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Uganda's Experience on Implementing Plans for Emergence: Export Diversification for Structural Transformation

Report Prepared for
2nd International Conference on the Emergence of Africa, 28-30 March, 2017

Ministry of Finance Planning and Economic Development
Economic Development and Research Department

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Acronyms and Abbreviations

AfDB	Africa Development Bank
AGOA	Africa Growth Opportunities Act
BoU	Bank of Uganda
COMESA	Common Market for Eastern and Southern Africa
CSBAG	Civil Society Budget Advocacy Group
CSOs	Civil Society Organizations
DRC	Democratic Republic of Congo
EAC	East African Community
EDI	Export Diversification Index
EOC	Equal Opportunities Commission
EPA	Economic Partnership Agreement
EU	European Union
FDI	Foreign Direct Investment
FY	Financial Year
GDP	Gross Domestic Product
GET-FIT	Global Energy Transfer Feed in Tariffs
HDI	Human Development Index
HIPC	Highly Indebted Poor Countries Initiative
ICEA	International Conference on the Emergence of Africa
ICT	Information and Communication Technology
IGAD	Inter-Governmental Authority on Development
LDC	Less Developed Country
LGFC	Local Government Finance Commission
MAPS	Marketing and Agro-processing Strategy
MDGs	Millennium Development Goals
MoFPED	Ministry of Finance Planning and Economic Development
MW	Megawatts
NAADS	National Agriculture Advisory Services
NAP	National Agricultural Policy
NDP	National Development Plan
NGOs	Non-Governmental Organizations
NPA	National Planning Authority
NTBs	Non-Tariff Barriers
NTP	National Trade Policy
NUSAF	Northern Uganda Social Action Fund
PEAP	Poverty Eradication Action Plan
PFM	Public Finance Management
PMA	Plan for the Modernization of Agriculture
PRDP	Peace Recovery and Development Programme
PSFU	Private Sector Foundation of Uganda
SACCOs	Savings and Credit Cooperative Societies
SAGE	Social Assistance Grants for Empowerment
SDGs	Sustainable Development Goals
SWGs	Sector Working Groups
UFPEA	Uganda Fish Processors and Exporters Association
UFWA	Uganda Flowers Exporters Association
UFZA	Uganda Free Zone Area
UMA	Uganda Manufacturers Association
UNCCI	Uganda National Chamber of Commerce and Industry
UEPB	Uganda Export Promotion Board
UNFFE	Uganda National Farmers Federation
UNGOF	Uganda National NGO Forum
UPE	Universal Primary Education
URA	Uganda Revenue Authority
US$	United States Dollars
USE	Universal Secondary Education
UWRSA	Uganda Warehouse Receipt System Authority
WB	World Bank
WFP	World Food Programme
WTO	World Trade Organization

About the International Conference on Emergence of Africa

Under the chairmanship of His Excellency Alassane Ouattara, President of the Republic of Côte d'Ivoire, the International Conference on the Emergence of Africa (ICEA) was held in Abidjan on March 20th 2015. The essence of the Conference and those to follow are to spur a debate on emergence and exchange ideas on the issue and conditions of emergence in the light of the dynamic that has driven economic and social transformation in emerging countries, mainly China, Brazil, India, and Malaysia. This conference (and building on other Programmes of Action), has inspired a number of countries that have expressed a desire to fast track their progression from a LDC to a middle income status under this process. These include: Uganda; Botswana; Cape Verde; Ivory Coast; Ethiopia; Gabon; Equatorial Guinea; Kenya; Morocco; Mauritius; Rwanda; Senegal; South Africa and Tanzania. The conference put up the following themes that are critical to Africa's emergence as elaborated in the Press Release after the 2015 Conference:

i. Developmental State and Emergence;
ii. Emergence and Changes in Consumption and Production Patterns; and
iii. Emergence and Human Development.

The conference called upon countries to particularly play a more assertive role in providing a path for structural transformation. This requires a state:

i. with a clear and shared vision translated into operational development actions;
ii. that must be able to promote structural reforms for the benefit of its population.
iii. with strong national institutions equipped with capacity and resources that ensure their sustainability and efficiency;
iv. that could plan for the medium and long term development and be able to direct investment to sectors, programs and projects that will achieve the realization of the main objectives and the identified sectoral priorities and materialize the vision that was set for emergence
v. that could provide basic socio-economic services to support private sector and entrepreneurship as well as an efficient running of markets. The strengthening of planning systems to ensure consistency between the central and local government levels, based on the objectives of sustainable development, seems crucial in this regard.

Altogether, emergence was to be premised on transparency, accountability, and good governance as well as increased participation of the private sector and civil society.

This report[1] takes a critical look at the extent to which these conditions hold for Uganda while looking at economic development trends particularly for trade diversification and how this relates to the path towards structural transformation. The paper also presents an analysis of Uganda conceptual framework that will support her emergence and institutional set-ups supporting the national plans towards this effort. The report takes an evaluative approach of the extent to which imperatives/conditions for emergence can hold and recommends actions from an institutional standpoint that can reorient the thinking and planning to expedite Uganda's progression towards a medium income country by 2020. within the report, a thematic chapter on export diversification for structural transformation - a theme that Uganda selected to share its best experience as it relates to structural transformation in this conference.

[1] The development of this report was facilitated by Consultants Drake Rukundo and Lindani Ndlovu and commissioned by the Ministry of Finance Planning and Economic Development under the auspices of UNDP Uganda between November 2016 and January 2017

Table of Contents

Executive Summary

Uganda has a strong macroeconomic framework, clear and elaborate Vision 2040 being implemented under sequenced national development plans that provide an overall strategic direction for the country. Vision 2040 is conceptualized around strengthening the fundamentals of the economy to harness its vast resources and guide investments in core projects that will drive her growth and development. The country is commitment to graduate from a Less Developed status to a middle income country by 2020. This commitment is in consonance with an aspiration to become 'a transformed society from a peasant to a modern and prosperous country within 25 years' as espoused in the Vision 2040. Participating in the ICEA process, therefore, puts Uganda into a debate and lessons sharing from other countries emergence.

Sustaining investments in core projects that deliver 'a development state'

In the medium term, the focus will be on sectors that Uganda has identified to have the greatest multiplier effect on the economy which are: Agriculture; Tourism; Minerals, oil and gas; Infrastructure development and Human capital development. Government is ensuring more alignment of the national budget to the NDP priorities from a level of about 64% under NDP I to over 80% under NDP II. Investments will be targeted at commercialization of agriculture (with emphasis on agro-processing and value addition); investing in major oil and gas support infrastructure (including the refinery and associated pipelines) and electricity to support the extractive industry; and expanding the road and rail network. Other strategic investments include increasing funding to the tourism sector; addressing gaps in ensuring human capital development as well as sustaining peace and stability. Government is also moving towards a programme-based budgeting focusing on achieving key performance outcomes while addressing systemic challenges facing implementation.

Transforming production and consumption patterns

To ensure a development state Uganda needs to strengthen institutions with a sustainable incentives aligned to performance, a zero tolerance to corruption and efficiency in implementation. Emergence will also require the country to fundamentary make changes in the production and consumption patterns. This will involve transiting from a traditional economy dominated by primary activities into a modern economy where high productivity activities in manufacturing assume an important role by focusing on: advancement in technological change in manufacturing and establishing a type of manufacturing sector development that can deliver high value 'market ready' goods and services. Uganda has the potential to maximize the use of her vast energy resources, potential to become a food basket for the Africa region and tap into the opportunities provided by new technology to transform her productive sectors. This will require strategic investments in areas that maximize growth potential in the medium term.

Enhancing Human Development

Finally, as government prioritizes large infrastructure projects (roads, railways and energy) it should also keen an eye on ensuring a sustainable human development framework. The Gini-coefficient which measures income inequality increased significantly from 0.395 in 1990/2000 to 0.426 in 2012/13. Overall the Human Development Index increased from 0.285 to 0.483 (a 69.4% increase) over the same period. Buoyed by Universal Primary and Secondary Education, Uganda has seen a rise in literacy levels now at 72.2% and life expectancy has also risen from 48.1 years in 1991 to 63.3 years in 2014 (a 31.6% increment). Uganda's overall progress in human development outcomes might not materialize unless the binding constraints in lagging areas are addressed. Some of the key areas to tackle in the intermediate term include: strengthening value chains of key agricultural enterprises; increasing spending on health support systems (especially key clinical services and essential commodities); focusing more on primary and post-primary education; supporting skilling, innovation incubation initiatives for a highly enterprising population and ensuring overall compliance with set service delivery standards.

Export and Market Diversification trends

The government pursued outward oriented strategies and liberalized trade; pursued policies that promoted diversification of products and markets through cooperation and regional integration. The main markets are in the EAC, COMESA, the European Union and the Middle East. Kenya and South Sudan are the leading markets. Exports to

COMESA and the EAC are boosted by neighboring markets which accounted for 53.7 percent of all exports in 2015, which underlining the importance of regional integration and trade agreements. The EU contributed 17.8 percent of Uganda's export in 2015. The EU share of exports has decreased over the years while the EAC and COMESA shares increased showing growing integration of Uganda's exports in the region. Products source industries have broadened as well. Agriculture exports 12 percent of its output while fishing exports 32.9%, agro-processing (8.5%), hotels and restaurants (20.3%), other manufacturing (10.6%) and textiles (2.6%). Manufactured products exports originated from other manufacturing, agro processing and textiles.

The number of export markets and products increased. Uganda's exports have grown from US$ 450.53 million in 2001 to US$2,267 million in 2015, a fivefold increase. Non-traditional exports grew at an average rate of 13.7 percent per annum while traditional grew at 9.8 percent. Traditional exports accounted for 37.7 percent of total exports value in 2001 which share had declined to 24.3.5 percent by 2015. In 2015, the value of non-traditional exports stood at US$ 1,717.15 million compared to US$ 549.864 million of traditional exports. The main non traditional exports are petroleum oils, cement, fish, sugar, maize, dried leguminous vegetables, cocoa beans, other oil seeds and oleaginous fruits, and live plants.

However, the intensive margin diversification index has declined more slowly over the period 2005 and 2013 indicating that Uganda still earns significant export receipts from a concentration of exports or markets. Diversification of exports only increased due to production of other primary products such as mining and fish and exports are still concentrated in agro-based commodities. Diversification of exports is linked to structural transformation. The structural transformation in a country is determined by its current productive capabilities and the extent to which it can shift production toward increased manufacturing.

Structural transformation involves the shift of productive resources from low productivity primary activities toward high productivity manufacturing activities. Uganda's current production structure limits the extent and capacity to radically transform its structure and break out of the current path of its development. Agriculture contributed 24.7 percent of value added in 2014 while the industrial sector contributed 20.4 percent and services 54.9 percent. Manufacturing contributed less than 10 percent. Structural transformation has taken place in Uganda but this has not been manufacturing-led growth-inducing structural transformation. Ugandan manufacturing has not developed enough to provide the stimulus for moving resources from low to high productivity sectors. Uganda has made a few inroads into the larger, more complex, and more connected production such as garments, construction materials, chemicals, and machinery. To achieve meaningful structural transformation, Uganda needs to reduce the share of agriculture in GDP, increase the share of manufacturing and non-manufacturing industry substantially because manufacturing has the capacity to transform the economy; create and exploit backward and forward linkages with other sectors such as agriculture, construction, extractives among others.

Addressing Gaps and Challenges that remain

In spite of the number of policies and their contribution to increased production, export and market diversification, Uganda still faces challenges of implementation. Inadequate resources for pursuing trade diversification; lack of skilled labour and an infrastructure deficit held back the implementation and achievement of trade diversification. As a consequence, Uganda's supply-side situation shows that it is not capable of supplying the markets with volume of good quality products. A combination of skills shortage limiting production, production and quality of goods, access to and cost of finance, infrastructure, quality of public institutions and public sector management are key competitiveness challenges that continue to undermine the growth, and diversification of exports and structural transformation of the economy.

There is a need to accelerate the investment in manufacturing to exploit the sector's backward and forward linkages with sector capable of multiplying and creating spillover effects that generate further product diversification. Transformation will only be possible with an established and growing manufacturing sector that creates jobs and increases incomes. Uganda must to initiate dynamic strategies that will determine the path and direction of its development. Higher levels of economic complexity are a good predictor of future economic growth and development. Two strategies are recommended for Uganda's development: continuation on the current path and a break from the limited transformative production to one with ambition that can accelerate transformation. Strategic selection of subsectors of manufacturing must include industries and subsectors with strong linkages formation that can stimulate production and the growth of exports. This is the path followed by for example Vietnam to develop the coffee sector, Mauritius' textile industries development and Ethiopia's promotion of flowers for export. Morocco, a desert country, has diversified into gardening through irrigation to produce sizeable produce. Manufacturing industries that could lift Uganda's structural transformation and growth are production of steel, structural metal products such as steel structures and parts of iron and steel; for factories and related installations; other worked sheet and plates of iron or steel; spare parts, motor vehicle bodies, trailers and transports containers; and domestic appliances, water tanks, and electricity conductors.

Approaches to export diversification and structural transformation

The Government of Uganda has adopted a number of approaches to support trade diversification including trade agreements and regional integration to increase market access and investment inflows. Uganda is a member of the EAC, COMESA, IGAD and the Tripartite Free Trade Area. The government has created trade support institutions such as Uganda Export Promotion Board, Uganda National Bureau of Standards, to deal specifically with the development of export products and support trade development. Uganda has actively promoted investment and established Uganda Investment Authority to champion promotion of investment. There has been prioritization of infrastructure, logistics and trade facilitation and development along the Northern Corridor, clearance of goods at Mombasa Port; and the elimination of NTBs to facilitate trade. Trade policy formulation is involving consultation with the private sector. The private sector and the government are cooperating in implementing the 'Buy Uganda, Build Uganda', a Policy guided by both the NTP and the National Industrial Policy to encourage consumption of locally made products, an approach to foster competitiveness, employ more people and generate revenue.

Best practices

Uganda has demonstrated the value of a robust planning and policy development framework; fundamentals for export diversification, the role and value of supporting developments and the impact of participation in regional integration and trade agreements. The manufacturing sector is a bedrock on which trade diversification and transformation will occur. The Government developed a vision for trade diversification, and structural transformation to guide development and the message about export diversification has appeared in many a policy document since 1987.

Uganda's planning and policy development thrusts are a solid base on which trade diversification has been based on. Development of robust planning and policy development frameworks are highly critical for trade diversification. These have been responsible for the development and preparation of plans and policies. Uganda has made major strides in the courting investors and an ability to attract and retain investor interest and commitment that has led to significant investment inflows. This is supported by attractiveness of policy, availability of resources and raw materials, and having a mechanism, an enabling environment within which these can be exploited with security for investors.

Policies need to be implemented. Uganda has created institutions to manage and implement the policies. These must be adequately capacitated to be effective. The institutions must be capacitated and allowed to develop as well lead in the development and creation of working strategies.

The consultative approach to the development of trade policies is a strong base for launching and ensuring the effectiveness of the policies. The Government, the private sector and other stakeholders are critical contributors. Regional integration and participation in trade agreements creates avenues for access to markets, cooperation with others in building momentum for large scale developments that one country cannot go for alone. Uganda has been at the forefront of encouraging collaborative efforts within the region to stimulate trade.

Chapter 1: Introduction

1.1 Evolution of Uganda's Development

Uganda has since independence from Great Britain in 1962, transformed from a peasantry economy with an eye firmly on progression to a middle income country by 2020. With a population of 38.9 million people, vast lands and relatively favourable conditions suitable for agricultural expansion, the country conceptualized a progression towards a middle income country status and has since 1980s undergone various phases that describe its development context:

i. **Reform and Recovery Phase (1986-1990)** – After two decades of political turmoil between 1966 and 1986 the country has developed rapidly, registering an average growth rate of 6% per annum and reducing poverty from 56% in 1992 to 19.7% today. The focus during this period was restoration of peace and stability in the country, restructuring of public service and ensuring return to constitutionalism and rule of law.

ii. **Fundamental macroeconomic Reforms Phase (1991-1997)** – Uganda was among the very first recipients of budget support as part of debt relief under Highly Indebted Poor Countries Initiative (HIPC) and viewed as an epitome of an effective and pro-poor development path for other Sub Saharan African countries. This followed the liberalization of the economy and stabilizing of the exchange rate and a currency reform to stabilize the shilling. Uganda focused on reduction of poverty and launched the Poverty Eradication Action Plan - a poverty reduction strategy paper (PRSP) in 1997.

iii. **The Poverty Eradication Action Plan (PEAP) (1997-2008)** was implemented under two phases (1997/98-2003/04 and 2004/5-2007/08). The PEAP attracted substantial donor assistance peaking at $400m in 1996/07 – the highest general budget support volume ever since focusing on poverty reducing social sectors especially health, education, water, agriculture and rural roads.

iv. **Decentralization Phase (1997-to-date)** Uganda implemented a landmark decentralization policy that became a blueprint on the African continent expediting service delivery by devolving key functions to local governments (LGs). This policy decongested the central government and provided fiscal autonomy to LGs

v. **The Comprehensive National Development Planning Phase (2008-todate) that has ushered in the Growth and Transformation Phase under NDPI (2010 - 2015) and now the Middle Income Phase i.e. Second National Development Plan (NDPII) Phase (2015-2020)** – The elaboration of the national vision 2040 as a blueprint for long term planning and development has provided a renewed focus on Uganda's emergence towards a middle income status.

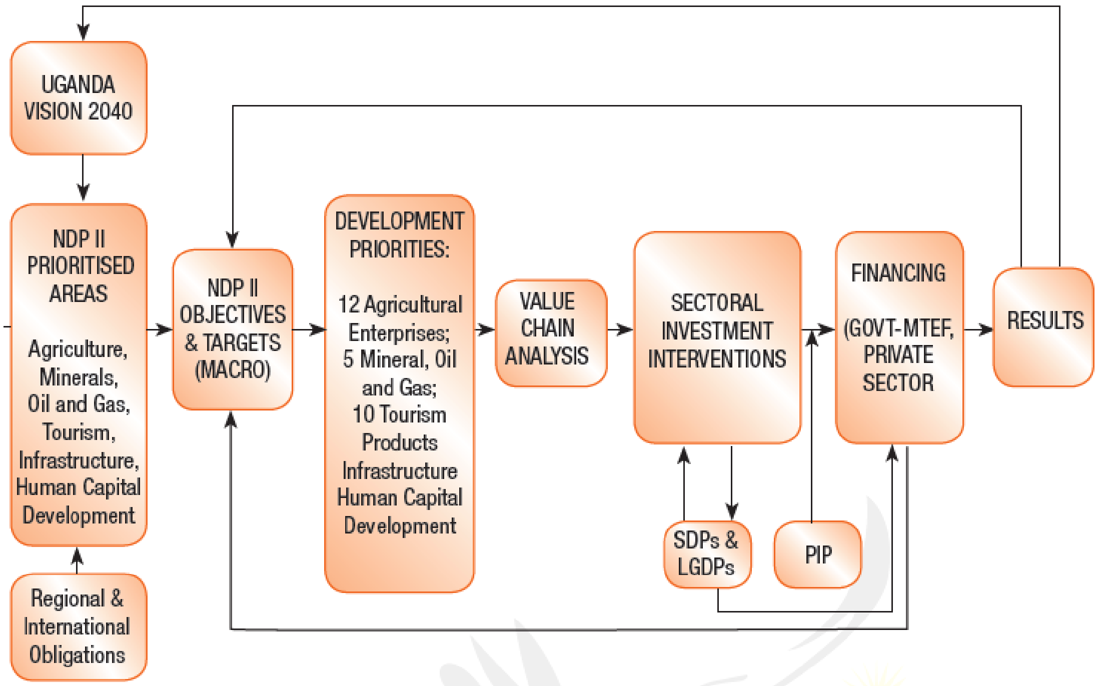
Participation in the Sustainable Development Goals (Agenda 2030) and the International Conference on the Emergence of Africa are therefore timely engagements which are in consonance with NDPII target of lower middle income by 2020. This has already generated a healthy national wide debate on the target by policy makers, politicians, academicians and the wider general public on Uganda's chances for progression. This report adds to this development context and provides new insights on the road that remains for Uganda to emerge.

1.2 Long-term Vision for Uganda's Socio-economic Transformation

Uganda is commitment to graduate from a Less Developed status to a middle income country by 2020. This commitment is in consonance with an aspiration to become 'a transformed society from a peasant to a modern and prosperous country within 25 years' as espoused in the Vision 2040. This vision is conceptualized around strengthening the fundamentals of the economy to harness the abundant opportunities around the country to achieve fundamental socioeconomic transformation and prosperity for all. The Vision provides the overarching framework and a unified direction for the country, mobilizes people and resources to achieve a common goal, and focuses on specific areas of maximum opportunity that will position Uganda within the global sphere. The Vision 2040 is being implemented under six successive National Development Plans (NDPs) and after the implementation of the first plan (NDP I 2010/2011- 2014/2015) the second one (NDP II 2015/2016-2019/2020) is being implemented. The Vision 2040 has identified the following key thrusts that will drive Uganda's socioeconomic transformation – denoted as 'fundamentals for development': human development; transport infrastructure and services; science, technology, engineering and innovation; urban development; land use management; and peace, security and defense. The current

NDP II has elaborated a theory of change that will arrive at key results and outcomes needed to gradually position Uganda to deliver on the above thrusts as shown below:

Fig. 1: Vision 2040 Implementation and Prioritization Framework



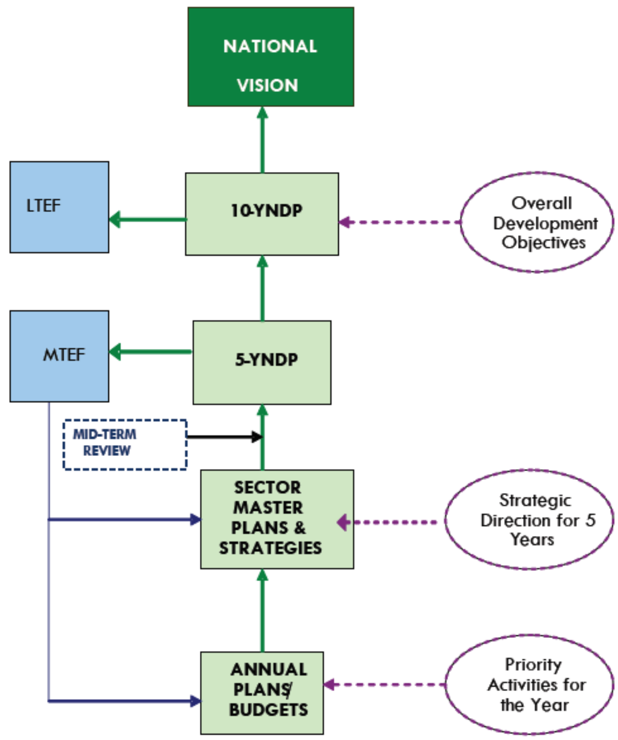
Source: Second National Development Plan (Pg.110) National Planning Authority.**12 Agricultural Enterprises refer to (cotton, coffee, tea, maize, rice, cassava, beans, fish, beef, milk, citrus, bananas); 5 Mineral oil and gas products refer to Iron ore, Limestone/marble; copper/cobalt; phosphates/dimension stones and uranium; while 10 tourism products are; religious tourism, wildlife; flora and fauna; national airline; traditional kingdom sites; regional museums; cultural sites; river and lake transport (including Lake Victoria and the Nile); urban tourism and hotel leisure and hospitality.*

In the medium term, Uganda will focus on sectors that Uganda has identified to have the greatest multiplier effect on the economy which are: Agriculture; Tourism; Minerals, oil and gas; Infrastructure development and Human capital development. Government is ensuring more alignment of the national budget to the NDP priorities from a level of about 64% under NDP I to over 80% under NDP II. Investments will be targeted at commercialization of agriculture (with emphasis on agro-processing and value addition); investing in major oil and gas support infrastructure (including the refinery and associated pipelines) and electricity to support the extractive industry; and expanding the road and rail network. Other strategic investments include increasing funding to the tourism sector; addressing gaps in ensuring human capital development as well as sustaining peace and stability. Government is also moving towards a programme-based budgeting focusing on achieving key performance outcomes while addressing systemic challenges facing implementation.

