: IMF, UBOS

9. Quarterly Average Prices for Selected Items (UGX/Unit)

		2010				2011				2012				2013
Item	Unit	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Sugar	Kg	2,250	2,451	2,558	2,418	2,420	2,695	4,738	5,217	3,088	2,817	2,965	3,069	3,201
Milk	Liter	854	842	1,112	1,047	1,102	1,045	1,048	1,006	1,242	1,134	1,110	1,084	1,158
Beef	Kg	5,000	5,000	5,046	5,262	5,966	6,625	7,181	7,842	8,000	8,000	7,827	7,835	7,877
Washing soap	Kg	2,227	2,300	2,307	2,572	3,138	3,477	3,673	3,895	3,906	3,874	3,740	3,720	3,648
Matooke	Kg	535	413	311	499	551	625	532	660	477	611	612	770	510
Maize floor	Kg	1,472	1,244	1,081	1,057	1,261	1,807	2,133	1,843	1,737	2,096	1,955	1,803	1,895
Rice	Kg	2,433	2,355	2,191	2,040	2,273	2,714	2,985	3,246	3,432	3,722	3,186	3,225	3,261
Dried beans	Kg	1,682	2,060	1,928	1,961	2,020	2,574	2,058	2,049	2,209	3,052	2,207	2,103	2,206
Paraffin	Liter	1,760	1,918	1,980	2,093	2,366	2,670	2,839	2,935	2,727	2,794	2,612	2,799	2,818
Petrol	Liter	2,471	2,936	2,970	3,155	3,264	3,557	3,805	3,860	3,483	3,667	3,529	3,668	3,767
Diesel	Liter	2,072	2,298	2,351	2,481	2,718	3,201	3,390	3,600	3,277	3,223	3,135	3,397	3,441

Source: UBOS

10. Inflation Rates (for selected items), 2011-2012

	2011												2012												2013			
Items	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
All items	5.0	6.4	11.2	14.1	16.0	15.7	18.8	21.4	28.3	30.5	29.0	27.0	25.6	25.7	21.1	20.0	18.6	18.0	14.3	11.9	5.5	4.4	4.9	5.3	4.9	3.5	4.0	3.4
Food	3.6	8.8	23.7	30.8	35.3	33.4	40.7	42.9	50.4	45.8	40.4	34.6	27.2	27.6	15.4	15.0	13.7	12.8	5.4	4.2	-2.8	-2.5	-2.0	0.0	0.0	-2.0	-0.9	-2.6
Food crops	1.5	6.9	29.1	39.3	44.2	39.0	42.3	33.7	38.8	35.3	25.9	20.4	13.5	21.4	10.1	9.1	8.0	11.3	7.5	12.8	6.3	4.4	7.5	7.3	3.0	-6.2	-8.5	-7.5
Non food	6.0	5.4	5.4	6.5	7.4	7.9	9.1	11.7	18.2	22.9	22.9	22.9	24.2	24.3	23.7	22.3	21.0	20.4	19.0	16.0	10.1	8.3	8.6	8.0	7.2	6.0	6.5	6.6
Beverages and tobacco	8.9	8.3	9.3	10.3	10.8	10.6	12.1	25.2	26.1	23.3	23.8	24.6	24.1	25.0	23.6	23.2	25.1	25.5	23.6	9.9	6.1	6.2	5.2	8.5	12.0	12.6	14.0	13.7
Clothing and footwear	8.7	11.3	13.7	16.5	21.5	22.7	26.0	31.6	37.0	45.0	43.0	43.7	43.8	42.7	39.0	34.9	27.0	19.0	12.5	6.4	2.3	-2.7	-1.2	-4.0	-4.4	-4.8	-2.9	-1.0
Rent, fuel and utilities	8.7	5.7	7.1	9.5	9.9	8.9	8.5	11.9	26.1	31.8	30.3	30.9	34.5	35.0	31.8	29.1	27.0	25.7	26.9	23.3	10.3	6.0	6.4	6.0	3.9	3.9	3.8	4.8
Household and personal goods	11.5	12.8	15.7	17.7	21.0	22.8	24.9	25.9	29.6	30.5	31.8	31.0	28.0	27.3	24.5	22.3	19.4	18.2	15.9	13.1	9.7	7.6	6.2	4.4	5.4	4.4	4.5	4.9
Transport and communication	-11.2	-9.7	-15.5	-14.6	-14.7	-12.4	-11.9	-11.2	-1.2	16.9	19.6	19.2	20.9	16.7	24.1	20.8	20.4	17.4	17.4	15.9	4.0	3.6	4.8	5.5	2.5	4.0	4.7	4.2
Education	6.4	5.0	5.1	5.3	5.7	8.2	8.9	9.3	10.7	10.7	10.7	10.6	10.9	14.8	14.9	14.7	14.4	18.1	16.9	16.5	16.5	16.5	16.5	16.2	15.8	8.1	8.2	8.2
Health, entertainment and others	11.7	11.8	12.8	13.1	14.3	13.0	15.3	17.3	20.0	20.2	20.2	18.7	20.9	20.6	19.2	19.5	19.0	18.0	15.9	13.9	12.3	11.2	11.5	10.3	9.9	9.8	10.1	9.0
Other goods	8.5	9.5	13.9	16.6	19.5	20.3	26.0	33.3	44.5	44.0	43.5	42.0	38.0	34.9	27.8	26.6	24.0	20.5	13.6	7.8	-1.0	-1.7	-2.2	-0.8	1.2	3.0	5.0	3.5
Services	3.1	2.8	1.7	2.1	2.5	3.2	3.7	4.8	8.5	14.0	14.3	13.7	16.6	17.8	18.9	17.9	17.5	17.7	18.0	16.7	13.5	12.5	13.1	12.2	10.1	7.3	7.6	7.9