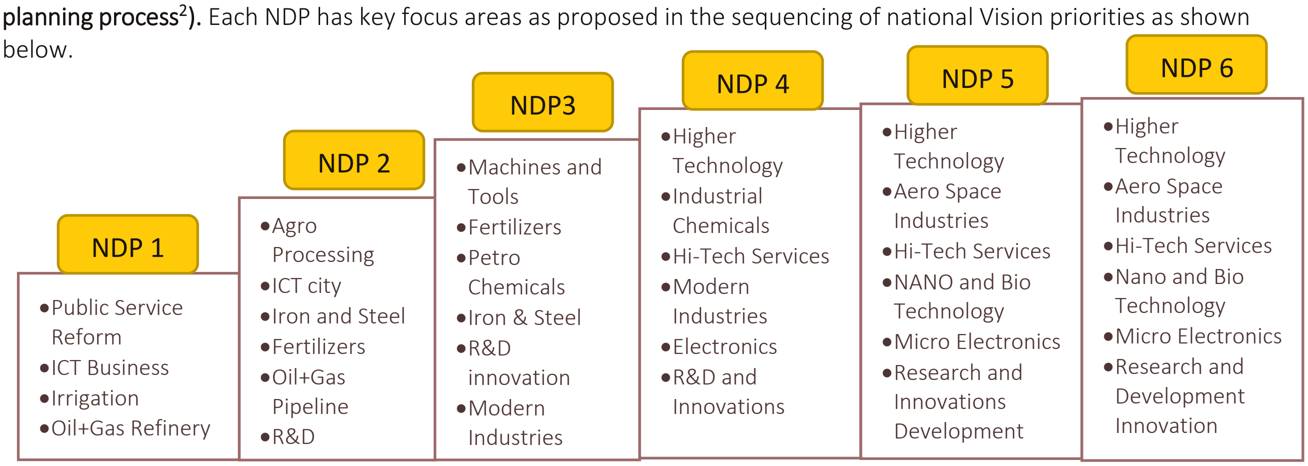
Long range planning has provided an opportunity for Uganda to focus on large development projects that will support long-term growth (although cautious not to exceed the debt sustainability threshold). Participating in the ICEA process puts Uganda into a debate and lessons sharing from other countries emergence. Aware of the cooling of demand for her traditional exports (coffee, tea and tobacco) the decision early on to diversify has helped the economy to sustain relatively high rates of growth. Expanding free education at primary and secondary levels has boosted literacy rates and investments in public health have seen a drop in maternal and child mortality – and more is being done to boost agriculture. This report presents the conceptual framework supporting emergence; trends along a series of development indicators; the robustness of the institutional framework to implement tools for emergence and concludes with a chapter on export diversification as case to demonstrate Uganda's experience with lessons for other countries participating in the ICEA process.

Chapter 2: Conceptual Framework Supporting the National Process for Emergence

2.1 Uganda's Comprehensive National Development Planning Framework



Uganda elaborated its national Vision 2040 as part of the Comprehensive National Development Planning Framework (CNDPF). While the focus before 2010 was mainly on poverty reduction, this new planning dispensation ushered in National Development Planning era with six NDPs that would actualize the Vision 2040 (i.e. in 2010, 2015, 2020, 2025, 2030, and 2035). These plans are aligned to a five-year medium-term expenditure framework and are operationalized through the implementation of sector plans and their respective annual plans and budgets as well as those at district level. Uganda, however, is yet to establish the 10-year National Development plan since plans that spread across on planning period to another are sustained in successive planning. The process to elaborate the 10 year NDPs is still being assessed by the National Planning Authority. The NDPs have spelt out the macroeconomic growth targets and those of priority public sector development programmes. In addition, they spell out the envisaged role of the private sector and civil society and other non-state actors. Work is now on-going to align the NDP to the costed annualized budgets as well as mid-term projection of the resource envelope under the Medium Term Expenditure Framework (MTEF). The 5-year plans will be subjected to mid-term reviews for purposes of ensuring that appropriate development control and direction are maintained. This will help assess progress and keep them on course towards realizing the Vision 2040. The implementation of NDPs is actualized through 5-year district development plans. **(insert: Vision 2040 figure of the planning process[2]).** Each NDP has key focus areas as proposed in the sequencing of national Vision priorities as shown below.



Source: Adopted from Vision 2040 (Page 118)

[2] Source: National Planning Authority (2013) Uganda Vision 2040 pg 117

Under NDP I, Government undertook reforms to improve the performance of public administration including further implementation of the Public Finance Management systems to increase accountability especially at local government levels; setting up of the civil service college to support capacity building for public servants; and establishment of the institutional arrangements for the management of the oil and gas sector; as well as a focus on road and electricity infrastructure expansion. An assessment of the performance of NDP I is provided in the opening section of NDP II and shows that under NDP I, the following were the key achievements as shown by the text-box below

• **Poverty** reduced from 24.5 percent in FY2009/10 to 19.7 percent in FY 2012/13. • **Under five mortality** reduced from 137/1000 live births in 2006 to 90/1000 live births in 2011. • **Electricity installed Generation** increased from 595MW in 2010 to 825MW in 2012. • **Life expectancy** at birth increased from 51.5 in 2009/10 to 54.5 years in 2011/12. • **Percentage of the population accessing electricity** from the national grid increased from 10 percent in 2009 to 14 percent in 2013. • **The transition rate from P7 to S1** increased from 47 percent in FY2006/07 to 73 percent in FY 2013/14 largely due to the introduction of USE. • **Volume of national paved roads** increased from 3,264 kilometers in 2011 to3,795kilometres in 2013 • **Per Capita income** increased from USD665 in 2009/10 to USD 788 in 2013/14. • **ICT sector contribution to GDP** increased to 8.1 percent in 2012/13 from 5.5 percent in 2009/10 • Macro-economic stability and growth • **Sustained peace and security** across the entire country.
Source: NDP II (2014/15-2019/2020)

While Uganda noted the achievements above, the implementation of NDP I faced a number of challenges that are being addressed under the NDP II period. These include among others:

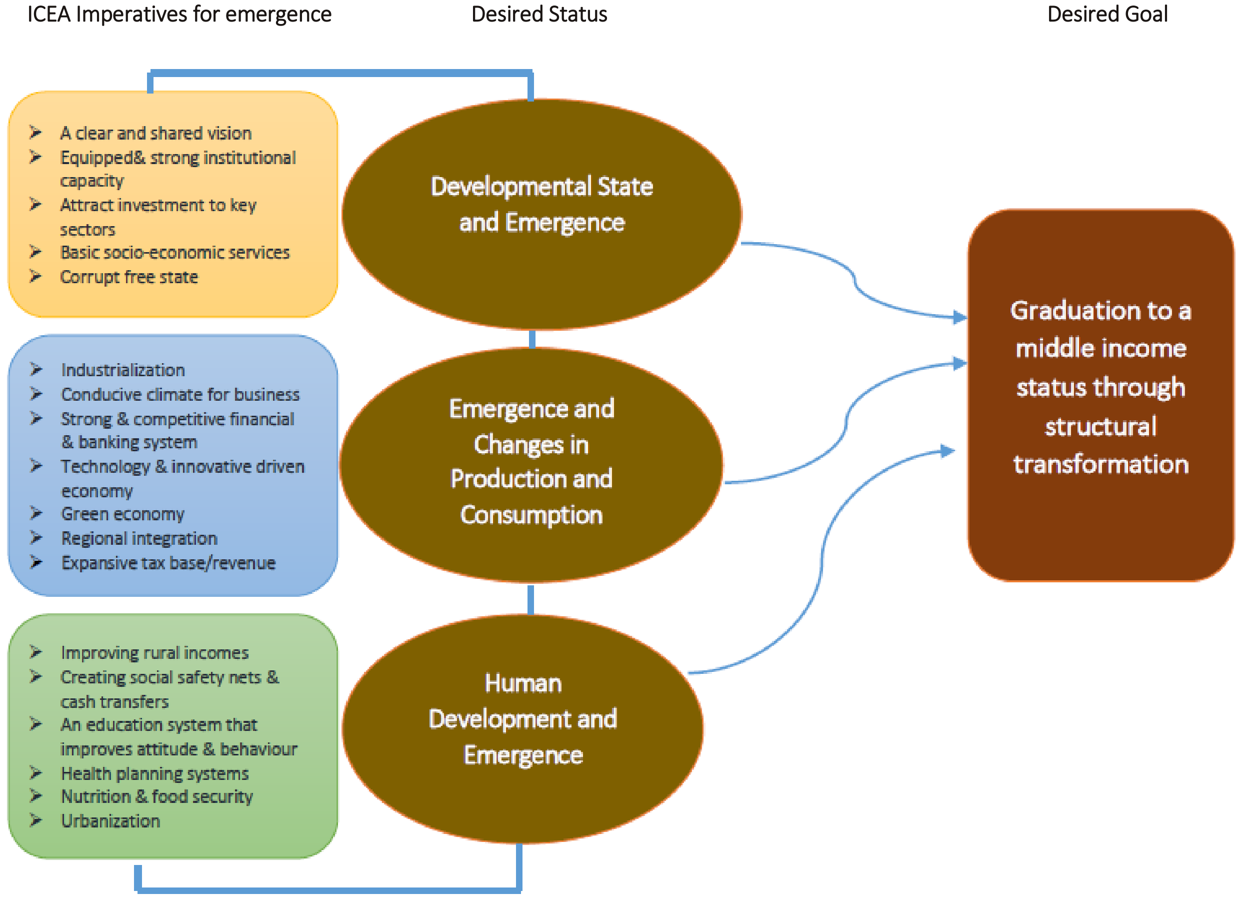
i. **Limited alignment of the national budget** to the NDP I which meant that only 8 our 16 core projects could be undertaken. Allocation to primary growth sectors like agriculture and tourism remained dismal yet these had been identified as prime movers of the economy. While allocations to these sectors have improved under NDP II – it still not at a level desired to make deliver the drive in economic growth rate as targeted by Vision 2040.
ii. **Weak public sector management** characterized by a low level of enforcement of critical reforms and innovation; inappropriate procurement procedures; corruption and duplication of effort among key public institutions; non-compliance with service delivery standards and weak sub-national technical and institutional capacity to deliver (in part due to a limited fiscal space).
iii. **A slow implementation of core projects** including setting up of the oil refinery; kick-starting key hydro-power development projects; delays in some major road construction works; and slow processes toward the enactment of key legislation including the public-private partnership policy. Government eventually passed the PPP policy in 2013 and under the NDP II key projects like Karuma hydro power dam have since taken-off.

Based on this assessment the NDP II has embraced a more outward looking approach that focuses not just on Uganda's development but how this links both with the Sustainable Development Goals (SDGs) and the Vision 2040. In so doing, fast-tracking implementation pointed at attaining key targets will be critical to a new planning paradigm that will propel Uganda towards attainment of the Vision 2040. The ICEA process has therefore come in very timely in providing a new impetus and reference to areas where Uganda can draw lesson as it plans to emerge out of the LDC status and graduate into a middle income country. The next sub-section presents an assessment of Uganda's conceptual framework to support the process for this graduation.

2.2 Assessment of Uganda's conceptual framework to support the process for emergence

Uganda has a strong advantage due to her elaboration of a clear and shared Vision 2040 that has already been translated into operational development actions - NDPs. This presents a vintage point for sharpening interventions and pointing them towards actions that deliver graduation to a middle income status. Uganda also will build on what has already been accomplished under the MDG process, the Brussels and Istanbul Programs of Action and other regional and international commitments.

Fig: 5: Analytical display of imperatives for Emergence



Above is an illustration of Uganda's conceptual framework to support the process for emergence. On the left had are drivers described as imperatives for progress assessed under three levels of emergence status but more of the assessment of Uganda's trends towards emergence are presented in chapter 3.

i. **A Development State**. Uganda has a clear and elaborate Vision 2040 that provides an overall strategic direction for the country. This Vision is conceptualized around strengthening the fundamentals of the economy to harness its vast resources and guide investments in core projects that will drive her growth and development. As chapter 4 of this report will highlight, Uganda will continue to strengthen its institutions to delivery high quality goods and services while attracting Foreign Direct Investments (FDI) in areas that maximize its economic potential. Government has increased spending on social sectors although more investments will be required to provide basic but high quality social services (especially in health and education). Critical to attainment of a development state is also ensuring that public and private sector actors ensure a zero tolerance for corruption at all levels. Government has put in place institutions to fight corruption and ensure there is accountability and transparency and its every Ugandan's responsibility to be vigilant and expose schemes that let to misappropriation of public or private funds. Uganda is a young democracy. Since her independence Uganda has faced political instability but has since 1997 restored the path to enduring democracy and constitutionalism – a panacea for good governance and rule of law. To ensure a development state Uganda needs to strengthen institutions with a sustainable incentives aligned to performance, a zero tolerance to corruption and efficiency in implementation. At present, high levels of public sector corruption and a weak public service remain impediments to achieve a development state.

ii. **Realization of Changes in Production and Consumption Patterns**: Uganda's economy has since 1990s transformed to move toward 'non-traditional exports' (and not just coffee, tea, cotton and tobacco) while maintaining self-sufficiency in food production. Although adverse effects of climate change have seen occurrences of heavy El Nino rains and prolonged droughts and blunts of famine in some parts of the country- the country has by-and-large remained food secure. More investments are needed to ensure food storage and post-harvest loss reduction. Expansion of hydro-electricity power has seen a rise in access to electricity from 5.6% in 1995 to 20.4% today. Uganda has seen a tremendous improvement in deepening of financial services although high interest rates have frustrated access to loans for low income earners. Expansion in telecommunication services and use of ICT services has reduced the cost of doing business (notably use of mobile phones in mobile money services over the last decade). Uganda is a strong player in regional trade. As will be discussed later in the thematic chapter, the value added by manufacturing as a proportion in GDP is 7-9% over the last 15 years which means that the vast of produce from Uganda is exported as raw content and hence the need to invest further in value addition to expand the revenue base. A notable threat to the economy is climate change that is adversely affecting key sectors including agriculture, health and infrastructure stock and altering Uganda's production and consumption patterns. More of this is discussed in chapter 3. To fundamentary make changes in the production and consumption patterns, Uganda will have to transit from a traditional economy dominated by primary activities into a modern economy where high productivity activities in manufacturing assume an important role by focusing on: advancement in technological change in manufacturing and establishing a type of manufacturing sector development that can deliver high value 'market ready' goods and services (e.g. fruit concentrate instead of fresh fruits; cheese, butter and powdery milk instead of fresh milk; blue turn instead of hides and skins; petrol, diesel and jet fuel instead of crude oil; and fine table coffee instead of coffee beans).

iii. **Human Development**. Uganda has achieved remarkable success in reducing poverty. The share of the population living before the poverty line fell from 55.7% in 1992 to 19.7% in 2012/13. The Gini-coefficient which measures income inequality increased significantly from 0.395 in 1990/2000 to 0.426 in 2012/13. Overall the Human Development Index increased from 0.285 to 0.483 (a 69.4% increase) over the same period. Buoyed by Universal Primary and Secondary Education, Uganda has seen a rise in literacy levels now at 72.2% and life expectancy has also risen from 48.1 years in 1991 to 63.3 years in 2014 (a 31.6% increment). In attempt to reduce to poverty and vulnerability, Uganda is also implementing the Social Assistance Grants for Empowerment (SAGE) Program that will reach 55 districts by 2020 targeting the elderly with grants in districts with high incidences of poverty especially in north and eastern Uganda. However, according the Uganda Human Development Report (2015), Uganda's overall progress in human development outcomes might not materialize unless the binding constraints in lagging areas are addressed. Some of the key areas to tackle in the intermediate term include: strengthening value chains of key agricultural enterprises; increasing spending on health support systems (especially key clinical services and essential commodities); focusing more on preventive as opposed to curative care; addressing infrastructure and learning needs in primary and secondary education including motivational aspects for teachers as well as overall compliance with set service delivery standards. As Uganda urbanizes, more investments will be requiring to support physical planning and low cost housing options for middle income earners in urban and peri-urban settlements as well as slums upgrade investments.

With capacity to expand agricultural production; generate clean energy; invest in oil, gas and precious minerals and to exploit a vast tourism potential, the imperatives for success are existent. The critical stage at which Uganda is it to identify and promote tools and methodologies in planning and evaluating emergence. This is poised to enable Uganda to respond to the challenges that need to be overcome, and integrate conditions of emergence deeper into sectoral planning and fiscal alignment. While this happens, policy makers will need to guide the country towards a pragmatic and inclusive development agenda. This ICEA process provides a clearer locus for Uganda's graduation to a medium income status if well applied at each stage of the policy and program design and implementation.

Chapter 3. A Review of Uganda's Plan for Emergence

3.1.1 Trends of Macroeconomic Indicators

Following two decades of political and economic turmoil between 1966 and 1986, Uganda's economy rebounded mainly due to a strong macroeconomic framework that has since become the bedrock for economic growth and stability. This was mainly due to the currency reform in 1988, the liberalization of the economy and an interplay of both fiscal and monetary policies. A macro-economic modelling framework has been established align the national budget to the NDP financing. This has enabled the planning framework to better estimate economic performance and related projections. To assess Uganda's performance, the table below shows the trends of key selected macroeconomic indicators against the targets necessary to achieve graduation to a middle income status.

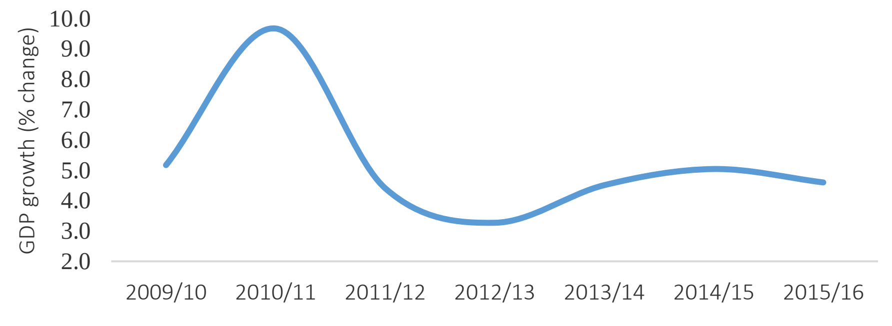
Table 3.1 Trends in selected macroeconomic indicators

Indicators	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
GDP ($ million)	20,262.5	23,237.3	24,624.3	26,953.1	26,898.4	28,329.2
GDP Growth Rate (%)	9.7	4.4	3.3	4.5	5.6	4.6
Per capita GDP	562.4	652.0	670.0	709.0	748.6	766.2
Unemployment (%)	-	-	25.4	-	-	33.2 (est.)
Inflation Rate (%) Annualized Average	6.5	9.9	23.5	14.3	6.8	5
Interest Rate (%) Lending Rate	20.1	21.3	26.3	23.2	21.5	22.6
No. of Months of Reserves	3.0	2.9	3.5	3.0	4	4
Current Account Balance ($ million)	-1,984.0	-2,219.0	-1,856.0	-2,363.0	-2,430.0	-2,187.0
External Debt ($ millions)	2,904.9	3,067.3	3,742.9	4,339.5	5,103.1	7,299.5
Total Domestic Revenue as % of GDP	13.6	11.2	11.5	11.9	13.6	13.1

Source: Bank of Uganda, NDP II, Background to the Budget 2015/16, Vision 2040 and UBOS statistical abstract (2016)

As show above, Uganda's economic growth rate reduced from a peak of 9.7% in 2010/11 to the current 4.6% mainly due to low growth in main productive sectors as a result of both internal and external shocks (as shown by Fig. 3.1 below). Declining prices for coffee, tobacco and tea as well as political turmoil in South Sudan (that had emerged as key trading partner) and slow global growth negatively impacted on the economy.

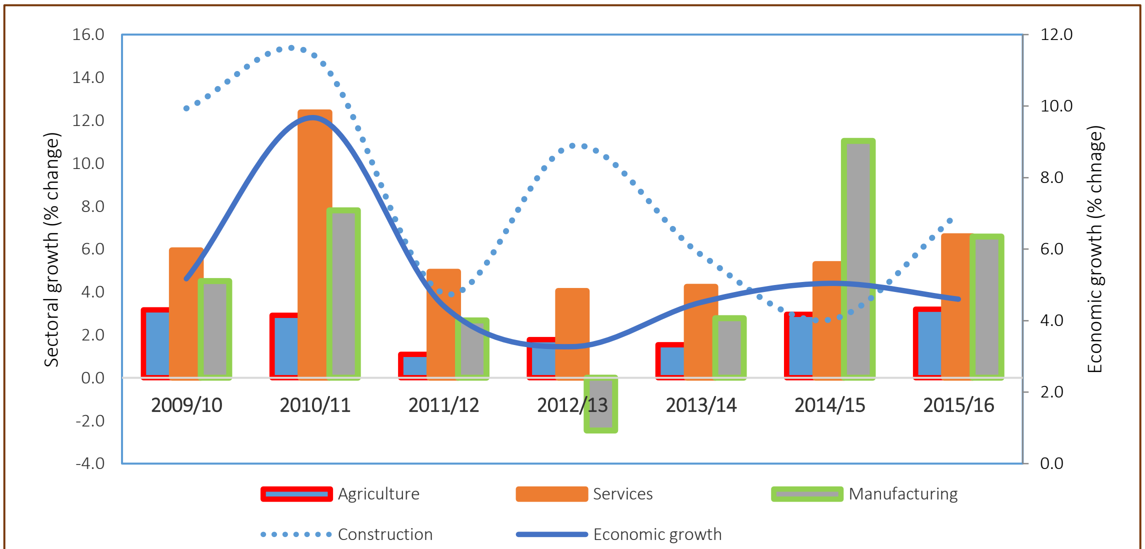
Fig. 3.1 Uganda's recent economic growth trends



Source: UBOS database

The economy has however stayed steady and is projected to rise again by 5.5% in the coming FY 2017/18. The Central Bank and MoFPED have maintained a strong macroeconomic stance that has kept inflation low and lending rates in check. While it may not be possible to double the GDP, and thereby achieving the targeted GDP per capita of $1,903 by 2020, opportunities to increase production and growth remain. As shown in Fig. 3.2 below, increasing investments agro-processing; and manufacturing as a proportion of industrialization are critical in transforming the economic narrative. Another opportunity is expediting oil and gas extraction and supporting the institutional framework to drive these processes in the medium term.

Fig. 3.2 Growth Trends within key sectors of the economy

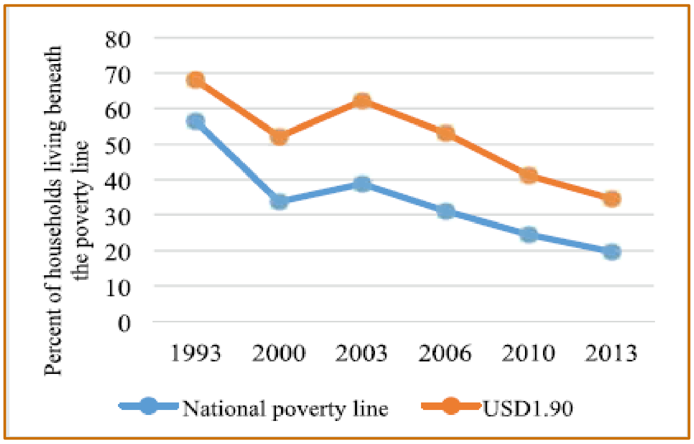


Source: MFPED Background to Budget 2015/16

Increasing access to agricultural credit; incentivizing the importation of critical manufacturing equipment and strengthening mechanisms that reduce the cost of doing business by working more closely with the private sector are pointed out in the NDP II as priority thrusts to drive growth. However, current allocations within the budget to support key sectors especially agriculture and trade are both below 5% of the national budget. This means that Government will continue to provide an enabling environment but rely on the private sector to drive production and growth.

Poverty Reduction

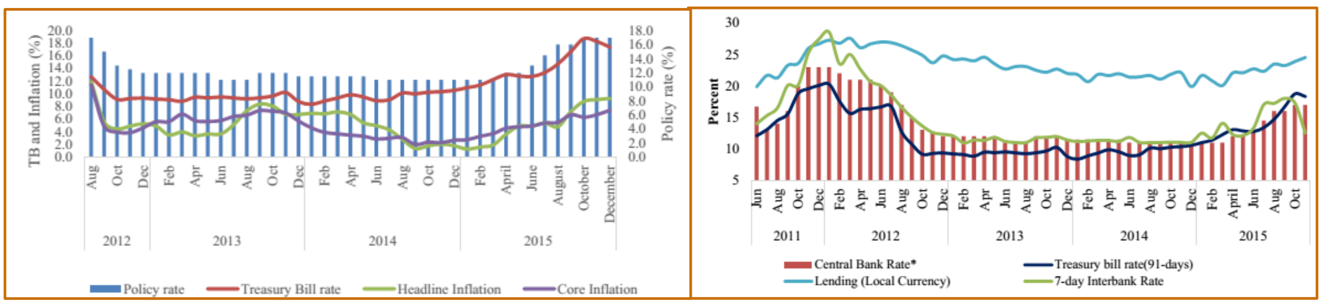
Uganda became a success story for poverty reduction after the implementation of the Poverty Eradication Action Plan (PEAP) and the incidences of poverty reduced even faster under the NDP I from 55.7% in 1992 to 19.7% in 2012/13. This means that Uganda is on course to meet the 2020 target of 14.2%. However, the World Bank Report on Poverty released in 2016 noted that while poverty has reduced in absolute terms, the incidences as well as vulnerabilities to poverty are on the rise particularly for about 1.8 million people just below, on the poverty line or slightly above the poverty line. Most of this rise was recorded in Northern and Eastern Uganda – which now present new frontier for the fight against poverty. For these areas, the focus on strengthening livelihoods, expanding social protection and broader public investments in health, water, agriculture and education will be critical in the immediate term. **Fig 3.3: Poverty Trends: World Bank Report (2016)** besides.



Unemployment (especially youth unemployment) remains Uganda's biggest socio-economic challenge today. While the economy has not been able to produce sufficient jobs, the skill set among the job-seeking population has in most ways not matched the technical requirements on the labour market. Currently there are 24.6% of qualified persons without work and 83.3% of job-seeking population (mostly semi-skilled) that cannot find work in 2012/13. These are mostly aged 24-40 years old. Only 23.5% of female job applicants in 2012/13 survey has attained at least secondary education[3]. While the focus is on attracting investments to Uganda to expand the labour market, it's imperative that protected investments are to support the Skilling Uganda programme as it is critical for labour force participation.

Another key factor related to macro-economic stability is an analysis on trends in inflation and the interest on financial credit. Uganda's central bank adopted Inflation Targeting mechanism in 2011. Since then this mechanism has involved setting of the Central Bank Rate (CBR) – that has become a 7-day interbank interest rate (mainly as a signal). The increasing or decreasing or neutrality of the CBR is aimed at achieving a 5% core inflation rate as a target. As seen below, while inflation has been largely subdued, the local currently lending rate remains very high. The push to popularize the use of 91-days treasury bills has not eased the rate because its scooped mainly by financial intermediaries themselves. Another factor is that Government's domestic borrowing has out-competed the private sector with banks comfortable to lend to Government at low-risk rates (always lower) than the private sector rate (as seen on the chart on the right). This rate has oscillated between 25 and 30% since 2011.

Fig. 3.4 Charts showing trends in Inflation (left) and the linkage to changes in interest in the lending market



Source: Bank of Uganda Economy updates (2011-2016)

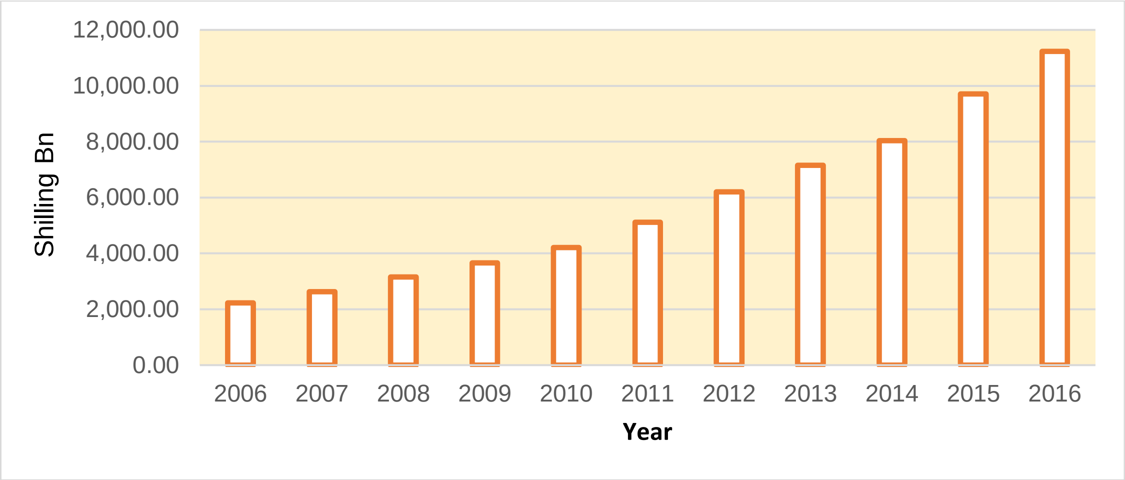
The implications for Uganda therefore is economic expansion will require a delicate play that ensure fiscal space is not compromised by a contractionary monetary policy. In essence Government shall have to spend to meet its intermediate development agenda, while at the same time ensuring that private capital is mobilized since it's the private sector that is a driver of the economy. This assessment notes that the current high cost of borrowing (including by Government) could lead to a fiscal tightening stance as government seeks to maintain a manageable debt position. The fear is that in doing so, it could depress growth and curtain the opportunity to meet the 6.5% NDP target – a critical imperative for Uganda's emergence.

Strengthening Domestic Revenue Mobilization

Uganda set up the Uganda Revenue Authority in 1991 by an Act of Parliament to manage revenue mobilization on behalf of Government. With tax administration reforms the Authority has transformed the revenue generation land scape as seen in Fig 3.5 from UGX 2.4 Trillion domestic revenue collection in 2006 to UGX 11.2 Trillion in 2016. The target for FY 2017/18 is UGX 14.5 Trillion (equivalent to US$ 4.01billion). However, this is against an expenditure projection of UGX 30 Trillion – meaning that Uganda will in the medium term remain heavily dependent on domestic borrowing, concessional loans and development aid. A positive note is that Uganda is moving slowly towards fiscal independence with a forecast of inflows from oil revenue to support future infrastructure projects. The challenge is financing other critical pro-poor expenditure assignment – especially in the social sectors as outlined in the NDP financing framework. There is therefore need to extend the national resource envelope. A tax-to-GDP ratio of 13.1% is not sustainable compared to 22.6% Sub-Saharan African average. More needs to be done to ensure expansion of the tax base especially bringing a growing informal sector into a formal structure; and strengthening new agencies like the Uganda Registration Services Bureau to cover the whole country.

[3] UBOS 2016 Statistical Abstract

Fig. 3.5 URA Revenue Performance for the last decade



Source: URA Database 2016

Acceleration of Regional Integration and Regional Trade

Uganda's trade with other EAC partners has increased over the years. Considering the last five years, total trade between Uganda and other EAC counterparts increased by 23.1%, from $1.23b in 2010 to $1.523b in 2014. Exports increased by 29.4% from $0.616b in 2010 to $0.797b, while imports increased by 16.9% from $0.62b in 2010 to $0.725b in 2014. Accordingly, Uganda's trade balance has increased from a deficit of $3,754,000 in 2010 to a surplus of $72,640,000 in 2014. The EU was Uganda's lead export destination in 2005 accounting for 38% of total merchandise exports. Although the EU share has since declined and has been overtaken by COMESA/EAC as the top partner bloc, overall the value exported to the EU has in fact risen from US$313.2 million in 2005 to US $527.4 million in 2014, an increase of 68.4%. COMESA exports on the other hand have grown by 38.4%, while exports to the EAC have increased by 40.1%. Exports trade with other regions has also recorded positive growth. Uganda continues to face a number of challenges in enhancing her trade with other partners and these include among others:

i. The competitiveness of the country in the region remains weak and this comprises her possibility to maximize her potential. This is mainly due to the persistent high cost of doing business, quality of Ugandan products (due to limitations in value addition) that has made Ugandan exports less attractive. For instance, Uganda has not taken into action about 7.8% of the EAC directives regarding EAC integration most are on reducing NTBs yet these are major impediments to trade.
ii. The lack of anti-counterfeit legislation in Uganda leading to the flooding of markets with poor quality products. This is coupled with limited capacity for quality assurance and enforcement of Sanitary and Phytosanitary Standards by the Uganda Bureau of Standards (UNBS).

Conclusively, a strong macro-economic framework has enabled Uganda to ensure a sustained economic stability and this is imperative for Uganda's emergence. The indicator description above has shown that Uganda has to double its efforts to emerge. While the economy continues to grow, the growth rate is low the target and pace required to generate the $1,242 threshold by 2020. More prudent investments are needed to address poverty in north and eastern Uganda while vulnerability to shocks that threaten household incomes (including weather vagaries and consequent poor harvests is concern for the farming population). Deepening financial services is critical (especially in rural areas through credit and saving schemes) in ensuring access to credit amidst high commercial bank lending rates. As will be further elaborated in the thematic chapter, Uganda's new trade policy regime will need to take a bold risk into new areas if it is to fully leverage opportunities for export diversification in the region and beyond.

3.2.2 Analysis of Trends in Factor Productivity and Capital Accumulation

Economic and structural transformation for Uganda will require progression in productive sources of the economy particularly increase in factor productivity and accumulation of both physical and financial capital. This subsection looks at trends in:

- **Labour productivity** (Derived by gross value added at constant 2005 prices divided by number of persons engaged and expressing the results as an index related to 1991 levels)
- **Productivity of Land** (computed from the yield gap analysis per hectare for various agricultural enterprises)
- **Entrepreneurship and Cost of Doing Business** (cost of doing business index).

Labour productivity: Uganda's economy remains driven by mainly labor-intensive sectors with relatively low labour costs compared to other countries in the region. As shown in the table below, Uganda's labour productivity made modest improvements between 1991 but has 2010 but has sharply fallen since.

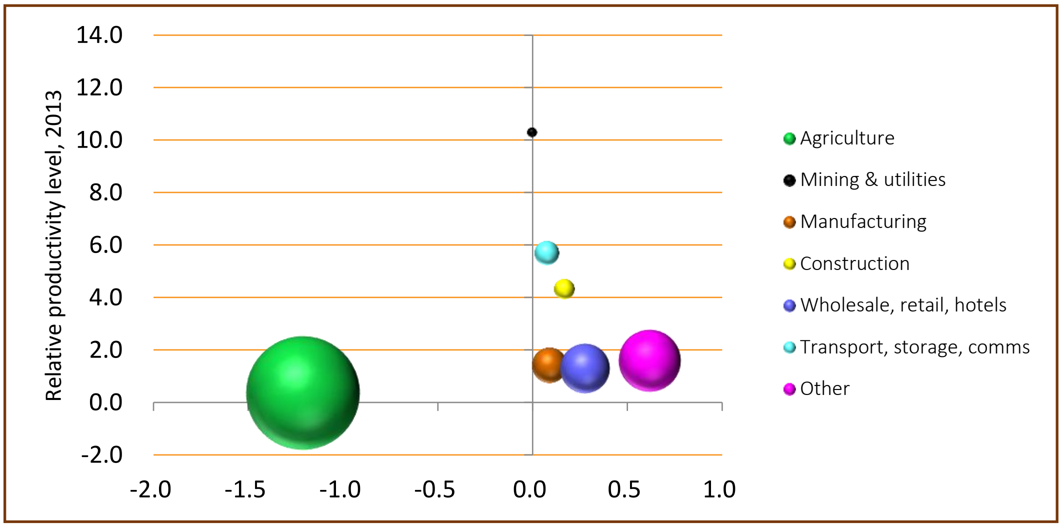
Table 3.2 Annualized Growth in Labour Productivity (1991-2013)

Economic activity	Years				
	1991-2013	*1991-2000*	*2000-05*	*2005-10*	*2010-13*
Agriculture	**0.9%**	2.0%	0.5%	0.8%	-1.4%
Mining & utilities	**3.5%**	5.1%	15.9%	-9.6%	2.5%
Manufacturing	**5.1%**	8.5%	11.8%	-2.2%	-3.1%
Construction	**3.9%**	2.8%	6.8%	5.6%	-0.2%
Wholesale, retail, hotels	**5.0%**	4.4%	10.8%	5.2%	-2.5%
Transport, storage, communications	**6.8%**	4.1%	8.6%	9.5%	7.7%
Other	**-0.4%**	1.6%	-2.4%	-0.9%	-2.0%
Total	3.4%	3.7%	3.8%	4.3%	0.2%

Source: Overseas Development Institute (ODI, 2014) Data on Uganda's economic transformation

Labour productivity has improved highest in transport and communications, manufacturing, and trade especially as a result of technical assistance in the form of on-job training at firm level. Additional reporting showed that where ICTs constitute a high composition of the production value chain, labour productivity has been higher. This is why for instance, slow mechanization and poor ICT application in agriculture has posted the lowest levels of labour productivity. Foreign companies have extended knowledge (especially in telecommunications, banking and other engineering services including road construction) which is important for human capital formation.

Fig. 3.6 Percentage point change in employment productivity as a share within selected sectors



Source: Overseas Development Institute (ODI, 2014) Data on Uganda's economic transformation

The figure above demonstrates that much more will be needed to drive productivity of labour in the agriculture sector which remains at suboptimal levels and yet employs the majority of Ugandans. In addition, since manufacturing is projected to be a key driver the economy, technical training in various verticals of manufacturing will be required. Over the last five years, the demand for manufacturing jobs has increased by 6.7% overall with 25% increase in this demand among metal products – making skilling in manufacturing a critical intervention for Uganda's progression. According to Prof Justin Lin sectoral structure of FDI inflows into Uganda can be better improved by putting in place targeted government policy to attract more labor-intensive FDI. In particular, there is a huge potential for boosting China's FDI in manufacturing sectors such as footwear and electronics. From this perspective, the international support measures matter, since they can incentivize Chinese investors to invest in Uganda[4].

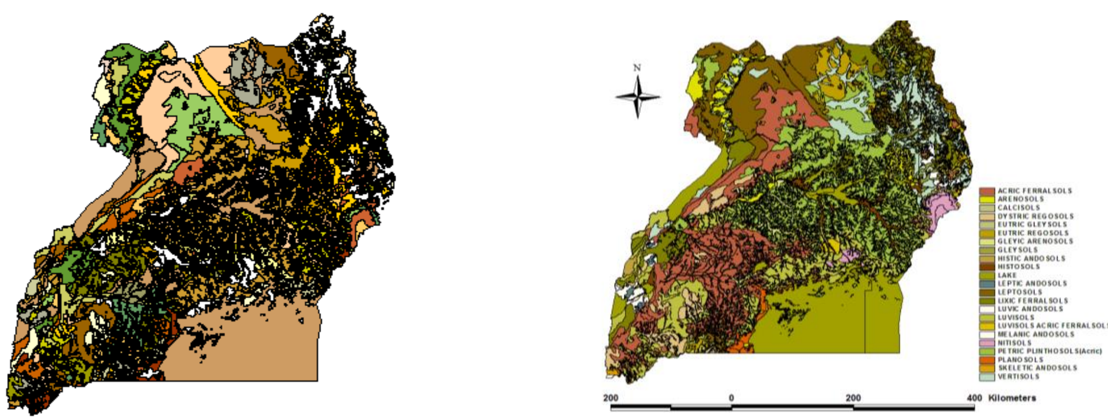
Land Productivity

High population growth (between 3.3-3.0% per annum) has put pressure on land for settlement and production increasing its cost and demanding more from it to support both human and wildlife. Government is implementing a series of initiatives to ensure efficient land use including automation of land titling systems as a way of formalizing land use management. This has seen Uganda register 20% of its land ahead of 10% African average.[5] However, Uganda is aware that land insecurity is on the rise especially among peri-urban and urban dwellers- a key driver of housing and mortgage prices.. Very high transaction costs, (mainly resulting from corruption, weak laws and lack of transparency surrounding land transactions) are causing inefficiencies and a sprawl rather than profitable high-rise buildings. This has also been recorded by the NDP to have an impact (both positive and negative) on urbanization trends

Addressing Land Fertility

Uganda has one of the lowest fertilizer application rates in the world (applying 1kg of inorganic fertilizer per hectare per annum compared to 50kg/ha/annum for sub-Saharan Africa). Having mined soils for the production of food and cash crops for over a century, the productivity of Ugandan soils has declined as shown below.

Fig: 3.7 Maps showing the yield gap for various soil types compared between 2002 and 2012



Source: Makerere University and IPM Tech Virginia National Agricultural Research Organization USA (left) and FAO 2012 Map on the yield gap Analysis. Maps show the decline in the capacity to generate the same yields in 2012 as they did in 2002.

To address this challenge, Uganda has put in place a National Fertilizer Policy whose mission is to replenish the soils sustainably to ensure a level of fertility that will support domestic production and exports. To increase land productivity Government will focus on:

4 Justin Yifu Lin and Jiajun Xu' paper titled Applying the Growth Identification and Facilitation Framework to LDCs: The case of Uganda

5 http://www.worldbank.org/en/country/uganda/publication/uganda-economic-update-searching-grail-can-uganda-land-support-prosperity-drive

i. Regulating the fertilizer sector and creating an enabling and conducive environment for fertilizer importers, agro-dealers and farmers,
ii. Generating and managing fertilizer knowledge transfer through various methodologies that are farmer-centered and increase demand and access.
iii. Supporting interventions throughout the fertilizer value chain; and
iv. Strengthening supply and distribution channels to make fertilizer accessible especially at the grassroots.

Overall, there is need to further efforts to accelerate land registration, set up a land fund to enhance its efficiency in use (with sensitivity to land access rights) as well as strengthening land administration management including local courts. With the passage of the fertilizer policy it is hoped that further investments will be made to address the fertilizer value chain to boost production.

Entrepreneurship and Cost of Doing Business

Uganda was recorded as the first enterprising country in a 2016 global survey[6]. This provides a positive impetus for Uganda since emergence will require progressive entrepreneurship, and an enhanced environment for doing business. According to the 2017 Doing Business Report Uganda and Rwanda were top reformers on facilitating trade across borders implementing ASYCUDA (Automated System for Customs Data) World System to fight boarder post-corruption and constructing the one-border post at Maraba. Uganda improved up seven places from a rank of 122 in 2015/16 to 115 in 2016/17 as shown in Table 3.3. Uganda Investment Authority has established a one stop service center to reduces the cost of doing business and support implementation of business care and after care services for businesses. However, at an individual level, Ugandans will need to cultivate a spirit of ecumenisms – the drive to make profit and doing so sustainably.

Table 3.3 Uganda Doing Business Ranking

NO.	INDICATOR	2015 RANKING/189	2016 Ranking/189	2017 Ranking/190	CHANGE of last year
	Overall Performance	**150**	**122**	**115**	**+7**
1	Starting a Business	166	168	165	+3
2	Dealing with construction	163	161	151	+10
3	Getting Electricity	184	167	161	+6
4	Registering Property	125	120	116	+4
5	Getting Credit	131	42	44	+2
6	Protecting Minority Investors	110	99	106	-7
7	Paying Taxes	104	105	75	+30
8	Trading Across Borders	161	168	136	+32
9	Enforcing Contracts	80	78	64	+14
10	Resolving Insolvency	98	104	111	-7

Source: World Bank Doing Business Report, October 2016

The World Bank Enterprise survey in 2013 deduced that only 9% of Ugandan businesses met the large scale category compared to 27% as medium scaled leaving the majority of businesses in the small scale category. There is need to develop a more integrated support system for both SMEs and MSMEs. The current support structure is fragmented and narrow in shape and scale. In addition, the critical areas to tackle to support Ugandan business progress from small and medium to large scale include:

i. Providing business start-ups incentives including access to low interest credit services through institutions like Uganda Development Bank and business apprentiship and management training;
ii. Linking low cost producers to other players along various enterprise value chains to establish a jointed up approach to production and marketing that links producers to processors and processers to markets;
iii. Reducing the cost of energy by promoting alternative energy sources like wind and solar which are also pivotal in addressing the adverse effects of climate change.

[6] Global Entrepreneurship Monitoring Report 2016

According to the Global Competitiveness Report 2015, the five areas that were noted as 'problematic to Uganda's progression' that need to be tackled include (in the order): corruption (22.5%); access to financing (14%); rationalization of tax rates (13.5%); inadequate supply of infrastructure (11.5%) and inflation (8.4%).

Physical Capital Accumulation:

The private sector has driven physical and capital accumulation in Uganda over the last decade. According to the NDP II while gross capital formation grew at 10.3 percent in 2010/11, it drastically declined to 3.0 percent the following year, before rising to 9.0 percent in 2012/13. As far as physical capital accumulation is concerned, Uganda will need to attract FDI especially in heavy machinery to tap into her vast potential in the extractive industry. Uganda has the following advantages:

- Factor endowment (including vast land for extensive agriculture)
- Mineral deposits (most of which are under exploration)
- A growing cottage industry with a lot of potential for steel and metal works.

Details are shown in the table below.

Table 3.4 Table Physical capital accumulation trends

Indicator	2010/11	2013/14	Comment
Population	32 m (est.)	34.9m	Reduced fertility
Per capita Income (current prices)	$655 (2009/10)	$788	Linked to rise in GDP
Domestic Taxes (as % of GDP)	5.99	6.88	Better tax administration
Roads – length of road network	20,000 km	21,000 km	5% increase
Energy		724 MW	Now at 824 MW
Railways (operational network)	640 km	640 km	Plans on SGR
Water Transport (Ferries freight)	8,634 tones	8,100 tones	Higher rail use
ICT Penetration (mobile phone network subscribers)	8.8 m lines	14.2 m lines	61.3% increase
Mineral Development	- Vast mineral deposits including Iron ore, Limestone/marble; copper/cobalt; phosphates/dimension stones and uranium		
Other Resources	- Vast tourism opportunities (source of the second largest fresh water body in the world (Lake Victoria) and the longest river (River Nile) - Uganda named as 4th best Tourism Destination in the world in 2017		

Sources: NDP II, MoFPED Background to the Budget Reports, Ministry of Energy and Mineral Development Annual Report 2015

Challenge for Uganda in mobilizing both physical and capital assets has been the escalating cost of the US $ whose rate has appreciated over the Uganda shillings by 25% over the last decade. As seen in the chart besides, the trends in real capital formation puts Uganda way below the average for low and middle income countries. However, Uganda has caught up the speed since 2002 and is projected to reach and bypass the 2011 rate of 32%. Analysis of capital formation by Uganda's Bureau of Statistics is sketchy and the analysis for this paper could not confirm the current rate although the World Bank 2014 Economic Outlook report puts this rate at 33% for East Africa.

FDI to Uganda has progressed from $605 in 2007 to $1,147 in 2014. Evaluation of ODA to Uganda has, however, shown that Uganda has not done enough to leverage technical assistance that it has received especially in transfer of technologies and skills to boost local content. FDI as a proportion of GDP has oscillated between 3.4% in 2009/10 and 2.96% having peaked in 2011/12 at 5.35%. Trends in FDI since 2007 as shown in the table below comparing Uganda with the other EAC countries

Table 3.5. Trends in FDI (2007-2014)

Country	FDI Values in US$ millions (2007-2014)					
	2007	2011	2012	2013	2014	% change
Uganda	605	894	1,205	1,096	1,147	5
Tanzania	640	1,229	1,800	2,131	2,142	1
Kenya	267	335	259	505	989	96
Rwanda	40	119	255	258	268	4

Country	FDI Values in US$ millions (2007-2014)					
	2007	2011	2012	2013	2014	% change
Burundi	_	3	1	7	32	357
Total	**1,552**	**2,580**	**3,520**	**3,997**	**4,478**	**15**

Source: EAC Business Council Annual Report 2015

Uganda has recorded high levels of internet penetration and has one of the highest mobile phone lines per capita (17.3million out of 34.9million people) in the world. During the period, phase 1 and 2 of the National Backbone Infrastructure (NBI) was completed. Phase 3 was redesigned to include an alternative route to the submarine cables through Tanzania via Mutukula. The launch of the Lower Indian Ocean Network (Lion 2) under-sea cable in 2012 with a design capacity of 1.28 Tb /s has helped to increase internet speeds and access. As a result, the number of mobile phone subscriptions in Uganda rose from 12.8 million in December 2010 to 17.6 million in December 2013. Over the same period, National Tele-density (% age no. of fixed lines & mobile lines) fixed line subscriptions increased from 47 per cent to 51 per cent. The percentage population with access to telephone increased from 70 per cent in 2011/12 to 80 per cent in 2012/13. The national SIM card registration exercise was implemented. By the end 2013, over 90% of the 17.6 million subscribers had been registered. The challenges facing the ICTs include: (I) network intermittence given the heavy reliance of the initiative on IT, especially the internet (ii) existence of low specification IT hardware/infrastructure at the traders' premises especially internet connectivity; and (iii) low level of computerization of procedures by other government agencies.