Source: Bank of Uganda

11. Exchange and Interest Rates, 2011-2012

		Nominal	TBR (91)	CBR*	Deposit (LC)	Deposit (FC)	Lending (LC)	Lending (FC)
Year	Month	UGX/USD	%	%	%	%	%	%
2011	Jan	2,332.47	8.83	13.1	2.24	1.17	20.09	10.81
	Feb	2,341.93	9.41	13.9	2.02	1.67	19.58	9.49
	Mar	2,393.31	8.58	13.3	2.10	1.30	19.97	10.14
	Apr	2,367.59	8.81	13.1	2.24	1.30	19.97	9.93
	May	2,387.68	10.40	14.7	1.98	1.25	19.87	9.70
	Jun	2,461.04	12.10	16.7	2.57	1.33	19.94	9.43
	Jul	2,587.23	13.09	13.0	2.82	1.26	21.72	9.66
	Aug	2,753.23	14.53	14.0	4.31	1.16	21.31	9.79
	Sep	2,814.02	15.59	16.0	2.53	1.11	23.34	9.70
	Oct	2,805.37	18.80	20.0	2.35	1.14	23.55	9.52
	Nov	2,582.18	19.58	23.0	3.07	1.59	25.97	10.25
	Dec	2,446.91	20.09	23.0	3.28	1.29	26.71	10.08
2012	Jan	2,414.19	20.28	23.0	3.39	1.33	27.25	10.34
	Feb	2,327.97	17.58	22.0	3.31	1.26	26.83	10.41
	Mar	2,485.02	15.66	21.0	3.37	1.26	27.58	9.99
	Apr	2,506.21	16.29	21.0	3.66	1.24	26.14	8.23
	May	2,479.05	16.40	21.0	3.44	1.39	26.66	9.32
	Jun	2,484.36	16.68	20.0	3.40	1.57	27.02	8.44
	Jul	2,473.96	16.74	19.0	3.40	1.23	26.88	8.97
	Aug	2599.60	12.68	17.0	3.57	1.27	26.43	9.14
	Sep	2592.97	10.71	15.0	3.14	1.16	25.66	8.73
	Oct	2621.40	9.14	13.0	2.95	1.17	24.86	10.69
	Nov	2624.96	9.28	12.5	2.79	1.18	23.73	10.44
	Dec	2614.37	9.36	12.0	2.62	1.23	24.77	8.75
2013	Jan	2683.79	9.19	12.0	2.80	1.37	24.22	9.82
	Feb	2657.55	9.09	12.0	2.61	1.24	24.28	9.32
	Mar	2636.89	8.84	12.0				

*Note: i) LC – Local Currency; FC – Foreign Currency; ii) * bank rate to commercial banks for Jan-Jun 2011*
Source: IMF, BoU

12. Monetary Indicators

Indicator	2005/6	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13p
Monetary Aggregates								
M3 as % of GDP	18.0	18.1	20.6	20.9	23.8	26.7	20.9	21.1
M2 as % of GDP	14.1	14.1	15.9	16.3	18.4	20.3	15.3	15.2
M3 growth rate (%)	8.7	16.4	17.4	31.1	25.0	31.7	25.9	11.6
M2 growth rate (%)	12.1	18.9	16.7	30.1	26.3	30.3	23.9	15.6
Domestic Credit								
Total domestic credit (% of GDP)	6.5	4.6	7.0	10.1	13.7	18.5	16.1	18.0
Total domestic credit growth (%)	20.5	-17.6	75.4	78.6	56.9	50.5	11.4	23.8
Private sector credit (% of GDP)	8.0	8.5	11.1	11.9	12.8	16.6	14.7	14.4
Private sector credit growth (%)	28.7	23.2	51.5	32.1	25.0	44.4	11.1	11.0
Interest Rates Structure								
Average TB rate (period average, %)	7.6	8.9	7.9	8.4	5.3	7.6	17.2	10.8
Average lending rate (%)	19.2	18.8	19.6	20.9	20.7	19.8	24.6	25.1
Average deposit rate (%)	2.5	2.7	2.1	2.1	2.0	2.1	3.2	3.1

Note: Figures for fy12/13 are provisional/projections; Source: IMF

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