Uganda's equity markets remain poorly developed (save for a few corporations and well established firms). As a consequence, local business entities that seek equity financing domestically have to rely on loan financing which now attract high rates of interest (owing to high rates in the banking system). According to the NDP II, there remains limited knowledge and reach of capital markets; perceptions of lack of safety of capital markets; low number of listed entities; low public float of some listed entities; and laissez faire attitude and change aversion.

3.1.3 Analysis of Trends in Uganda's Human Development

Human development – or the human development approach - is about expanding the richness of human life, rather than simply the richness of the economy in which human beings live. It is an approach that is focused on people and their opportunities and choices. This is fundamental in measuring the extent of inclusive growth as well as the progress in enhancement of people's rights to and liberty, standard of living adequate for health and wellbeing (access to food, water, shelter, social protection, and work). This why the ICEA lists human development as an imperative for emergence. Uganda's growth, has been characterized by improvements in life expectancy, high rate of growth in literacy as well as increased access to primary and post primary education. But like other developing economies, this growth has also been characterized by growing levels of income inequalities. Gini-coefficient (that measures income inequality) rose from 0.395 in 1999/2000 to 0.462 in 2009/10 but has since declined to 0.395 in 2012/13. Overall there has been an overall slight improvement in the human development index over the last decade as seen in the table below.

Table 3.6 Human Development Index and additional indicators

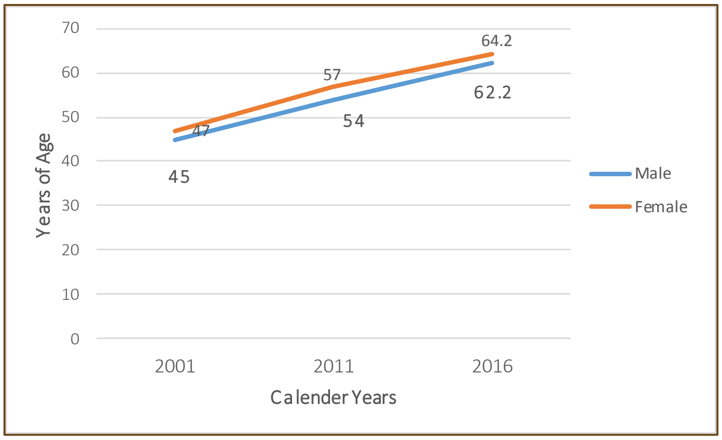
Index	Year of Computation			
	2005/06	2009/10	To-date	PERFORMANCE
Life Expectancy at birth	46 *	55.5	64.3	Improving
Mean Years of Schooling	4.8	4.7	4.5	Declining
Inequality in income (Gini Coefficient)	0.395	0.426	0.395	Oscillating
Gender inequality	0.577	0.569	0.57	Static
Human Development Index	**0.448**	**0.460**	**0.483**	**Improvement**

Sources: The chart below shows the trends in these indicators over years based on UNDP computations against baseline data from Uganda National Household Surveys in 2005/06; 2009/10 and 2012/13 as well as the Uganda Demographic and Health Surveys (UDHS) of 2006 and 2011.

- The figure is for 2000/2001

As Uganda implemented a series of interventions in social services especially in health and education, so did it register improvements in life expectancy shown by trends in the chart besides. Life expectancy at birth for females and males from 47 and 45 years respectively as recorded by the UDHS 2000/2001. This improved to 57 and 54 respectively in 2011 and much more so after the results of the Housing and Population Census of 2014 to 62.2 for males and 64.2 for females.

Fig 3.8 Life Expectancy



In 2011, Uganda through the Ministry of Health began implementation of a "sharpened plan aimed a holding government to act on its promise to reinforce her obligation to improve maternal, newborn and child health, and ensuring that it these issues stay high on the agenda with increased funding for reproductive health; improved and strengthened coordination between development partners, and the integration of health care and health systems support for improved results. Although, over the last five years there have been improvements in health performance, Uganda did not meet any of the health targets under the MDGs at elapsed in 2015. Extension of life expectancy will require that Uganda sustains current investments that drive better outcomes from:

i. **Increased food and nutrition security that increases individual health and productivity of persons.** This will require mass awareness on proper feeding habits with a focus on energy-giving foods; slowing of consumption of oils and fats; emphasizing body exercise and a gradual minimization of alcohol and drug abuse.

ii. **Reduced disease burden by focusing more on curative than preventive care options.** Government under the current health sector strategic plan is focusing on more preventive care options that gradually reduce the disease burden including indoor residual spraying to reduce malaria; handwashing; distribution of treated mosquito nets and increasing access to screening services to trace infections at an early stage; as well as immunization and vaccination against diseases like Hepatitis B.

iii. **Reducing infant and maternal mortality:** Reducing maternal and child mortality immediately creates longevity for the life of expectant mothers, newborns and infants. Maternal mortality rate at 438 out 100,000 live births is an improvement from 506/100,000 in 1995 but much above the target of 131/100,000 that Uganda has set for 2015. There have modest improvement in trends in infant mortality rate per 100,000 live births from 88 in 2000/12 to 53 in 2014/15 (representing a 66% improvement).

> Increasing public health expenditure as a proportion of GDP by 10% in low or middle income country leads to a 7% reduction in maternal mortality. The rise in GDP by 1% also causes a reduction in child mortality by 0.69% and a 4.14% decrease in low weight for under-5 children – These all point to a strong relationship between economic growth quality health care and human development. ***State of Population Report 2016***

iv. **investing more in expanding social protection.** Uganda has implemented PRDP and NUSAF as livelihoods support programs to support conflict affected areas in Northern Uganda. In addition, development partners supported Government to pilot the Social Assistance Grants for Empowerment (SAGE) program that provided direct cash transfers to elderly citizens in 15 districts. The pilot is over and since 2016/17 Government has rolled out the program to 20 districts and will add 5 districts annually until 2020 bringing the coverage to 55 districts. Evaluation of the SAGE program has shown that beneficiaries have seen a change in livelihoods and an opportunity to live longer than would have been the case without the provided assistance.

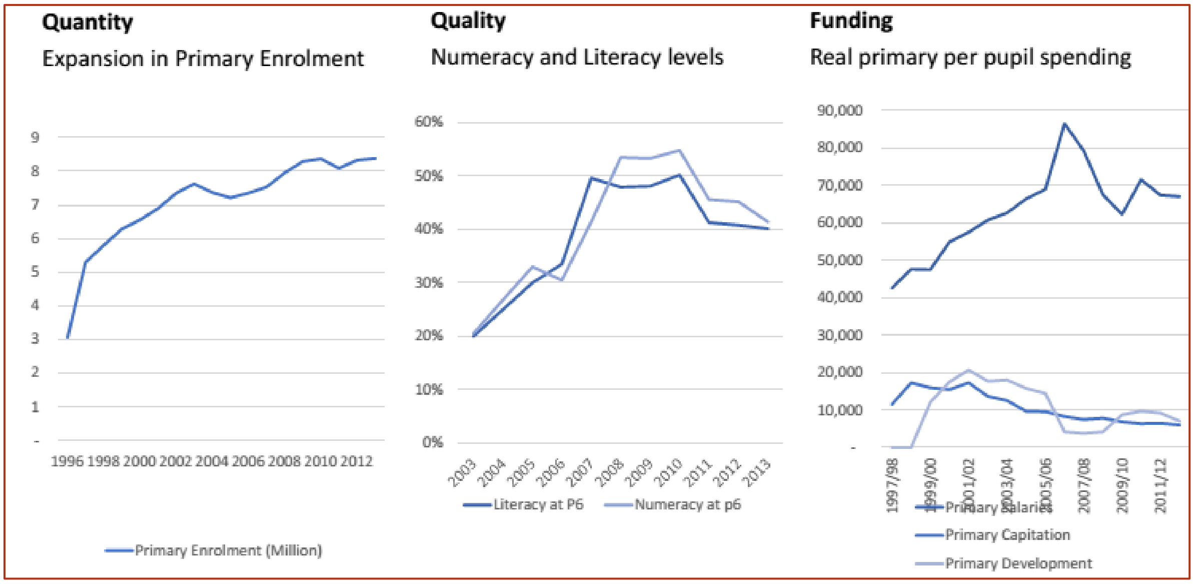
v. **Peace and Security:** After two decades of political turmoil between 1966 and 1986 Uganda has enjoyed relative peace and stability (and more so after the end of the civil conflict in Northern Uganda in 2006). The prevailing peace and stability reduced overall morbidity and provided an opportunity for conflict-affected communities to rebuild their lives. All this is beginning to reflect in positive trends in life expectancy that hit the 63 mark in

2014. The target for life expectancy in the Vision 2040 is 85 years by 2040.

Primary Education

Uganda implemented the policy of Universal Primary Education even before the Millennium Declaration that ushered in the MDGs in September 2000. This policy saw a rise in primary education enrolment from 2.7million in 1996 to 8.8m in 2016. However, reviews have shown the quality of education has plummeted partly as a result of funding shortfalls all shown by the illustration below:

Fig. 3.8 Assessment of the quality, quantity and trends in primary education financing



Source: ODI Data (2015). *Primary capitation refers is in reference to per-capita spending on a pupil under UPE while primary development refers to total of development grant over number of pupils in schools these grants are assigned*

As seen from the figure above, as numbers of students surged, the impact especially after 2008 began to bear on the teacher pupil ratio and largely contributed to a fall in numeracy and literacy levels. Per pupil funding that rose steadily up to 2007/08 stagnated after. This means per-pupil spending reduced in real terms only to rise slightly in 2011/12. There was a drop in literacy rate from 73% in 2009/10 to 71% in 2012/13. This has since slightly risen again and now stands at 72.2% (67.6% for female; and 77.4% for males)[7]. Currently, per-pupil spending for UPE is 10,000 (or $2.8) per term and with the cost of living going up it has been inadequate in real terms. In 2007, Uganda became the first country to roll out free Universal Secondary Education (USE) in sub-Saharan Africa. With free Universal Primary Education (UPE) having been introduced a decade before, Uganda has attained literacy and over 8.2million children in school – one of the highest primary school enrolment rates in the world. However low completion rates and poor academic performance (evidenced by a low transition from primary to secondary education which stood at 58.3% in 2014[8]) has cast a shadow on this effort.

[7] UBOS (2014) National Housing and Population Census Report

[8] MoES (2015) Education Policy Data centre

Table 3.7 Trends of key secondary and tertiary education indicators (2008-2014)

	2009	2010	2011	2012	2013	2014	2015
Secondary Education Indicators							
Enrolment	1,194,454	1,225,692	1,258,084	1,251,507	1,362,739	1,391,250	1,284,008
% Growth in enrolment	9.7	0.7	4.4	-0.53	8.14	0.88	-0.9
Student-teacher Ratio	24:1	21:1	-	30:1	22;1	24;1	25:1
Completion Rate (%)	37.1	39.0	33	35.5	35.3	35.8	36.2
Tertiary Education Indicators							
Enrolment at Tertiary Institutions							
Male	97,635	102,700	100,831	111,831	113,726	117,740	139,092
Female	74,035	76,313	78,738	86,235	87,572	109,957	-
Enrolment at University Level							
Male	67,369	78,420	93,808	78,817	79,709	100,525	-
Female	42,442	42,226	42,733	61,270	60,398	79,835	-

While the table 3.6 above shows an upwards trend in enrolment at secondary level, it also exposes a low transition rate to secondary school. For instance, in 640,833 pupils sat for PLE in 2016. Using a proxy on the 2015 enrolment of 1,284,008 at first secondary year for 2016, it shows that only about 50% of pupils who sit PLE exams eventually transit to secondary schools – pointing to a high dropout rate. Numeracy and literacy need to be a focus at primary schools; maths and sciences at secondary school level; as well as practical research and innovation incubation at tertiary levels. However, the challenge for primary and secondary school education in Uganda has been a low quality of education (reflected in inadequacies in provision of scholastic infrastructure and materials; high dropout rates and hence a low completion rate; poor performance overall at both primary and secondary school exams; high rates of both teacher and student absenteeism). Consequently, the mean years of schooling has declined from 4.8 to 4.5 over the last decade. Investments need to be focused on improving the quality of teachers through teacher training and allocation of salaries rates, staff housing and school facilities that can attract high quality teachers to hard-to-go and hard-to-stay areas in the rural country-side.

Trends in income inequality

Overall, there has been an increase in household incomes as a result of fast trend in poverty reduction, as seen from a rise in GDP per capita from US$607 in 2008/09 to US$ 746.2 in 2015/16. Income inequality has also decreased as shown by the Gini-Coefficient that fell from 0.426 in 2009/10 to 0.395 in 2012/13. However, there have been disparities at regional level. While the proportion of the people below the poverty line has reduced from 56% in 1992 to 19.7% in 2012/13, the proportion for Northern Uganda and Eastern Uganda remained high (44%) and 24.5%, respectively, all above the national average. Overall, 18 percent of the population in Uganda was chronically poor across the survey periods 2011/12 and 2013/14. The chronically poor were more likely to be in households residing in rural areas (21%), households whose head had no formal education (33%), as well as households residing in the Northern region (26%) of Uganda. On the other hand, people that experienced mobility into or out of poverty between 2011/12 and 2013/14 were mainly from the Eastern followed by Northern regions. In addition, such persons belonged to households whose head had some or no formal education or was engaged in the agricultural sector. However, overall, more than half of the households remained non-poor (51%) over the two panel survey periods. The majority of those who remained non-poor had post-secondary education.

Causes of Income Inequality

While disparities in income inequality levels are expected in a developing economy, they should not configure the structure the population in ways that disadvantage sections of the population and spread the vulnerability to poverty to others. Access to productive assets (in part dictated by cultural practices that prohibit ownership by women and children of assets like land and other properties); differences in the level of education as well as the geo-politics (traced from the civil conflict in northern and parts of eastern Uganda) and high levels of youth unemployment are key causes of income inequality in Uganda

Bridging the Gap

While Uganda's economy has grown it has not grown in ways that have created sufficient jobs both in the public and the private sector and a general slow rise in the wage/salary levels in spite of rising inflation. There is an attempt to strengthen institutions like the Equal Opportunities Commission to ensure implementation of affirmative action to bridge gaps in income equality including deliberate programs (for regions like Eastern Uganda and Karamoja) where poverty incidence is recorded to be on the rise. In addition, there are proposals now before Parliament to institute a National Salaries Commission to harmonize salaries and various structures – starting with the public sectors so that staff at same level of work and effort receive the same pay and only be provided allowances for well-articulated factors (like those working in hard to reach and hard to stay areas up country).

Trends in Gender Equality

Uganda has since 2000 improved significantly in advancing gender equality with a special focus on the advancement of interventions that empower women. Uganda achieved the MDG target in 2015 on ensuring same number of girls as boys of the school going age in school at 100% up from 93.2% in 2000. This proportion, however, dropout rate increases for girls from primary to tertiary education. Socioeconomic (preference to educate boys as opposed to girls in light of limited household income); cultural factors (mostly early marriage); as well as school-specific factors like sanitary facilities gaps are responsible for this trend. Affirmative action (including 1.5-point addition and district bursaries) have reduced gender biases at tertiary level but not enough to counteract other biases.

Table 3.8 key gender equality indicators

Indicators	2000	2003	2006	2009	2012	2014
Ratio of Girls to Boys:						
- Primary Education	93.2%	97.1%	99.4%	99.9%	99.9%	100%
- Secondary Education	78.8%	82.4%	83.5%	84.2%	85.2%	83.3%
- Tertiary Education	58.0%	64.7%	72.7%	77.6%	78.6%	79.1%
Women share of non-agricultural workers	-	-	28.1%	33.4%	30.2%	-
Proportion of MPs who are women	17.9%	24.7%	23.9%	-	35.0%	35.0%

Uganda ranked 7th in Africa (and one of only 8 countries in the world) with a representation of 35% of Parliamentarians as women. Today, women occupy high positions in government including top positions for key line Ministries including: health, education, energy, lands housing and urban development and the Presidency; key institutions including Uganda Revenue Authority, Uganda National Roads Authority, Uganda National Chamber of Commerce and Industry and Kampala Capital City Authority. The implementation of the National Gender Policy 1997 (now under review) has enabled programs geared at affirmative action for women to be implemented both at national and district levels.

Gender inequality in Uganda has however persisted on the economic front, particularly in the biased level of access by women to economic opportunities and ownership of productive assets. Out of all non-agricultural employment, the women share is only 30.2%. Small and medium size businesses are owned by men at a rate 2.5 times more than women[9] and this number drops to 2 for larger scale enterprises. While Uganda moved from 43rd to 29th in the Global Gender Gap (GGG) ranking between 2008/09 and 2011/12, inequalities between male and female continue to reflect in the income imbalance analysis. For instance, while women engaged agriculture constitute about 63% of the total, only 18.5% of those are engaged in wage-employment within the sector. Most of the wage-employment (including paid-for causal labour in agriculture) still goes to men

Gender Gap in Comparison to other African Countries

Gender inequality in Uganda is mainly driven by discriminatory social institutions, family ethos, and factors that restrict opportunities to women as well as their civil liberties and economic rights. Cognizant of this reality, Uganda has passed a number of national laws and ratified the key conventions to protect and advance the rights of women. However,

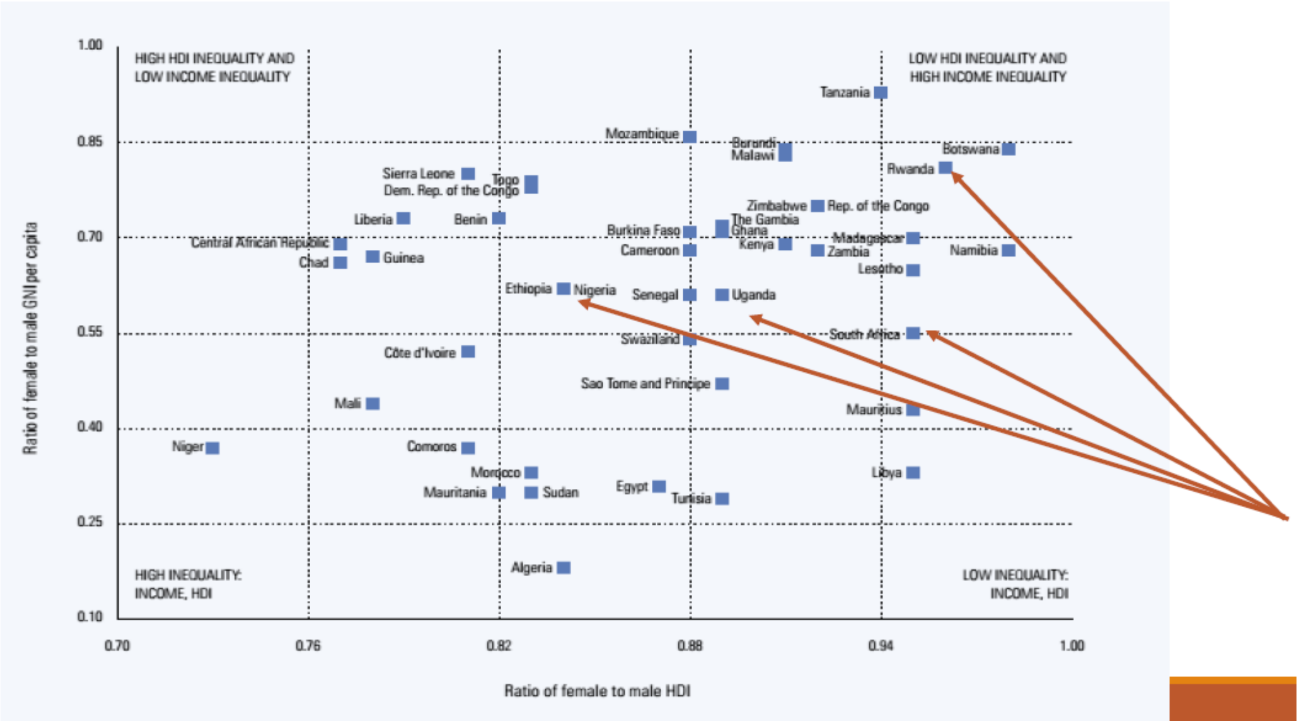
[9] World Bank 2013 Enterprises Survey

patriarchal mind-sets, a weak political and corporate will to implement these laws, and some cultural stereotyping against women have pegged back progress. The approach to end Female Genital Mutilation (FGM) in Eastern Uganda has so far demonstrated that it is possible to change mindsets and divert negative cultural practices to progressive ones. Uganda is praised for is ensuring equal pay for women for the same work done with men but more need to ensure broad based affirmative action. A key focus is needed in:

- ensuring that women and girls are able to access productive assets including land and financial credit; and
- enforcement mechanisms need to be strengthened especially at the local levels to address domestic violence against women, early marriages, girl-child drop out especially in secondary schools and defilement.

On the other hand, increasing women participation and providing avenues for women to unleash their potential has high multiplier impact on the family, community and country. 1% increase in GII reduces the HDI by 0.75 percent[10] and vice-versa. As an indicator/imperative for emergence – this presupposes that Uganda ought to keep a keen early on closing the gender gaps as this is critical to its overall performance on the HDI index- a measure of gradation into a middle income country status.

Fig. 3.10 Chart showing GII for selected African Countries



UNDP introduced a gender Inequality Index in 2010 to reflect gender differences in three dimensions: reproductive health, empowerment, and economic activity (measured by the labour market participation rate for men and women. As can be seen from the chart above, Uganda outperforms South Africa, Zambia and Rwanda on this index.

Overall, in an attempt to ensure a people-centered economy, government has done well in ensuring that the national, budget and planning process is an output of a highly consultative process right from village level. More can be done to ensure that district plans receive adequate financing to meet people's needs for development. Civil Society Organizations like CSBAG (Civil Society Budget Advocacy Group) are pushing government for a 'pro-poor' budget – one that ensures that spending provides services (rural roads, water, education, health, agriculture and trade support) so that citizens can associate development with improvements in their quality of life. Their engagement with Ministry of Finance and Parliament has since 2012 generated a dialogue that has seen better prioritization towards 'pro-poor'

[10] UNDP (2016) Africa Human Development Report (2016) pg. 31

spending. For instance, in the Financial 2012/13 – they were successful in lobbying Parliament not to approve taxes on key agricultural inputs.

3.1.4 Trends in Uganda's Production and Consumption Patterns

In consonance with the 2030 Agenda (and in particular Goal 12) of the Sustainable Development Goals, emergence for Uganda will require a transformation in the production of goods and services that improve the quality of life. At the same time Uganda shall gradually reduce exposure of the public to toxic and pollutant materials, minimize waste of food and degradation of natural resources – best achieved by optimal water and energy consumption. Once achieved, Uganda can set itself on a path towards a green economy. Uganda has seen economy grow rapidly since mid-1990s, however, this growth has been mainly from rise in production and sell of raw materials and other natural resources. The slow pace in progression from this export base towards one based on industry and manufactured products has made Uganda (just like other African countries) vulnerable to external price shocks. For Uganda to emerge out of her current status, it is important that her production and consumption pattern shift from an agrarian to an industrial and more efficient age. This will require progressive investments in acceleration of industrialization that transforms her raw materials into higher priced finished products that meet regional and global preferences and demand. To achieve this progression, growth must be based on productivity gains of factors of production driven by what ICEA is referring to as 'technical progress' but one that promotes a green inclusive growth. The subsections below present an assessment of trends in production and consumption patterns the distance Uganda needs to travel so as to emerge.

i. Trends in Food Production and Consumption Patterns
ii. Water and Energy Production and Consumption
iii. Advancement in Technological Development that minimizes exposure to pollutants and toxins
iv. Transition towards a Green economy

Trends in Food Production and Consumption

Food and nutrition security are key pillars of Uganda's National Agricultural Policy (2013). Food crops dominate Uganda's agricultural sector and constitute nine (9) out of twelve (12) 12 flagship enterprises to focus on under NDP (i.e. maize, rice, cassava, beans, fish, beef, milk, citrus, and bananas). The importance of food to the economy is felt most in food inflation trends – a signal that food supply shortfalls have far-reaching negative ramifications on the economy. For instance, in 2011, shocks related to the global economic downturn pushed up international food prices creating tensions in the global food market. It happened at the post-election period for Uganda (with general elections having been held in March, 2011). Due to a supply shortfall, volatile food prices among combined with upsurge in fuel and utility prices, inflation shoot to 39% in June 2011- the highest on record for a decade before then.

Overall Uganda is a net food producer and relatively self-reliant on food production and consumption with minimal food imports. In 2012/13 food accounted for 27.2% of all consumables. The bonus for Uganda is that most households are able to produce food for domestic consumption making them less dependent on Government for food supplies (apart from drought and flood stricken areas as was the case in 2016). Just like it has been for the entire agriculture sector the rate of growth of the food sub-sector as a proportion of agriculture sector growth has been slow as shown below:

Table 3.10. Food Production Growth as seen in Disaggregation of Real GDP growth for Agriculture

	2010/11	2011/12	2012/13	2013/14
Overall Agriculture Sector Growth	**1.00**	**0.68**	**1.13**	**1.33**
Cash Crops	-1.25	6.93	3.05	2.92
Food Crops	0.58	-1.44	0.17	1.68
Livestock	2.49	2.37	2.96	2.92
Forestry	2.32	2.79	1.74	1.94
Fishing	1.49	1.60	2.18	-4.51

Source: MoFPED Background to the Budget FY 2015/16

As can be seen from the table, the pace of growth for the food crops has oscillated around 1 percentage point over the last five years and this relates to the overall slow sector performance in the agricultural sector. There are improving trends in the livestock and fish sector which are also important contributors of the food production. The current level of fish production for instance stands at 100,000 metric tons and efforts are underway to revitalize the fish sector (especially aquaculture) to raise this level of production 300,000 metric tons by 2020. Organizing fish cooperatives, and investing in new technologies like cage farming are vital investments being planned. The beef and the diary sector is a critical aspects of the national food basket. Currently consumption per capita stands at 9kg p.a for beef and 5.9kg p.a for fish. Under the NDP II projects, the plan is to increase this level consumption to 11kg p.an and 7kg p.a respectively by 2020. It is important to note that fish and beef are critical to nutrition security under the National Nutrition Policy now being finalized for submission to Cabinet in 2017. The potential for diary production is enormous.

Uganda has potential to organize 50,000 dairy farmers around the cattle corridor into dairy cooperatives. If well supported and organized, these farmers with an average of 100 heads of cattle producing 20 liters of milk each a day can generate 36.5 billion liters in a year. (Note that currently Uganda is producing only 2.5billion liters of milk per annum). At packaged milk price of $0.7 a liter, Uganda would generate a return of US$25.5bn (higher than the expected return from projected oil export annually and going to farmer's pockets). Adding value to this milk with pasteurizers to make yoghurt, production of cheese and butter would generate even added returns.

Another critical aspect is production and consumption of fruits and vegetables. Today, Uganda has over 100 registered cooperatives dealing in coffee, cotton honey and fruits. The challenge with the horticulture sub-sector has been meeting international trade standards. Only 20% of Uganda fruits and vegetable produce can be permitted for export into the European and North American markets[11]. The key issues facing horticultural products include: limited scale of production, limited investment in sanitary and Phytosanitary standard enforcement and the high cost of packaging. Government is called upon to support value addition in the horticulture sub-sector especially in production and export of bulk solar dried fruit concentrate and vegetables whose demand continues to rise on the global market.

Another area critical for emergence is ensuring minimized food wastage. According to the World Food Program, enough food to feed all hungry people is instead wasted every year. 1.3 billion tons of food constituting about 30% of global food production goes to waste annually. Food waste is not a significant factor in Uganda, but post-harvest losses have been estimated to reach 40 percent in some sectors[12]. Because post-harvest handling techniques and storage facilities are inadequate, surpluses tend to be sold immediately after harvest at the lowest point in the price cycle. The World Food Program has continued to support interventions to curtail food losses right from post-harvest loss reduction up to industrial food waste. In Uganda, WFP is supporting farmers in districts (mainly in eastern and central Uganda) to address the challenges of post-harvest loss using metal silos and air-tight storage bags. The loss of potential income contributes to food insecurity and undernutrition among smallholder farming families, especially during lean seasons. The challenge for Uganda therefore is to build a food distribution system that can be driven by the private players with incentives to move food (at a profit) from areas where it is abundant to where it is not.

Related to this aspect is over-fishing and over-grazing which are contributing to lower aquaculture and beef productivity as well as erosion of key fish and plant species. As the population grows, so has been the encroachment on wetlands as more land is sought for increased production in an extensive (rather than intensive) manner leading to depletion. According to UNDP Wetland Atlas, it is estimated that 80-90% of the wetlands in Mbale and Butaleja districts alone have been converted to rice farms and paddy fields in ways that will eventually deplete them.

Water Production and Consumption

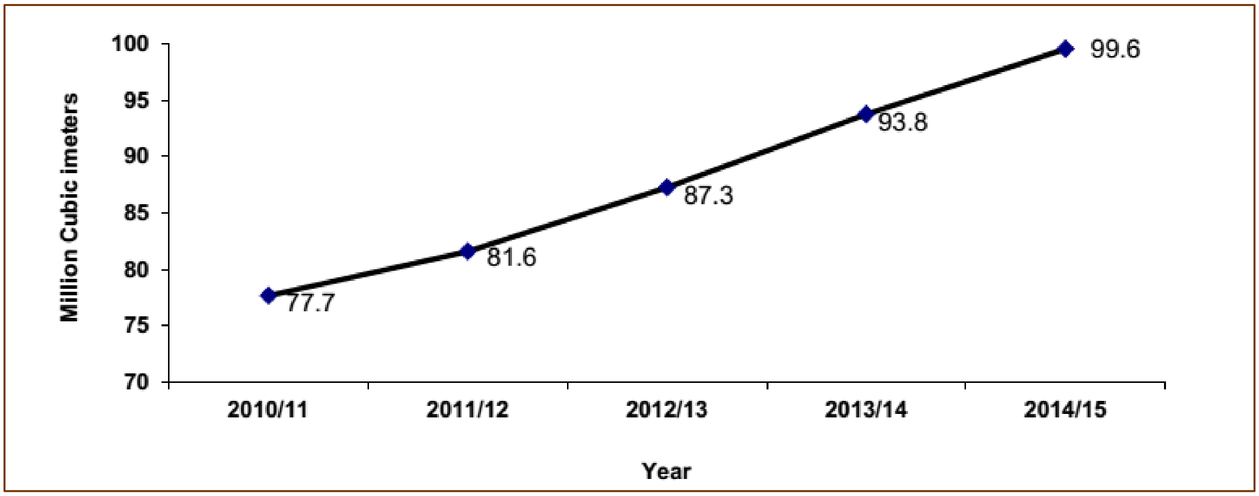
Uganda has the source of the Nile the longest river in the world and is home to the second largest fresh water body in the World – Lake Victoria. Added to these are other lakes, rivers, swamps, wetlands and underground (gravity)

[11] VECO East Africa (2015) https://eastafrica.veco-ngo.org/.../fresh-fruits-and-vegetables-uganda

12 https://www.wfp.org/content/reduce-food-waste-dramatically-simple-acts-says-un

water sources. Tapping in this potential, the Ministry of Water and Environment (working with National Water and Sewerage Corporation) has made tremendous efforts to ensure water access for all. Rural water coverage stands at 67% and urban water coverage stands at 71%. The NDP II target for water coverage is 90% for rural areas and 100% for urban by 2020. In addition, only 2% of Uganda's water is used for production[13]. However, the cumulative water for production Storage Capacity is currently meeting only 5.5 percent of the total demand of 499 million cubic meters. Expansion of water storage capacity is not happening fast enough due to limited private sector players (investors and CSO) to support the irrigation infrastructure. According to the NDP II, only 1 percent of potential irrigable area, where 15,000Ha out of 3,030,000Ha is under formal irrigation. Access to water for livestock at present is estimated at 48.8%.

Fig 11. Water Produced by National Water and Sewerage Corporation (2010-2015)



Source: UBOS Statistical Abstract 2016

The country is increasingly facing a major challenge of prolonged droughts and unexpected floods due to climatic change and variability and is predicted to be water stressed by 2025. The focus has also been on water stressed areas. Government has supported construction of nine (9) windmill-powered water systems in Karamoja sub-region creating a total volume of 105,120 cubic meters of safe and clean water annually for both livestock and human consumption.

Energy Production and Consumption

As regards to energy production, Uganda's is poises to reach 920MW of electric power up from the current 850MW with completion of small hydro-electricity dams in 2016/17. Already underway is the construction of the Isimba dam whose completion will bring on board 183 MW and Karuma hydro power project – the largest in Uganda with 600MW expected before 2020. Uganda is well on course to ensure energy access to all by 2030 with almost 73% of all districts with electricity connectivity under the rural electrification project. Access alone is important but more so the affordability for profitable utilization. At the moment, high power tariffs (currently standing at $0.18 per kilowatt compared to $0.12 for Kenya) and equivalent threaten this objective since Uganda has to recover the investment cost in the short-run. This is why Government has continued to focus on small mini-hydropower stations so as the maximize the potential on natural vessels at sites where generation and distribution can be spread (and to diverse sections of the population). Such stations include:

i. Kinyara co-generation project (30MW)
ii. Nyamwamba hydro power plant (14MW)
iii. Nengo mini-hydro power dam (6.5MW)
iv. Rwimi and Siti 1 mini-hydro power dam (5.5MW)
v. Lubila mini-hydro power dam (5.4MW)
vi. Kakaka mini-hydro power plant (5 MW)

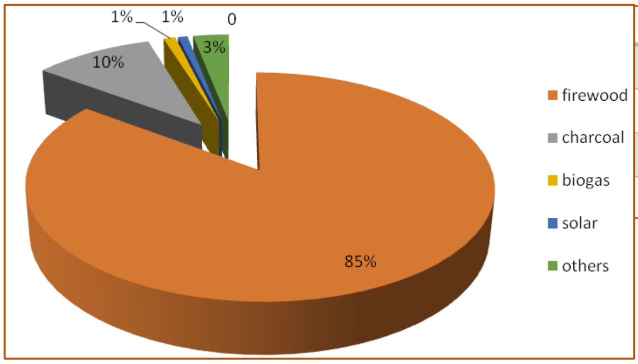
13 NPA: NDP II 2014/15-2019/2020. Water for Production is defined to include provision of water infrastructure for irrigation, livestock, fishing, mining, wildlife, industries, aquaculture, maintaining the environment and ecosystem.

vii. Waki mini hydro power plant (4.8MW) and
viii. Maziba mini-hydro power dam (1 MW).

Uganda has emphasized the investment in production of hydro-electric power – a renewable and climate sensitive energy source- for most of its power. In addition, the Ministry of Energy through development partners like GIZ supporting Government under the GET-FIT initiative to prioritize renewable energy including wind, solar and energy cooking stoves. Currently Uganda is reviewing the 1994 National Environment Management Act to support a broad framework that protects the environment. This will supplement the National Climate Change Policy passed in January 2013. The challenge for Uganda in ensuring a green economy is that the vast of her population resides in the rural country-side and uses wood as source of fuel and charcoal as shown in the figure below.

There has been, however, gradual loss of the forest cover owing to the dependency of the population on forest for energy source, as shown on the table on the right-hand side below. Over the last 15 years, Uganda has lost 63% of her forest cover. Uganda continues to experience environmental degradation manifested by increased encroachment on wetlands, deforestation, disposal of waste in water bodies and in dangerous manner, unsustainable extractive practices and production of environmentally unfriendly products such as plastic bags, dumping of substandard products such as synthetic products by enterprises and individuals.

Fig:3.11 Illustration of energy sources (left) and trends in forest cover loss since 1990 (right)



Period	Forest loss (Hectares)	Deforestation rate (%)
1990-2005	1330,906	27.0
2005-2010	1288746	35.8
2010-2015	478472	20.7
1990-2015	3098124	63

Source for these charts and Table: NEMA Report 2015

As Uganda implements the 2030 agenda, environmental management will be critical for Uganda's sustainable economic development. There are quick wins that Uganda can harness: establishing green spaces in urban dwellings; increasing carbon trading to incentivize tree planting and watershed management; as well as investing in gas from compost in urban areas. Today, a sack of charcoal that most urban dwellers use for cooking costs US$ 15 the same price as a more efficient and easy to use 13.4kg gas cooker. Making small steps like

banning of the polythene bags are critical but will require production of alternative bio-degradable bags and a mind-set change. Solar energy is an area that Uganda has advanced to take advantage of. In December 2016, Uganda unveiled East Africa's largest solar energy installation that will add 10 MW to the national grid and enough to increase access to 40,000 households. The installation was funded by Norway, Germany, UK and the European Union, the $19 million plant was developed by Access Power and Eren Re, two energy sector investors based in Dubai and France respectively. There's is potential to increase this capacity of total energy to 1,500 MW by 2018 if Uganda can attract foreign investment for the proposed nuclear power plant near Kitgum in North East. More work on renewable project is being supported under the GET-FIT (Global Energy Transfer Feed in Tariffs) programme. In Uganda, GET FiT intends to fast-track a portfolio of up to 20 small-scale renewable energy (RE) generation projects, promoted by private developers. Depending on funding situation and progress of the individual progress, the portfolio may yield a combined installed capacity of up to 170 MW. This will correspond to up to approximately 830 GWh of energy production per year, transforming Uganda's energy mix within a period of 3-5 years, and resulting in:

- emission reductions of roughly 11M tons of CO_2 over the 20-year lifespan of PPAs;
- an increase in Uganda's energy production by about 20%, and thus a contribution to tackling an anticipated supply shortage in 2016;
- facilitating (or significantly improving) access to energy for at least 200,000 additional households (approximately 1.2M people), also in rural areas due to strengthening of regional grids; leveraging of close to USD 400M in private investments for renewable energy generation projects with a limited amount of results-based grant funding.

Government through Electricity Regulatory Authority (ERA) is committed to the GET-FIT process aware that renewable energy production is front-line intervention in the fight against climate change.

Ensuring a People-Centered and Technology Driven Economy

There is a rapid integration of technology in various spheres of life – and mostly in ways that have eased life, reduced cost and increased efficiency in production globally. Uganda has embraced technology but not sufficient enough to drive its production and consumption patterns. The bulk of exports are sold in raw form and while there is political will to migrate to value addition, more needs to be done to attract FDI in these areas. The same way mobile money has transformed financial transactions, and the change rural electrification has brought to support education and health units, this thinking is need now in the productive sectors. The instance by government to construct an oil refinery is an example of the benefits that accrue from export of processed goods. In the oil sector, for instance, Uganda can learn from United States as illustrated in the text box below.

> United States has broadened the use of her oil production and use crude oil by-products to produce Ammonia – a critical input for fertilizer called UREA; input in a range of cosmetics including Vaseline and petroleum jerry, a range of detergents, shoe polish and synthetics; various forms of plastics as well as asphalt for road construction and cooking gas. Aware of the fall in oil prices, these by-products

Similarly, technological advancement is critical to transforming manufacturing (as will be discussed further in the thematic chapter) and inspiring value addition. For instance, trade statistics from ITC have deduced that it is the by-products from Uganda's produce that are highly demanded on the global market and not the main products themselves. For instance, while global prices have fallen for milk, the demand for yoghurt, powdery milk, cheese and butter has more than doubled over the last decade. The price for oil from sesame have increased by over 200% over the last decade yet Uganda is yet to exploit this market due to inability to set up sesame oil extraction technologies (the same case with ground nuts oil). It is the call of the ICEA that countries on the African continent emulate, Malaysia, Indonesia, South Korea, Singapore and India as well other countries in South America who are slowly but sustainably exploiting their nature endowments and resources to produce high-demanded goods and compete globally. Uganda is not too late to embark on this journey. Only a step in the right direction will do.

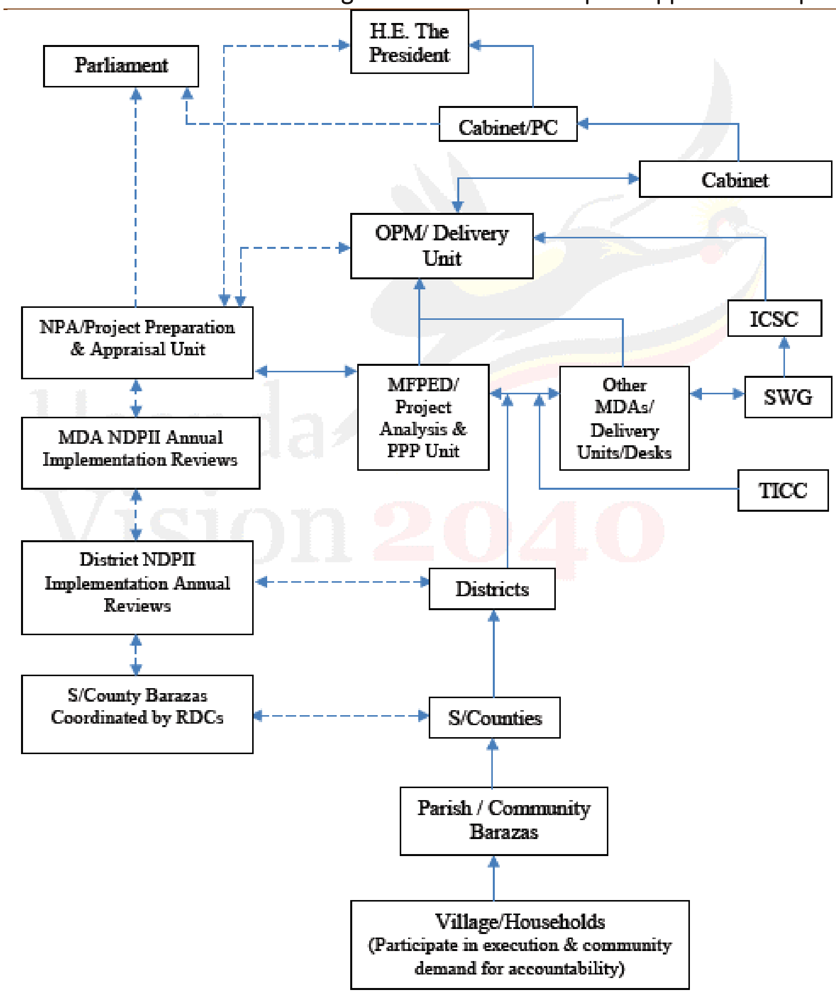
Chapter 4: Description of the Institutional Framework for Managing the National Plan for Emergence

Conditions for emergence require countries in developing world to gradually build strong institutions that become a bedrock for a stable, peaceful and transformed development state. This would support accelerated transformation of the social, political and economic systems that deliver services that support both the public and non-state actors, inspire innovation and positive change through a transformative and inclusive progression. This chapter reviews the extent to which the structure, shape and working of Uganda's institutions can deliver the plan for emergence towards a middle income status.

4.1 Description of the structure of Uganda's institutional framework

Uganda's institutional framework is informed by the organization of the public sector that runs through prescriptive ministerial statements that annually set out plans in line with national priorities which guide planning and budgeting at district level. The institutional framework is encapsulated in the NDP II as shown below purposed to bring all development planning and its financing in sync with the NDP process and supporting all actors to maximally contribute to the attainment of the NDP targets and Vision 2040.

Fig 4.1 Institutional set-up to support NDP implementation



Key

H.E	His Excellency
PCC	Policy Coordination Committee (Cabinet level)
OPM	Office of the Prime Minister
ICSC	Implimentation and Coordination Steering Committee (Permanent Secretary Level)
TICC	Technical Implementation Coordination Committee (Technical MDA staff)
MoFPED	Ministry of Finance Planning and Economic Development
MDAs	Ministries Departments and Agencies
SWG	Sector Wide Group
NDP	National Development Plan

Source: National Planning Authority (NPA) NDP II 2015/16-2019/2020

The Presidency takes the overall leadership of the implementation of the NDP and just as Parliament is routinely informed of the progress of NDP implementation by both NPA (through the National Development Reports) and OPM (through the Government Annual and bi-annual Performance Report). The cabinet reviews and assesses the efficiency and effectiveness of the policies, programmes and planned interventions and monitors both the performance and the aspects of governance as they relate to the country's development. Under the OPM is a delivery unit that was set up in 2013 to expedite reforms within government to support public and private sector performance. Under the NDP II period, the unit has continued to provide technical input to guide this process. BoU, MoFPED and NPA set up a macroeconomic modelling framework that is aimed to ensure alignment of both plans and resources to the NDP while monitoring economic development trends and making adjustments as needed to ensure a debt sustainability position, monitor foreign assistance trends; and mobilize resources and their timely release for implementation. At the grassroots, districts buoyed by the decentralization system, have aligned their plans to the NDP and are mandated to report quarterly on performance to both the Ministry of Local Government (MoLG), the Local Government Finance Commission (LGFC) and MoFPED. Other non-state actors (including development partners, CSOs and NGOs, academia, media and the private sector) contribute to the institutional framework by participating under their respective mandates and in decision making through various entry-points and interfaces with Government.

Under the NDP II the focus has been on dual implementation approach that on the one hand ensures that institutions are reformed to steer a progressive development agenda while on the other tackling the most binding constraints. The challenge for Uganda however, has been weak inter-agency coordination, overlaps of mandate among some key institutions and inability to match public investment needs with requisite technical, financial and logistical resources needed for successful implementation. On the other hand, the mechanisms to involve non-state actors (especially the private sector) in implementation, monitoring and evaluation of the planned interventions remains weak –causing a missed opportunity for jointed up implementation. As a consequence, reviews of education and health sector performance has deduced that some local and international NGOs (often with little resources) are able to outperform Government on similar interventions due to limited collaborative learning and sharing of best practices.

4.2 Review of the institutional organization at national level with regard to principles adopted during the ICEA-2015 on Developmental State

Uganda has a very elaborate institutional system, a strong macroeconomic framework and a clear and shared vision translated into operational development actions. Over the years, Government (with support of her development partners) has been able to promote and implement structural reforms for the benefit of the population including re-tooling the public service and transiting towards e-government. Though the NDP process, Uganda has been able to expand the provision of basic services through decentralization and using district and sector plans to ensure medium term planning and investments. Sector working groups have also helped to identify sectoral priorities and while challenges remain, the fundamentals for institutional development are in place. Government has taken series of steps to address them. These have included:

i. MoFPED has since FY 2014/15 been implementing reforms that have included a transition from output based budgeting to performance based budgeting to assess impact of public spending on development outcomes; reduction of conditional grants from LGs from 36 in FY 2010/11 to 12 in FY 2016/17; forming payment systems to allow for straight-through payments to service delivery units; as well as further roll-out of the Integrated Finance Management and Information System (IFMIS) to more districts. These reforms are aimed at improving the fiscal challenges facing decentralized service delivery.
ii. Uganda has implemented two successive Public Sector Reform Programs that have included capacity building, re-tooling and training of public servants on various aspects. In 2013 Uganda opened a civil service college based in Jinja to further support this process.
iii. The NDR and the GAPR processes have put sectors 'on their toes' to ensure efficiency in spending, reporting on results and have a platform for peer-to-peer learning on how to address implementation challenges (especially during cabinet re-treats).
iv. Work is also on-going (with help of development partners) to strengthen sector working groups to improve the current level of coordination and synergies between ministries. SWGs which had been more active under the

PEAP era with jointly funded approaches are now being 're-activated' so that they address critical aspects mainly of cross-cutting nature but critical to attainment of overall development outcomes.

v. Government set up the delivery unit under OPM to (among other mandate) support the integration of lessons learned from both public and private sector into planning and implementation of government programmes. The unit will however require that sectors play a more important role that enforces their respective inspectorate, oversight and M&E roles to identify areas that need improvement and expeditiously focus on those on sector and case-by-case basis. At the same time more will be needed to implement recommendations outlined in annual auditor general reports so that they improve on value for money and service delivery in general.

However, challenges remain. According to the Country and Public Institutional Assessment for Africa 2015, Uganda obtained a CPIA score of 3.7 against the maximum of 6 performing below the Sub-Saharan Africa average on transparency, accountability, and corruption in the public sector. Overall Uganda actually declined under this assessment, scoring 3.7 down from 3.9 in 2008. The table below shows the assessment scores under various performance indicators and how Uganda compares to Sub-Saharan Africa.

Table 4.1 Country and Policy Institutional Assessment 2015

Indicator	Uganda	Sub-Saharan Average
Economic Management	**4.2**	**3.3**
- Monetary and Exchange Rate Policy	4.0	3.4
- Fiscal Policy	4.0	3.1
- Debt Policy	4.5	3.3
Structural Policies	**4.0**	**3.2**
- Trade	4.5	3.7
- Financial Sector	3.5	2.9
- Business Regulatory Environment	4.0	3.1
Policies for Social Inclusion and Equity	**3.7**	**3.2**
- Gender Equality	3.5	3.2
- Equity of Public Resource use	4.0	3.3
- Building Human Resources	4.0	3.5
- Social Protection and Labour	3.5	3.2
- Policies and Institutions for Environmental Sustainability	3.5	3.2
Public Sector Management and Institutions	**3.1**	**3.0**
- Property Rights Rule-based Governance	3.5	2.8
- Quality of Budgetary and Finance Management	3.5	3.1
- Efficiency of Resource Mobilization	3.5	3.4
- Quality of Public Administration	3.0	2.8
- Transparency, Accountability and Public Sector Corruption	2.0	3.2
OVERALL SCORE (2015)	3.7	3.2

Source: World Bank CPIA Report, 2016

According to Transparency International, Uganda's Corruption Perception Index is has declined nine places from 142 in 2014 to 151 out of 175 countries (in 2016) making it the 24th most corrupt country in the world according to this index as shown by fig. 4.2 below. Uganda has in place various institutions to fight corruption (anti-corruption court, commercial court, court of arbitration, Uganda Police, Inspectorate of Government, Office of the Directorate of Public Prosecutions, Criminal Investigations Department, Parliamentary Public Account Committee etc.) but the vice remains. This mainly because corruption has become systemic and is embedded in both public and private sector operations making it difficult to point it out save for a few headline cases involving substantial amount of financial resources. The inability to enforce minimum standards and increase salaries to match the cost of life has created an environment of economic discontent and jostering for contracts – breeding bribery and nepotism and in-service collusion. It is therefore important to address bottlenecks in both the public and private sector to ensure adherence to corporate conduct, and implementing performance contracts that reward good performers as an incentive to others.

Fig 4.2 Uganda Corruption Perception Index Trends

This review notes six fundamental challenges facing Uganda's institutions:

i. While institutions are in place, most lack the requisite human, logistical, technological and financial resources for effective and sustained efficiency in implementation;

ii. There is limited capacity to enforce minimum service delivery standards at all levels – an aspect exploited by bureaucrats to engage in ways that have contravened ethos of transparency, good corporate governance and accountability;

iii. Weak public sector management characterized by low innovation, overlapping and duplication of mandates and high levels of corruption and resource waste as well as negative attitudes, cultures and work practices;

iv. The fiscal structure of public institutions is designed in a manner that creates line ministry 'turf' in ways that have curtailed opportunities for inter ministry planning and coordinated implementation. This has created a limitation in integrating of cross-cutting issues in sectoral plans, programmes and projects as a result of a bureaucratic inertia that is non-synergetic creating incoherence among sectors, limited prioritization and sequencing of interventions among sectors.

v. The inability to integrate lessons learned especially from the private sector and civil society (even other countries) into the working of government in order to improve. This is mainly due to a limited role played in the public spectrum by M&E, performance measurement and implementation of recommendations from various studies, audits and experiences.

vi. Inability to fully implement the policy of decentralization: Local governments are the front-line service providers both in the rural areas and in urban authorities. Uganda's 1993 policy on decentralization was highly prized for improving local governance, deepening democratization and service delivery. However, a comprehensive review of decentralization in 2012, noted that allocations to LGs (although having increased in absolute terms in some instances) have reduced in real terms as the rate of growth in expenditure assignments and the population to which they have targeted has grown at a pace faster than increments in allocations. For, instance, the share of financial resources from the consolidated fund to local governments and observed that the trend took a further downward trend in the last two financial years from 17% in FY2012/13 down to 16% in FY 2014/15. Specifically, the unconditional grant dropped further from 4% in FY2013/14 down to only 3.5% in FY2014/15.

Uganda will need to gradually improve the civil service that is self-driven and motivated by a functional incentive structure that ensures personal and institutional growth. Just as during the post-colonial the public system was highly transparent and built on meritocracy. Salaries supported civil servants to live, save and invest and it is the same salary levels that will motivate current civil service to garner pride in its work. By so doing Government should strengthen ties to a supportive and innovative private sector to deliver quality based on nationally set minimum standards.

4.3 Presentation of the Implementation Tools of the Plan for Emergency

At the core of Uganda's emergence has been ensuring macroeconomic stability. Since 1990s Government maintained strong joint agreement on budgetary proprieties with development partners. As domestic resources increased as a proportion of the national budget, there was fiscal space for government borrowing paving way for large public investments in energy, road and rail infrastructure as well as oil and gas. Uganda's emergence has will be driven fundamentary by six tools:

i. **Elaborate Planning architecture with Vision and cascaded NDPs Uganda** is well on its path in realizing the ambition of the 2007 Comprehensive National Development Planning Framework that put in place a national Vision 2040 and six NDPs to implement this vision. This has provided a push-factor for sectors to align plans to this framework in ways that have galvanized development planning from medium term to longer term targets. Districts are also being supported to develop five-year plans to align all government fully to this dispensation. As ICEA, Istanbul Plan of Action and the Sustainable Development Goals emerge, they only provide Uganda a renewed impetus to focus on longer term targets – critical for emergence.

ii. **Evolving budget (from output based tool to performance based budget) that is less aid dependent and focused on long term public investments.** Government has used the budget as an instrument to deliver goods and services and this has further been broadened with the policy of decentralization. The keenness to deliver impact has seen Government transit from measuring budget performance from mere measurement of outputs but further on performance indicators at an outcome level. Budget reforms by the Ministry of Finance including consolidation of grants to LGs from 43 – 13 beginning FY 2016/17; decentralization of the national payroll (to allow straight through payments to service delivery points) and more oversight provided by Parliament and the Office of the Auditor General are bold attempts to make the budget deliver on service delivery and propel growth. However, when fiscal space has reduced (including draw backs from development partners as was the case in 2013), budget priorities have contracted and led to alternative options to finance development results (as has been the case with acquisition of concessional loans from China for the Karuma Hydropower dam for instance). While this is being done with a debt sustainability threshold, it is important that Uganda keeps an eye on aspects that spur resource mobilization and not to forget critical pro-poor spending that is critical for human development (especially health and education).

iii. **Medium Term Expenditure Framework informed by a macro-economic model that ensures alignment of national resources to the NDP.** The implementation of the MTEF has provided enormous advantages as an instrument for keeping both expenditure assignments and required revenue attachments in line with national targets and goals (from an annual, three-year and now 5-year regime). The tool has particularly been critical in supporting a scale-up of priority sector expenditures leaving Government with capacity to project broader policy agenda using set allocations as a benchmark (adding to votes more revenue becomes available). It is also important to note the Government set up a development committee within the Ministry of Finance to source for development financing of large government projects (in part to ensure the tranquility of the macroeconomic framework).

iv. **National Policy on Public Sector M&E that ensures reporting, accountability and collaborative learning.** Government passes a National M&E policy in 2013, that is now being implemented across sectors. The focus is to support 'measurement of results'. Operationalization of this policy is supporting documentation of results which together with analytical works by Uganda Bureau of Statistics presents data on the progress Uganda is making on a host of indicators – point to areas that need emphasis for Uganda to emerge. Today ten (10) of 16 sector of Government have Management Information Systems (MISs) to support data capture and analysis. The Office of the Prime Minister has a Government Annual and Bi-annual Performance Reporting system supplemented by reporting on the NDP by NPA through an annual National Development Report and on budget performance by MoFPED through its Budget Monitoring and Accountability Unit. More work, however, is needed to support M&E processes at the district level, where capacity remains low.

v. **Public sector institutions and systems (include Sector Working Groups)** Aware that some long-term interventions have aspects of a cross-cutting nature – one that may need two or three sectors to implement them jointly, SWGs provided a mechanism to bring sectors, government, private sector and development partners together solely for this purpose. Since the end of the PEAP era in 2008, Sector Wide Approaches (though not as prominent as before) have helped develop common country-donor approaches in: i) determining sector optimal allocations within the national budget and later supporting design of inclusive sector investment plans aligned to national programs and promoting use of government systems.

vi. **Partnerships with development partners (both foreign and domestic)** While there has been a shift in the aid trends from general budget to off-budget support over the last five years, the partnership that Uganda has had with development partners has helped sustain key public investment profiles (especially for social sectors). This shift however, signaled, helped Government to re-assess its debt strategy. In 2013, Uganda passed the partnership policy with her development partners along with its monitoring framework. However, concerns remain over its implementation especially with reservations about government's commitment to pro-poor spending in health, education and agriculture in amidst of other governance issues (including corruption) and an inconsistent focus on downstream local government capacity development.

4.4 Review of the Participatory Process in implementing plans for emergence

Uganda's elaborate institutional framework that emanates from a highly decentralized dispensation has enabled it to mobilize the population around both local and national annual budget and planning process. The involvement of citizens in the planning process is very important in enlisting consensus around priorities that represent needs and aspirations of all Ugandans. Gradually, Government is bringing on board input from non-state actors represented mainly by Uganda Non-Government Organizations Forum (UNGOF) through their District NGO Forum representatives. However, the level of participation of citizen at the local level remains low, in part due to the high cost of local mobilization and an apathy among the population stemming from some level of discontent about the low levels of budget performance at the grassroots.

> Only 37% of Ugandans participated in the 2013/14 local government planning meetings and up to 52% reported not to have ever been consulted by their leader on issues facing them while 40% of political leaders at the local level reported not to have had a chance to respond to needs of their electorate. Source: **Uganda National Governance Baseline Survey 2014**

There is a potential for Uganda to raise these numbers quoted above, if more resources were channeled into masses mobilization and information communication especially about the Vision 2040 and the NDP process. Ugandans right from a young age need to know what their vision is a country, what the intermediate term goals are for 2020 and be able to link what they do these goals and Vision. This information can be woven into messages articulated by traditional leaders, religious institutions, politicians, significant public figures and in schools through dance and drama. This would generate a transformative thinking which is critical in raising public consciousness about political participation and downward as well as upward accountability. There has been work at the national (and particularly at sector levels) to galvanize efforts around NDP implementation. However, more needs to be done on follow-up with the private sector, CSOs and local governments through locally set-up fora to discuss issues related to NDP implementation and Uganda's best path forward on attaining a middle income status. The urgency of now requires that efforts are galvanized against the key strategic thrusts for realizing the Vision 2040 and these include the following seven areas:

i. **Focus on Influential GDP Growth sectors:** Emergence will require focusing public and private investments on sectors that possess the highest multiplier effect on the economy. These have already been identified under the NDP II as agriculture; tourism; minerals, oil and gas; infrastructure development; as well as human capital development. Government therefore must demonstrate fiscal and political capital is mobilized towards these sectors. This however, does not seem to be entirely the case. Agriculture and tourism have both received less than 5% of the national budget allocation for the last decade. While focus has been put on infrastructure development (which received 13.7% of the national allocation in FY 2016/17) much more needs to be done on human capital development especially logistical and technological aspects of health, agriculture and trade support.

ii. **Sustain Macroeconomic stability:** Just like it is for other countries, Uganda will not grow until it gets firmly on a path towards strategic public investment spending in ways that increase private capital, labour utilization and productivity. Government will have to invest in own research (especially for agriculture in areas of value addition as well as in extractive industry and processing) while supporting the same among the private sector. The progression of the country will also entail sustained stable and robust macroeconomic framework that keeps Uganda shilling strong, stabilizes the inflation rate and gradually reduces the trade imbalance by supporting a dual policy of export promotion and import substitution.

iii. **Expand Financial services, savings and investments:** Attainment of the Vision 2040 target requires that mechanisms/tools be put in place to ensure that national savings as a proportion of national income increase from the current 14.5% to about 35%. This will be sustaining current efforts to rationalize the pension sector, promote a culture of saving through SACCOs and create diverse save-and-invest opportunities especially for women and youth.

iv. **Improve Trade performance:** Uganda among the bottom 30 of the World Economic Forum's Global Competitiveness Index in 2013/14[14] mainly because of weak fundamentals that reflect in its imbalanced current account. Supporting trade will require that Uganda products rise to a value-level that meets the tastes and tests of global commerce. At the same time Uganda has a high population of 34.9million people that can contribute significantly to domestic trade. Supporting cottage industries to produce for the local market while attracting FDI for the extractive and other industries are both imperative in the medium term. Uganda needs to produce-for-sale rather than produce and sell. Market intelligence and proactive production to meet global market dynamics are critical in this regard. Uganda for instances has capacity to produce wheat and burley but continues to import most of it from abroad. There are also crop wild varieties including gum acacia and Shea butter that on high demand at the global scale that Uganda could take advantage of to improve its trade performance.

v **Focus on Human Capital Development:** Economic growth alone is only necessary but not sufficient for building a sustainable human development. Uganda has to ensure that patterns of growth are woven in systems that reduce poverty, expand opportunity for the most vulnerable of society and ensure that no-one is left behind. The fastest way is to reduce drastically the out-of-pocket costs for the poor on aspects that can be provided by the state especially water, health, education and information.

vi. **Protect the Environment:** Natural resource protection and conservation as well as proactive investments to mitigate adverse effects of climate change are critical not just for the agriculture sector but for all Ugandans. The last three years have been recorded by Uganda meteorological center as the hottest year after year on record. 2016 recorded one of the highest average temperatures in Uganda. Solar powered irrigation schemes, energy saving stoves, leveraging wind energy are critical in this regard. Uganda's chance to emerge will be dependent on how it manages its natural resource base since it is bedrock for sustainable agriculture and tourism – the top sectors with the highest multiplier effect on the economy.

Vii **Ensure Good Governance:** Sustainable development will require an enduring peace and stability entrenched in constitutional democracy and rule of law. Inclusive growth also requires full economic and political organization and participation which are quintessential for an enduring democracy. Citizens must continue to hold their leaders to account and leaders must respond with reports on plans for the populace and enlist their contribution and participation. At the national level, more public investments should be allocated to support work by the governance institutions to fully execute their respective mandates.

[14] (NDP II Report, 2015 pg. 11) Uganda dropped eight places in the global competitiveness index from 121/142 in 2011/12 to 129/148 in 2013/14

Chapter 5: Critical Evaluation of the Implementation of the National Plan for Emergency

As was illustrated in the four chapters before, the imperatives for Uganda to emerge and graduate out of the LDC status to are middle income country are in place. The challenge now is implementation of strategic interventions purposed to meet the graduation criteria. This will require a protracted and deliberate movement throughout the design, institutional and implementation spectrum that rallies all efforts towards a common goal of graduation. This conclusive chapter looks at a critical evaluation of the extent to which current implementation of the Plan is on track to deliver the progression as envisioned in both the NDP and Vision 2040.

5.1 Uganda's Implementation Arrangements for Emergence

5.1.1 Financing the Plan for Emergence

Macroeconomic stability has been a strong pillar for Uganda's economic development and the focus now is to combine this stable framework with a stronger focus on increasing domestic revenue. It is revenue growth together with support from development partners that will support implementation of core and non-core projects that will propel Uganda to a middle income status. Uganda has kept afloat its fiscal space and within debt sustainability threshold which creates room for an expansionary fiscal stance to support key development projects in the medium term. While this happens implementation is being undertaken with an eye of sustaining the debt reduction so that overall macroeconomic stability is maintained as well as donor confidence. Uganda recognizes that it was debt relief under Highly Indebted Poor Countries Initiative (HIPC) in 1998 that ushered in a significant sector budget support and shifted the aid landscape that supported most of the PEAP interventions. For Uganda to implement the NDP II and NDPs that will follow, the same fiscal discipline that provided debt relief in mid 1990s will be required today.

While Uganda plans to carry on with large or middle-size investments, there will be need to sustain domestic revenue mobilization efforts, review exemption tax hurdles, as well as the rationalization of formal and informal sectors to contribute to national development. On the other hand, Government shall push through public finance management reforms as elaborated in the PFM Act (revised 2015) to ensure prudence in public spending. As seen from the table 5.1 below, the revenue base remains weak, oscillating between 11-13% of GDP over the last six years.

Table 5.1 Selected Indicators on Uganda's Fiscal Space

Indicator (as % of GDP)	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Gross Domestic Saving	19.5	17.7	21.7	19.9	21.9	24.3
Gross Investments	12.3	28.2	29.5	29.0	31.5	24.3
Foreign Direct Investment ($m)	719.0	1,244	940	1,225	1,153	838
Gross Foreign Reserves ($m)	2,044	2,643.8	2,912.3	3,394	2,895	2,645
Tax Revenue	10.9	10.3	11.2	11.7	13.1	12.6
Non-Tax Revenue	0.2	0.2	0.3	0.2	0.2	0.4
Total Domestic Revenue (with other sources)	11.1	11.2	11.5	11.6	13.6	13.1
Grants	2.5	0.7	0.0	0.0	0.2	0.1
External Debt ($m)	2,904.9	3,067.3	3,742.9	4,339.5	5,103.1	7,299.5
Development Expenditure	6.1	6.1	6.6	7.2	7.0	6.7
Fiscal Balance overall	-3.6	-2.5	-3.5	-4.1	-4.5	-4.7

It is important to note that public financing for this plan includes external financing in mainly the following ways: concessional, semi and non-concessional loans; budget support; domestic financing including from commercial banks as well as non-banking financing including public private partnership and direct private sector investments. Others are contributions from both local and international NGOs.

Uganda debt stock rose from US$ 3.761 billion in 2012/13 representing 15.8% of GDP at the same time total expenditure and net lending as a proportion of GDP stood at 16.18%. Grants received in 2011/12 at 2.9% have since slumped to 1.08% in 2013/14 especially due to misgivings on donor side following highly publicized corruption cases and other governance issues. MoFPED has since 2012/13 developed a High Level Action Matrix that identifies corrective actions but donors have not adequately decided on a future engagement strategy for financial aid preferring to sustain support for selective economic and social development priorities. The current NDP will be financed with public (57.8%) and private resources (42.2%) for an overall cost of UGX 196.7 trillion (US$54.6 billion) over the next five years. Of these resources 11.2% will go to support a wage bill; 16.2% to non-wage recurrent costs and 68.1% to development.

The focus of Government has been mainly to create an enabling environment for the private sector and overall reduce the cost of doing business. In order to ease registration, business start-up and investor care and aftercare, the Uganda Investment Authority has been transformed into a one stop business center. As part of this integration Government has also launched a one stop web portal managed by the National Information and Technology Authority of Uganda (NITA-U) as well as a Government Citizen Interaction Centre within the Ministry of Information and National Guidance.

However, inasmuch as there is wide recognition that it is the private sector that will drive growth, Government's mechanism to deliberately support the private sector remains lean in structure and shape. The focus has mainly been on ensuring that there is More is needed to reduce to cost of credit, extend micro-loans to SMEs and MSMEs and set up challenge and innovation funds that private entities can access to bring their innovations to life. This should begin with implementation of the Public Private Partnership Policy and further capitalization of the Uganda Development Bank so that the private sector is incentivized to contribute maximally to the economy.

Due to a narrow tax-base and slowing in donor grant receipts, development expenditure as a proportion of GDP has remained low (ranging between 6-7% of GDP since 2010). While there is a demonstration of political will to allocate funds towards the development budget, most of this allocation goes to central government sectors and very minimal (about 14.9% of the decentralized budget for 2016/17) [15] of development funds are sent to local governments.

5.1.2 Alignment of National Financing to the Plan for Emergence

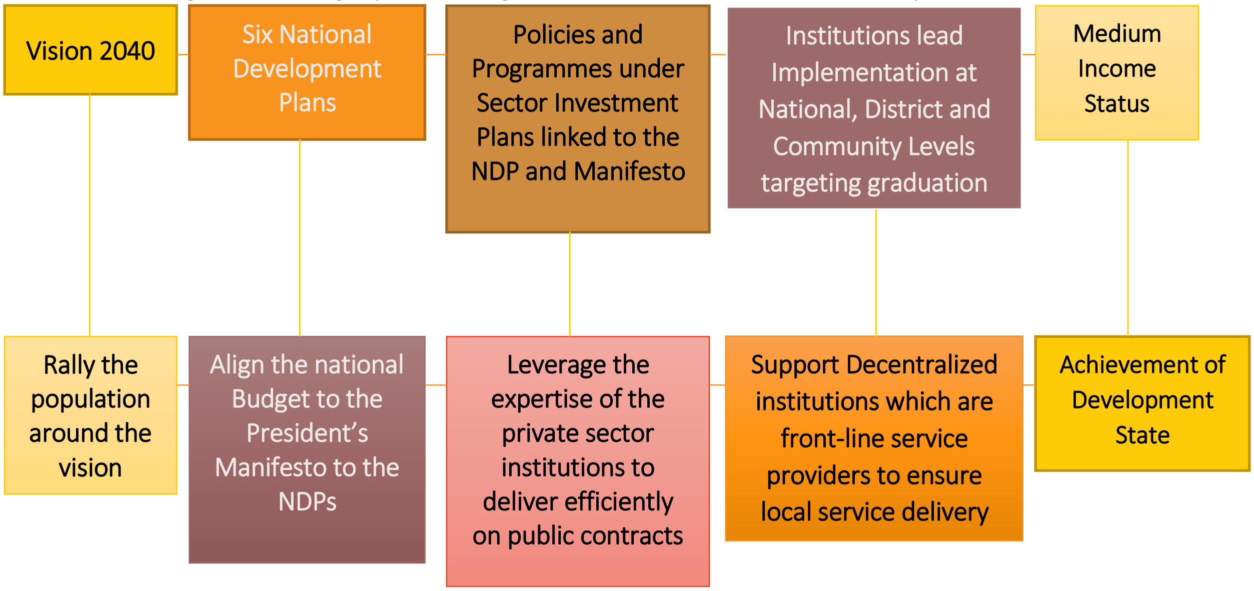
Since 2010, when the first NDP began to be implemented, there has been gradually greater proportions of the national budget towards NDP priorities but admittedly from a low base[16]. As shown in the diagram below, ideally, the national budget should finance the NDP. However, while this been mainly the case alignment of financing to NDP I was only 64.4% and is projected to increase under NDP II. As seen from the figure below, alignment of the budget to financing requirements of the six sequenced NDPs from the NDP I in 2010 until NDP VI in 2035 will be critical in realizing the vision.

From the macro perspective, the imperatives of progression must hold. Uganda will need to continue to expand her physical infrastructure, especially the rail connectivity with both Kenya and Tanzania to reduce the cost of cargo transport and to maximally take advantage of the one-stop center at Malaba and other border points. In pursuit of eventually meeting the upper middle income status it is imperative that the following are taken into account:

i. **Strengthen key institutions** to contribute effectively and bring to fruition the imperatives of emergence- through jointed planning and implementation of strategic projects under the NDP;
ii. **Invest in trade support infrastructure** especially value addition, enforcement of standards and branding in Uganda that present Uganda uniquely in the region and international markets;
iii. **Improve market intelligence** so that a Ugandan producer operates with target tied to the market expectations (including locally in Uganda).
iv. **Ensure and expansive human capital development** agenda by investing in nutrition and early childhood development; skills formation, education, health and other social development aspects
v. **Reduce inequality and ensure inclusive growth** where the growth of the economy manifests in people's businesses and quality of life.

15 Local Government Finance Commission Annual Report 2016
16 Mid Term Review of the NDP I – Thematic Paper on Results Framework (2013)

Fig. 5.1 Inculcating imperatives for graduation within the Vision 2040 and NDP process



It is hoped that the Presidents manifesto is in tandem with the NDP priorities because as the NDP I review noted, when this has not been the case, sectors have had to incorporate 'manifesto items' as key priorities in their budgets to accommodate their implementation – a significant cause of misalignment. Secondly more spending will be required at service delivery units including financing for operations and maintenance of infrastructure stock. There has also been slow pace is the enhancement of the wage bill- an aspect that has disincentivised civil workforce and make it difficult for the public sector to attract high caliber staff. Another key aspect is to reduce red-tape in the formulation, implementation and oversight over Public Private Partnership contracts so that value for money is ensured. The table below shows the extent of alignment of the NDP I actual financing from the national budget against planned spending by the mid-term of the NDP I for selected sectors.

Table 5.2: Comparison between NDP Planning and Actual GoU Finding for first 3 years of the NDP 1

Sector	NDP Budget (UGX Billion) 2011-2013	GoU Budget Allocation (UGX Billion) 2011-2013	% of alignment
Agriculture	997	1,018	+2.1
Energy and Mineral Development	3,058	2,632	-13.9
Works and Transport	3,701	1,595	-56.9
ICT	19	30	+57.9
Tourism Trade and Industry	166	11	-93.4
Education and Sports	1,284	3,719	+189.6
Health	3,818	3,719	-2.6
Water and Environment	582	612	+7.0
Social Development	108	86	-20.4
Defense and Security	1,745.2	3,775	+116.3
Public Administration	735.5	1,197	+62.7

Source: NDP Mid-term Review Thematic Report on Results Framework (NPA 2013).

Uganda's progression will depend on inter and intra-sector allocations within the national budget and how resources are earmarked to sectors that will deliver the results needed to make a shift in performance indicators that will reflect Uganda's emergence. The focus on education, agriculture, works and transport as well as energy are steps in the right direction and depict the effort by government to improve productivity in other sectors that depend on them. However, the investments in social development and trade services are very dismal yet these are critical for Uganda's emergence. It is important to note that over 25% of all targets under the Sustainable Development Goals (SDGs) are on social development alone. So, it is important that this sector gains more prominence in the budget especially on programs that advance social protection and vulnerability reduction. While it is important to spend on defense and security, it is also important that the fiscal space is not compromised in ways that crowd out allocations to key sectors that support human development.

5.2 Progress on Implementation towards 2020

The last two NDPs have focused on positioning 'primary growth sectors' to catalyze interim growth while building on, and linking with, other complementary and enabling sectors. For agriculture, 12 flagship enterprises were identified and these include: cotton, coffee, tea, maize, rice, cassava, beans, fish, beef, milk, citrus, and bananas. The focus is the support value chains for these enterprises and strengthen agricultural extension to support their development. Tourism is another area being emphasized and the plan is embarking on aggressive marketing and investing in tourism support infrastructure around tourism hotspots. Mineral, oil and gas gained prominence during NDP I with successful oil exploration of a potential of 1.4 billion barrels of oil out of an estimated 6.5 billion barrels' potential. Government is in the advanced stages of a contract to build the oil refinery so that there is maximum benefit from the oil resource. To support rapid transportation of both goods and persons, the Standard Gauge Railway project is ongoing with the Kenyan side already at 70% of the Mombasa – Nairobi phase. Uganda will take on the phase from the one-stop center at Malaba and take it three ways: one up towards Kasese to the west, another to Nimule on the border with South Sudan and third to Rwanda through the Mirama hills to the west of Ntungamo district in Western Uganda. A lot of investments are on on-going in the roads sector with a target to upgrade the national road network from the current 3,795km to 6,000km of paved road grid. As regards to the energy sector, construction of the 600MW hydropower station is on-going at Karuma and this will add to already existing 825 MW capacity with a projection to increase this to 2,500MW by 2020. Electricity provision is critical for value-addition (agro-processing and manufacturing) as well as for the extractive industry. The table below illustrates some of the core projects being implemented to actualize Uganda Vision 2040.

Core Project in the NDP (both after NDP I and current)	State of Progress
Energy	
Karuma Hydropower plant (600MW) Ayago Hydropower plant (800MW) Isimba Hydropower plant (140 MW) Other mini-hydropower plans (estimated 84MW)	- Work on-going and on track to be completed by 2020 - MoU signed and feasibility studies completed - Work on-going to be completed by 2020 - On-going
Transport Infrastructure	
Major Highways constructed Rehabilitation of Railway Standard Gauge Railway	- Plan to lift the paved road network to 6,00km by 2020 - Malaba-Kampala as well as Tororo Gulu rehabilitated - Compensation on-going and construction to start 2018
Oil and Gas	
Refinery Development Construction of inter-state distribution pipeline	- Contractor procured and project to end by 2020 - Plans complete for the pipeline through Tanzania
Mining	
Construction and development of Phosphate industry Production of iron ore and ingots Exploration of various minerals and precious stones	- On-going construction at Tororo to be completed by 2019 - Government dealing with an issue of surface rights - Permits provided for exploration in various parts
Water for Production	
Construction of irrigation schemes	- Rehabilitation of Doho, Agoro, Mubuku rice irrigation schemes completed while Olweny and Kiige schemes are on track
Health	
Upgrade of hospitals Addressing Infectious and other diseases	- Upgrade of Mulago national referral hospital as well as other hospitals (Itojo, Kiryandongo and others on-going) - Procurement completed for vaccines to fight diseases including Hepatitis B and other killer diseases.

Source: National Planning Authority (2015) NDP II (2015/16-2019/2020)

As Uganda moves on with implantation of the NDP II, it will imperative that there are sustained investments in energy and infrastructure, appropriate focus on social sectors, and more strategic investments in agriculture, tourism and mining (including oil and gas). Government is aware of the need to pay more attention to the challenges of ensuring a higher-than-current level of absorptive capacity and building systematic capabilities to innovate and implement with greater level of productivity both in the public and private sectors. The country is poised to achieve higher ratings among its peers in the emergence setting, due to the current budgetary planning earmarking resources to primary growth sectors as identified in the first NDP and on account of better alignment of NDP II with these 'tools for emergence'. These include: gradual increment in allocation to the health and education sectors. Lastly, the focus in increasing labor productivity through spending on skills formation, innovation and firm productivity is imperative in the medium term is Uganda is to emerge. This progression is mirrored in the layout below.

Increase productivity in key sectors – that have the highest multiplier effect on the economy

→ **Focus on Human Development** – that starts with good governance and provision of social services that reduce vulnerabilities and poverty

→ **Ensure Sustainable Development** – move towards a green economy that guarantees a sustainable economy for future generations

Conclusively, planning for emergence must focus on investments that contribute directly to meeting the targets that will ensure Uganda attains a medium income country status. This means that planning right from the District Development plans is guided by sectors so that they point towards outcomes need for economic, and human development. This will require coordinated policy formulation and implementation and a deliberate effort to minimize wastage, fight corruption and ensure inclusive growth. Uganda will need innovative mechanisms to increase the productivity of her labour force through skilling in strategic sectors; embedding ICT in public administration to increase its efficiency in working, and monitoring as well as revitalizing agriculture in a way moves Uganda from just production to agro-industry. Ultimately, it is agriculture more than any other sector that will drive Uganda towards a medium income status. Promoting local production and consumption as well as diversification of exports will be key in this effort. Uganda's graduation will be further enhanced with processes that ensure a smart e-government that used ICT and other technological innovations (e-payment and e-procurement systems) to reduce to cost of doing business, and support key aspects like data management systems, e-tax and higher capacity for fighting of cybercrime, obtaining market intelligence; and communicating effectively with the population. However, this will all need to be supported by a conducive environment that ensures adherence to constitutionalism and respect for the rule of law. In addition, Uganda will need to ensure at operational and institutional level that there is:

i. Coordination in planning and synergy in implementation;
ii. Jointed up M&E systems purposed to generate collaborative learning and sharing of best practices within government and with the private sector;
iii. Alignment of resources towards service delivery and less on non-performing overheads;
iv. Decentralization that meaningfully ensures services reach the people to whom they are intended; and
v. Minimizing of public and private sector corruption and capital flight.

Uganda's Vision 2040 has to be embedded in every fabric of society and all Ugandans mobilized to know how to play their part in whatever sector they are engaged. Strategic investments will be needed especially for value addition so that Uganda gains maximally from international trade. This will require ensuring quality standards, utilizing regional and international market intelligence on the quality of good demanded. In addition, Uganda has a youthful population and investment in skills formation would this from the current challenge of unemployment to a huge economic dividend as they begin to innovate, produce and engage in gainful employment. This will be critical in ensuring inclusive growth and development.

THEMATIC CHAPTER –

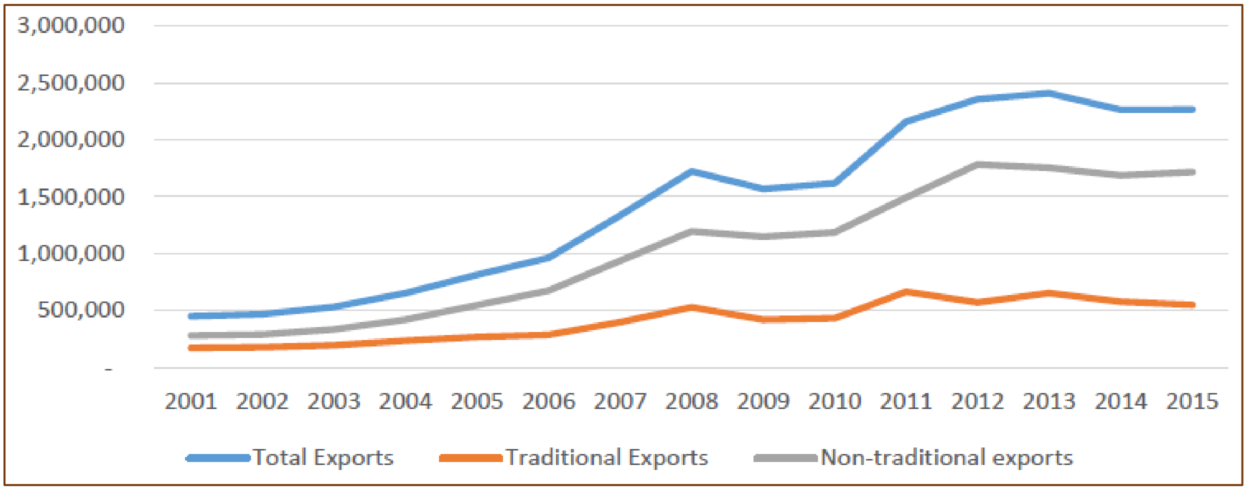
Export Diversification

for Structural Transformation in Uganda

Section 2: Diversification of Exports within the Framework of Structural Transformation

Uganda's exports have grown from a value of US$ 450.53 million in 2001 to US$2,267 million in 2015, a fivefold increase over the 15-year period. However, when considered between 1995 and 2015, Uganda's exports only increased 3.9 times; because exports fell 30.3 percent between 1995 and 2000 from US$ 576.56 million to US$40.164 million. Coffee, tea, cotton and tobacco constitute Uganda's traditional while petroleum oils, cement, fish, cane sugar, maize, dried leguminous vegetables, cocoa beans, other oil seeds and oleaginous fruits, and live plants are the top non-traditional exports. Fig. 1 shows the growth trends of total, traditional and non-traditional exports. Over the period 2001 and 2015, non-traditional exports grew at an average growth rate of 13.7 percent per annum and traditional grew at 9.8 percent. Traditional exports accounted for 37.7 percent of total exports value in 2001 but this share had declined to 24.3.5% by 2015. In 2015, the value of non-traditional exports stood at US$ 1,717.15 million compared to US$ 549.864 million of traditional exports in the same year.

Fig:1 Growth in value of Uganda's exports $ ('000)



Source: TradeMap Data (2015)

The growth of Uganda's traditional, non-traditional and total exports is shown in Table 1. In 2009, both traditional and non-traditional exports fell due to the global financial and economic crisis that reduced demand for agricultural exports. There was a general decline in exports in 2014 and 2015. Traditional exports fell again in 2012, 2014 and 2015. Coffee exports fell by 3.6 percent and 1.8 percent in 2014 and 2015 while tea exports also fell on account of declines prices. In addition, the deteriorating security situation in South Sudan affected exports since transport and trade were disrupted. The UCDA attributed coffee's poor performance to the negative effects of climate change and poor global prices.[18]

Table 1: Growth rates exports % (by type of exports)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Traditional	4.5	10.5	19.2	14.1	7.9	38.7	32.8	-20.9	3.3	54.0	-14.2	14.3	-11.9	-4.5
Non-Traditional	3.3	15.7	25.1	30.1	23.5	39.0	27.4	-3.9	3.2	25.9	19.6	-1.8	-3.9	1.8
Total	3.7	13.7	22.9	24.4	18.4	38.9	29.0	-9.1	3.3	33.4	9.2	2.1	-6.1	0.2

Source: Calculated from TradeMap data

[18] Uganda Coffee Development Authority (UCDA) report in September 2016.

The non-traditional exports that experienced remarkable growth over the extended period include cement which in 2001 Uganda only exported US$355,000 worth but by 2015, this had risen to $80.016 million in Table 2 below. Uganda discovered oil in 2006 and has been making progress towards becoming an oil producer. It issued oil production licenses to Tullow, Total and CNOOC signaling the final steps production expected by 2020. Oil is expected to provide a positive impact on Uganda's economy. When production begins, oil will become an important non-traditional export with a significant contribution to the economy. The value of Uganda's annual oil exports (at the prices) is estimated at $1.5 billion, equivalent to 15 per cent of total GDP and will nearly double government revenues (Oxford Institute for Energy Studies, 2015).

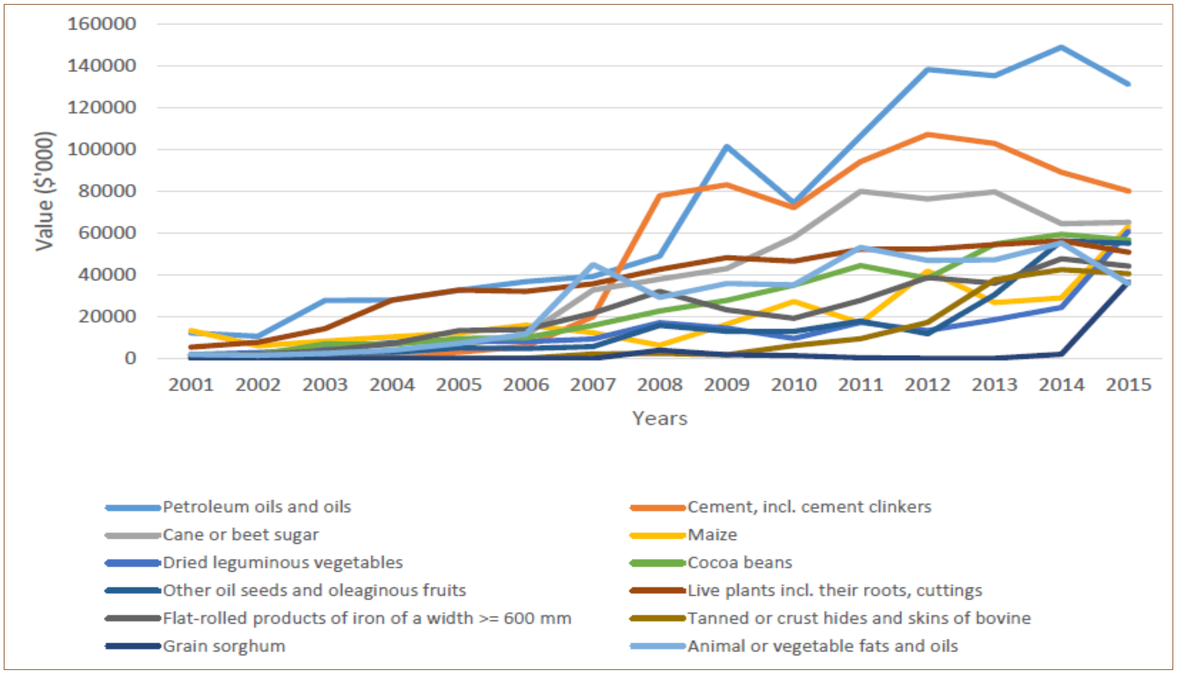
Table 2: Top non-traditional exports that experienced growth

Export	Value in 2001 (US $'000)	Value in 2015 (US$'000)	Sector of Origin	State of exports
Petroleum oils and oils from bituminous minerals	12,259	131,136	Manufacturing	Processed
Cement including clinker	355	80,189	Mining	Processed
Sugar	1,384	65,235	Agriculture	Processed
Maize	13,452	63,110	Agriculture	Unprocessed
Dried leguminous vegetables	1,986	61,008	Agriculture	Primary processing
Cocoa beans	1,921	56,684	Agriculture	Primary processing
Other oil seeds & oleaginous fruits	1,004	55,161	Agriculture	Processed
Live plants	5,484	50,861	Agriculture	Unprocessed
Oil (from 2020)		1,500,000	Oil and gas	Unprocessed

Source*:* Worked out from UBOS (2016) data

A World Bank analysis of the sources of exports revealed that agriculture exports 12 percent of its output. Other sectors that export a significant proportion of their production are fishing (32.9%), agro-processing (8.5%), hotels and restaurants (20.3%), public administration (22.7%) and infrastructure (22.7%). Other manufacturing (10.6%) and transport (8.8%) are also significant. Extractives (2.8%), textiles (2.6%) and utilities (2.6%) all serve to underline the diversity of Uganda's exports. The level of services exports is important for the growth of exports.

Fig. 2: Growth of selected exports

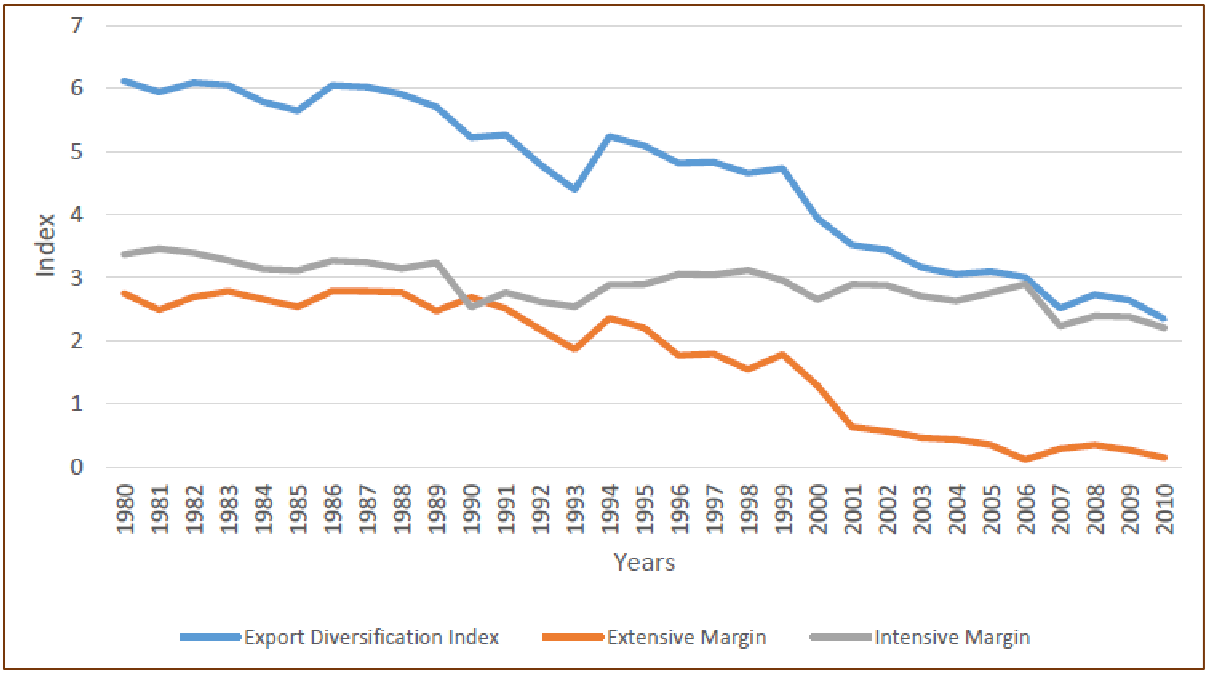


Source: Trade Map Data (2016)

There are manufactured products among the top non-traditional exports: other manufacturing, agro processing and textiles are the main sources. Manufacturing has the capacity to transform the economy by demanding and using local products as raw materials and intermediate inputs and create new products in the process contributing to a change in the structure of an economy. Manufacturing is also a key source of more and better jobs. It has the strength to create and exploit backward and forward linkages with other sectors such as agriculture, construction, extractives among others. Agro processing demands agricultural products and links them forward to consumers, producers and export markets. The African Development Bank (2014) estimated that Uganda's exports of manufactures have been increasing and showed that the proportion of manufactured exports in total has increased from 39.1 percent in 2001 to 64.9 in 2012.[19] However, some of the exports have limited processing or value addition or links with manufacturing. Thus, while they add to export diversification, they do not in themselves have much scope for linkages and structural transformation. The export products shown in Fig. 3 all grew from very low levels in the year 2001. The discovery of oil and its production will create opportunities for manufacturing from refining to fertilizer production and other chemical products. Uganda's vision is to increase manufactured exports to 50 percent of total exports (Vision 2040).

Uganda has significantly diversified her exports. Fig. 3 shows the Export Diversification Index (EDI), the extensive margin diversification and intensive margin diversification for the period 1980-2010. It shows that exports and markets have been diversified over time. However, the intensive margin index declined more slowly over the period 2005 and 2013 indicating that Uganda still earns export receipts from a concentration of exports or markets.

Fig. 3: Export Diversification Trends



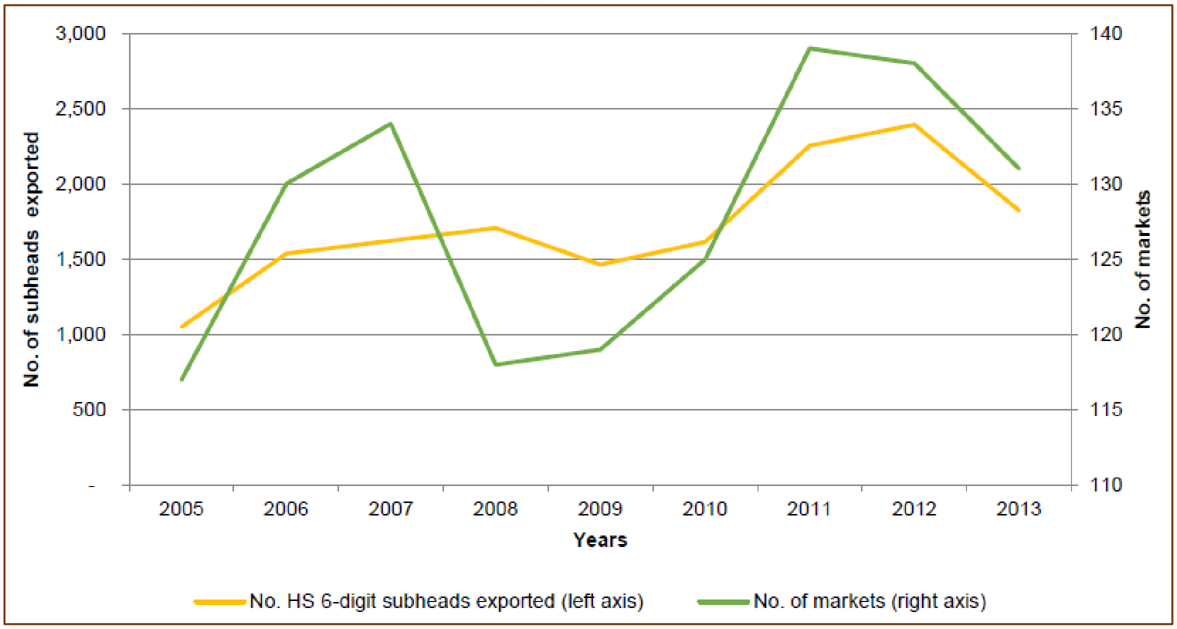
Source: DFID–IMF Diversification Toolkit (2012)

Diversification of exports is linked to structural transformation. An analysis of the trends in the geographical trade dispersion indicators for Uganda's exports has shown that Uganda is more integration into the EAC, COMESA and the EU than the other trading blocs/regions. The indicators point to a slow decrease over the years for the EU, while they increase for the EAC and COMESA further emphasizing the growing integration of Uganda's exports in the EAC region (Shinyekwa, and Othieno, 2013). The Trade Intensity Analysis of Uganda and her trade partners indicates a strong trade flow between Uganda and some of the regional trade partners especially Burundi, Rwanda, DRC, Sudan, Kenya,

[19] UBOS does not separately classify exports as manufactured or processed and attempts to update the table (Table 6 in AfDB, 2014) used crude methods to come up with estimates.

Tanzania, Eritrea, Mauritius, Malawi, Ethiopia and Swaziland. These are either EAC partners or COMESA member states. Fig. 4 shows the number of export markets and products. Both show increasing trends of export diversification.

Fig. 4: Number of export markets against subheads of export items (2005-2013)



Source: http://set.odi.org/data-portal/economic-structures-data/

Linking Structural transformation and diversification

According to (Bhorat, et. Al. 2016) the process of structural transformation is path-dependent, where a country's current productive capabilities embodied in its export structure, influence the extent to which it can shift production toward increased manufacturing activity. Structural transformation involves the shift of productive resources from low productivity primary activities toward high productivity manufacturing activities. It is measured by employment shares and value-added shares of sectors in total employment and total value added increased productivity and employment of technology are important dynamics.

In Uganda, the primary sector is important; it contributed 24.7 percent of value added in 2014 and is declining while the industrial sector contributed 20.4 percent and services 54.9 percent. Manufacturing value added contribution to GDP was consistently below 10 percent. However, worker productivity in agriculture is very low (World Bank, 2015). Current agricultural productivity, cannot lead the sector to play a catalytic role in structural transformation. Structural transformation is achieved when the manufacturing sector plays a leading role because it can generate economic activity, more than any other major economic sector. Around the world, improvements in manufacturing productivity have leveraged the productive power of its workers and enabled more manufacturing output per person. It supports non-manufacturing jobs up and down the supply chain, from mining to warehousing, engineering, financial, and legal services. The sector plays an essential role in innovation and where there is an established research tradition, it can account for significant private spending on R&D (*Kurfess, 2013)*.

Structural transformation has taken place in Uganda but this has not been manufacturing-led growth-inducing structural transformation. Manufacturing is one of the sectors which is both labor-intensive and export-orientated (Söderbom and Teal, 2003). Increased levels of diversification occur as a country develops and is driven by the entry into new product markets which is linked to technological convergence between low and high-income countries (Cadot et. al., 2011) and Klinger and Lederman, 2011). Ugandan manufacturing has not developed enough to provide the stimulus for moving resources from low to high productivity sectors. It needs process to agricultural more products to add value or has to undergo manufacturing-led growth-inducing structural transformation. While diversification of exports and markets has occurred, Uganda has not taken new products into the new markets. However, Uganda is able to find new markets for its current products (exports). The manufacturing is currently not systematically linking agriculture that needs to change. In a way the constraints manufacturing's structural transformation oriented development is in the sector's current production which is determined by the available skills and the equipment currently in use.

Hausmann, et. al (2014) analysing Uganda's production and exports observed that exports have become more diverse, but only due to a diversification into other primary products such as mining and fish and exports are concentrated in agro-based commodities although exports of light manufactured building materials e.g. cement and steel products have increased to neighbouring countries. So Uganda has significant presence in many peripheral commodities, trading tree crops and flowers, as well as food processing, animal products and fish and seafood. A few inroads have been made into the larger, more complex, and more connected commodities such as garments, construction materials, chemicals, and machinery. Further, Hausmann et. al. (2014) argue that what a country produces today affects what it could produce tomorrow. This is especially critical for manufacturing in order to achieve structural transformation and is determined by the complexity of processes and products which depends on skills and ability to operate existing equipment. What this means for export diversification and structural transformation is that Uganda can continue to broaden exports based on current complexity, skills and current products. Existing skills can be used to produce products that use similar skills. However, since Uganda's manufacturing production is still being still at low level processing, using existing skills risks maintaining Uganda stuck at those lower levels and failing to make the transformation. The alternative is that Uganda can change its current production and create scope for producing more complex products which would also determine what it produces in future, with a view to achieving structural transformation. The change would be a deliberate selection seeking to target those products and sectors that can achieve the maximum opportunities for expanded and diversified production in the desired path different from the current one.

To achieve structural transformation, Uganda needs to reduce the share of agriculture in GDP, increase the share of manufacturing and non-manufacturing industry substantially; reduce the share of services and modernize unproductive distributive trade activities, transforming them to formal productive activities. The levels of changes suggested include reducing agriculture by 36.2%, increase industry by 48.3%; a 7.0% reduction in services and a 188% increase in manufacturing and the resulting structure of GDP would be: 15% agriculture, 37.8% industry (of which 24% manufacturing), and 46.8% services.

Export growth, export diversification and some modicum of structural transformation in Uganda have been achieved on account of economic stability and Government's policies and emphasis on diversification. It is however observed that while it is possible for economies to grow on the basis of abundant land or natural resources, it is structural change – the shift of resources from low productivity to higher productivity sectors – that is the source of sustained economic growth. Industrial development drives structural change, and in spite of what Uganda has achieved, the weakness of its industry will limit or constrain its growth prospects (Page 2010). On the other hand, export diversity matters for growth in that productivity gains in more diverse economies arise in their ability to take advantage of export opportunities. Evidence suggests that industrial diversity leads to export diversity in fast growing economies which is consistent with the view that as the manufacturing base broadens, economies build industrial competence and firms enter global markets (UNIDO, 2009). Therefore, if export opportunities can be successfully exploited, "learning through exporting" will take place, raising the productivity of the manufacturing sector as a whole. On this basis, it can be concluded that while Uganda has achieved export growth diversification and structural transformation, more can be achieved if there were significant shifts and if it expanded manufacturing exports based on improved productivity. Attempts to catalyze growth must aim to achieve significant structural transformation where a thriving industrial sector can make a difference. In the next section, we look at the national policies and strategies for trade diversification.

Section 3: Reviewing the National Strategies and Plans for Trade Diversification and their Implementation

The previous chapter showed that Uganda's exports have grown and that there has been diversification of exports while the structure of the economy has undergone some transformation. This chapter analyses the national strategies and plans that Uganda used and those it has put in place to achieve trade diversification and how these have been implemented. For the government to achieve its ambitious socioeconomic transformation goal to make Uganda an upper-middle income country in 30 years, it has to promote a culture of economic diversification. Experience from other countries shows that countries that successfully diversified also achieved strong and sustainable economic progress. The main goal of economic diversification in some country rich in natural resources should be to transform exhaustible natural resources into other forms of capital (physical and intangible), crucial for long-term development. Uganda's diversification goal has been supported by a number of national, sectoral and even sub sectoral policies. To successfully diversify production, exports and markets national plans and policies should aim include agro-processing, mining and processing of minerals, and tourism as well as promote industrial policies based on the results of past international experience.

The government designed and implemented a number of policies to achieve export diversification. The two National Development Plans - the NDP and the NDP2 are the government plans designed to shape the economy while achieving production and export diversification. Their design and implementation followed the successful implementation of the two Poverty Alleviation Action Plans (PEAP and PEAP 2) which had laid emphasis on export diversification. In the trade sector, the main policies are the National Trade Policy of 2007, the National Trade Sector Development Plan (2008/9 – 2012/13) and the National Export Strategy (2008-2012). NTP vision to transform Uganda into a dynamic and competitive economy where the trade sector stimulates the productive sectors and the aim to transform the country by trading out poverty into wealth and prosperity has provided guidance to the development of the trade sector since 2008. It is envisaged that the country's domestic trade will serve as a springboard for engagement in international trade; and has further aim on product and market diversification. The NTP vision is linked to Uganda's Vision 2040 in what both seek to achieve. In addition, the NTP vision is also evident in the NES 2008-2012 vision "A dynamic and competitive export-driven economy for national prosperity and development". Also, there was a number of sectoral policies in agriculture, industry and cooperatives designed to catalyze production with a focus on markets. A new National Exports Development Strategy to cover the period 2015/16 still has to be approved but is already lagging behind its planned operational period.

The NDP (2010) emphasized that "Trade is concerned with the creation and diversification of markets, development and stability of productive capacities, harmonization of tariff regimes, reduction of trade barriers, diversification of exports, and expansion of export base and export markets". This followed on earlier interventions that recognized and consistently maintained the need for diversification of exports. The NDP II incorporated the achievement of the structural transformation and vison for achieving middle income status. Over the NDPII period, the trade sector's key focus areas include:

- increase market access for Uganda's products and services in regional and international markets;
- improve the stock and quality of trade infrastructure;
- promote the formation and growth of cooperatives;
- enhance the capacity of cooperatives to compete in domestic, regional and international markets; increase the share of manufactured goods and services in total exports;
- increase the diversity in type and range of enterprises undertaken by cooperatives; and
- improve private sector competitiveness.

The plans implement the Vision 2040 and provide for specific actions in selected areas. NDP2, prioritized agriculture, industry, cooperatives; minerals, oil and gas; among others which have the scope and capacity to improve the performance of the economy and when (if) the policies and plans are implemented, they can diversify exports as well as initiate stronger structural transformation. In addition, tourism and infrastructure development are also prioritized in NDP2.

There has been visible progress in the implementation of the plan for minerals, oil and gas especially the oil development. It has been slow but there is definite progress given that the government has now issued eight production licenses to three oil companies. The refinery and oil pipeline will be determined next. Mining has also been given prominence. The development of infrastructure projects as part of the plan for the sector is going on well. The construction of the Standard Gauge Railway as part of the Northern Corridor Integration Projects will stimulate trade development.

The implementation of the National Trade Policy has been going on since 2008. It put in place measures that will create and diversify markets, develop and stabilize productive capacities with a focus on value addition and employment creation, and bridge the gap between the central and local government levels. The thrust to take the policy to the districts and counties naturally places emphasis on agriculture as the economic base of the local government areas. In addition, the National Exports Strategy (NES) (2007) covered the period 2008 – 2012 and targeted to earn export revenue of US$ 5 billion and increase the contribution of exports to exceed 16 percent of GDP by 2012. Its vision was *a dynamic and competitive export driven economy for national prosperity and development,* underlining Uganda's consistent awareness about the need for competitiveness in exports and the role of exports in economic development. The NES prioritized export development in 12 sectors: coffee, fish, tea, cotton and textiles, flowers and services. In order to further enhance export diversification, an additional six sectors were included as priority source sectors for exports. These were fruits and vegetables, dairy, cereals and pulses, natural ingredients, commercial crafts and manufactures (with the aim of advancing the value addition goal). A new National Export Development Strategy (2016-2020) is being finalized. The implementation of the NTP has given rise to a number of other specific policies many of which must be implemented to make a difference.

An evaluation of the NES[20] found that it achieved some limited success in areas that involved training e.g. enhanced awareness of quality and standards, improved export competence, improved access to finance through recapitalization of the Uganda Development Bank and introduction of the agricultural sector credit guarantee scheme; the improved provision of trade information through the domestication of the regional information system for exports and opening of regional information centres. The UEPB worked with Ministry of Tourism, Trade and Industry facilitated participation of exporters in regional and international markets in an effort to increase market access. On the other hand, the evaluation showed that most of the planned interventions were not implemented as planned hampered by weak coordination and limited resources. Government Ministries and other agencies, only implemented interventions that coincided with their programmes and funding. As a result, the aim to increase sector export volumes and values through diversification into new products, increasing agricultural productivity/yield, value addition and entry into new markets were not achieved. In fact, the evaluation found that export volumes in seven of the 12 targeted sectors (coffee, fish, cotton, textiles and garments, floriculture and fruits and vegetables) declined over the period. Unemployment increased and Uganda's competitiveness declined as indicated by its ranking in the Doing Business Report.

Implementation of the NDP faced a number of challenges which are discussed in the main paper. Some of the challenges cascaded into and affected the implementation of national and sectoral trade policies. The main challenges that afflicted implementation of trade policies were limited or lack of financing and weak public sector management where overlapping and duplication of mandates; low levels of productivity; and low motivation and remuneration compounded by the poor mind set and negative attitudes affected the sector's performance. Both the NTP and NES had lower budget allocations than required to catalyze effective execution of planned interventions.[21] For the private sector, the high cost of finance and unavailability of long term finance further constrained investments under NDPI.

[20] An evaluation of the NES carried out by ALMACO Management Consultants Ltd, Nairobi in May 2012.

[21] Resources are allocated to implementing agencies and the evaluation found that there were no increases to UEPB and other agencies associated with the implementation of the NES.

As a consequence, implementation of trade policies had limited impact. For example, at the end of its implementation, the NES had only achieved 47.2 percent of its target to grow exports to $5 billion by 2012 as shown in Table 3.

Table 3: Budget Allocation to NES strategic Sectors and Institutions 2009/10-2011/12 in billion shillings

Sector/ Institution	2009/10	2010/11	2011/12
Tourism, Trade and Industry	47.81	49.22	49.67
Agriculture	310.73	365.53	436.80
Energy and Mineral Development	698.93	391.26	1 202.48
Works and Transport	1 214.83	1 038.08	1 219.41
Ministry of Trade and Industry(MTTI)	24.37	24.57	25.05
Uganda National Bureau of standards(UNBS)	9.83	9.83	9.83
Uganda Industrial Research Institute(UIRI)	11.56	12.76	12.74
Uganda Tourism Board(UTB)	2.05	2.05	2.05

Source: Ministry of Finance (2010, 2011, &2012)

In the area of trade, the priority sectors will provide impetus for production, value addition and create new products that will contribute to diversification and structural transformation. The implementation of the NDP seemed to have fizzled out under the weight of challenges that affected all other sectors. For trade, the lack of resources was a main hindrance to achieving goals. There are views that socio-political issues sometimes undermine the development of the trade sector and in the process diversification of exports. The allocation of resources is a main issue where the views are that planned trade development strategies designed to guide export development or support developments in sectors that support the trade sector have not received adequate resources thus undermining implementation. It is argued that shifts in political priorities affect the trade development strategies' ability to secure political support for their implementation through the allocation of government investment resources. An impression is created that the trade development agenda is easily downgraded as secondary priority behind some more politically attractive options. The plans and strategies thus 'expire' before full implementation weakening commitment to fulfil them. As a result, Uganda is commended for crafting good policies but the reality is that these are actually undermined by non-implementation. Thus the shifts in political prioritization weaken the progress of trade-related development. For example, the "Action Plan for the development and promotion of exports in selected commodities" that is one-year-old but appears destined to be replaced by a similar initiative under a Cabinet directive – merely changing the supervising agency or command center. Associated with the above is the public's thinking and attitudes which affect the uptake and success of government initiatives. There is general lack of fiscal commitment to invest on trade sector investments that drive manufacturing which leaves Uganda lagging behind its partners in the region implementing similar initiatives. The partners progress while Uganda either delays or does not deliver similar success. This is most apparent in regional trade development projects. These difference have to be factored into export development and diversification agenda.

Policy and programmatic gaps constraining export diversification

Uganda has developed a number of policies that have contributed to increased production, export and market diversification. The one hold up is that the good policies have generally been associated with weak implementation. For example, the Marketing and Agro-processing Strategy (MAPS), the Plan for the Modernization of Agriculture (PMA) and The Plan for Zonal Agricultural Production, Processing and Marketing which had plans for increasing incomes through exports were excellent policies whose implementation was rather limited, if at all.

Uganda's INFORM Risk indicators for 2017 show an improvement. At 5.9, it is lower than last year's index of 6.4 and is only behind Rwanda and Tanzania in East Africa. However, Uganda is still perceived as a risky investment destination although its profile has improved greatly. It's comparators outside the East African region are Mali, Syria, Nigeria and Pakistan while in the region are Kenya and Ethiopia. The risk profile for 2017 is better than these countries. These comparator countries have elements of instability or some strife but the countries attract considerable amounts of investment. The areas of perceived risk are in the general threats of terrorist attacks, corruption and because of the region in which it is located has stability issues. DRC, Burundi, South Sudan and terror attacks in Kenya make this a very volatile region. Uganda has had to spend in order to invest in maintaining peace. These efforts distract from its expansion of exports. South Sudan and to an extent Kenya have had peace and security issues in the past 4 or so years. The expected Investments in oil production are estimated at approximately be ($8b) Shs27 trillion to drill about 500 wells and construction of associated infrastructure before the country can see first commercial production by 2020. Although Oil company shareholders and investors are yet to approve the investment plan for oil production in Uganda, committing the amounts involved shows some level of calculated risk and expected high returns. It will be a major boost for Uganda but the threats will not go away because of investment in oil.

Uganda's challenges have not been policy or programmatic but more implementation. The Government has designed policies in most areas. However, these have not been aggressively implemented. Implementation is compromised by inadequate resources for pursuing trade diversification; a lack of skilled labour and before embarking on a serious development of infrastructure, infrastructure held back the implementation and achievement of trade diversification. The lack of resources affects the support that can be given to enterprise development and access by small enterprises sector for its development.

Uganda's supply-side situation has generally shown that it is not capable of supplying the markets that have been opened. In the past, a combination of low volume production and cost of production undermined the growth of exports. Competitiveness lies at the center of export performance. Uganda's key competitiveness challenges included the domination of exports by low value, undifferentiated primary commodities that are subject to stagnant world demand, and price volatility. Others were lack of skilled labour, lack of specialized equipment, inadequate internal control on quality standards, and high fuel prices leading to higher transportation costs. The government has moved to address the infrastructure deficit, the real exchange rate and money supply, and the inefficiency of customs administration. However, these are far from being ideal and still affect the supply-side constraints. Skills shortage limit production, production and quality of goods, access to and cost of finance, infrastructure, quality of public institutions and public sector management remains weak. The budgeting and resource allocation to trade support institutions is inadequate and the Sanitary and Phytosanitary and technical standards must improve to ensure Uganda's products comply with international expectations. In short Uganda still contends with supply-side constraints (Table 4).

Table 4: Budget Allocations to MTIC and Trade Support Institutions (Billion shillings)

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Ministry of Trade, Industry & Cooperatives	13.101	36.251	15.327	18.76	23.47	26.24
Uganda Export Promotion Board	-	-	-	-	-	3.898
Uganda National Bureau of Standards	9.827	16.503	16.749	12.53	12.53	13.93
Uganda Industrial Research Institute	12.742	12.740	12.512	14.24	14.24	16.25

Source: MFPED (various)

High energy prices (especially the cost of electricity) are associated with current low supply and the cost of getting electricity to users and high costs of financing energy projects. Electricity end-user tariffs are a function of the generation, transmission and distribution costs divided by the units generated minus the units lost. The generating companies, transmission company and distributors must all earn a return. Uganda is constructing two large energy generating projects - Karuma and Isimba - which together will increase supply by an additional 780 MW. Once supply is secured and the associated costs of construction and cost of distribution begin to decline, the cost to the consumers is expected to come down. The decline in the cost of electricity is likely to start after the two major projects within the next four or so years. Electricity users for production of exportables will begin to enjoy cost effective assured electricity supply.

Although the government has acknowledged the importance of infrastructure for trade development and moved to address the challenges in this area, some think that this commitment have been excessive and not justified given the fact that trade has not picked in response. The suggestion is that there be an analysis of the impact of the progress of the country's initiatives on export diversification against the progress (or lack thereof) in other sectors such as health, community development, infrastructure, etc. What is achieved in these other areas which support trade can affect the magnitude of success or failure in export development. The construction of major roads, improvement of border points and other such infrastructure have not witnessed a pick-up in trade as projected, yet governments are investing more in this hard infrastructure. The recommendation is to develop export capacity first before infrastructure development. It is however, important to note that it is possible to push the improvement of infrastructure while pursuing expansion in the production of exports. Also, infrastructure is not designed to serve the export sector alone, domestic trade and distribution of development within Uganda will be easier when there is adequate infrastructure to support development efforts in other areas of socio-economic sphere.

While Uganda was the world's leading enterprising country in a 2016 global survey, a lot of the efforts are individual and confined to the informal sector. It is fragmented and uncoordinated and there is no programme to develop the entrepreneurship. Much more could be achieved if the entrepreneurs were assisted to understand markets and grow in response to and targeting specific markets.

The main challenge is the premises of export diversification on agriculture and primary products. There is a need to accelerate the investment in manufacturing to exploit the sector's backward and forward linkages with sectors capable of multiplying and creating spillover effects that generate further product diversification. Transformation will only be possible with an established and growing manufacturing sector that creates jobs and increases incomes. There has also been an inability to investigate and suggest new product development. In the more dynamic industrial sector, the industrial policy and micro- small and medium enterprise sector as well as private sector development need to do more to catalyze the strategy of converting the informal sector to graduate into formal joining the ranks of manufacturing industries. Manufacturing needs to invest in the creation of productive capacity that launches a more ambitious programme of value addition and increase production of manufactured products currently on offer. Since Haussmann and Hidalgo (2011) argue that economic complexity closely links a country's level of development and its future economic growth, it is essential to initiate dynamic strategies that will determine the path and direction of Uganda's development. Higher levels of economic complexity are a good predictor of future economic growth and development. Haussmann *et. al*. (2014) highlight their areas that Uganda ought to channel her efforts to producing. They recommend two strategies for Uganda's development:

- *Parsimonious transformation* – strategy based on industries in the vicinity of a country's current set of capabilities but that have higher sophistication. This making the development of the new products faster and less risky. The strategy recommends emphasis in labor-intensive industries.
- *Strategic bets* – strategy based on sectors that are more sophisticated and provide a larger strategic value, even if they lie at significantly greater distance. These industries are important for driving economic growth, further diversification and urban job creation.

Top ranked products in the parsimonious strategy are mostly processed inputs or outputs of the agricultural industry, that is, food processing and agrochemicals, a reflection of current dominant productive structure in Uganda (See list in Annex 1). On the other hand, the top ranked products in the strategic bets, include construction and industrial materials such as plastics, metal and paper products. An approach should be devised to balance between the two strategies but a continuation with the same will have limited impact on as it does adequately catalyze structural transformation. These strategies do not converge because they represent different paths to transformative investment and production structures. There is a need to The ITC also showed products with potential and that Uganda has capacity to develop new products that would have markets.

Table 5: Products with export potential in Uganda

Product group code / description	Exports (US$ thousand)	What is the product's export potential in…? Sub-Saharan Africa	Unrealized potential	non-OECD	Unrealized potential	OECD	Unrealized potential	Technology level	Price stability	Prominence of SMEs	Female labour participation
090111 Coffee, not roasted, not decaffeinated	387,495		55%		51%		15%				
252329 Portland cement nes	90,500		76%		76%		100%				
721041 Flat rolled prod,i/nas,pltd or ctd w zinc,corrugated,>/=600m wide,nes	19,285		80%		84%		100%				
090240 Black tea (fermented) & partly fermented tea in packages exceedg 3 kg	32,663		69%		72%		88%				
180100 Cocoa beans, whole or broken, raw or roasted	41,723		47%		32%		59%				
151620 Veg fats &oils&fractions hydrogenatd,inter/re-esterifd,etc,ref d/not	36,548		39%		46%		99%				
110220 Maize (corn) flour	11,739		77%		77%		94%				
170199 Refined sugar, in solid form, nes	32,750		22%		43%		79%				
340119 Soap&orgn surf prep,shapd,nes;papers&nonwovens impreg w soap/pre|	14,369		70%		71%		100%				
151190 Palm oil and its fractions refined but not chemically modified	31,732		24%		65%		100%				
100510 Maize (corn) seed	22,084		45%		47%		100%				
060210 Cuttings and slips, unrooted	26,418		85%		86%		28%				
520300 Cotton, carded or combed	22,736		92%		91%		51%				
100640 Rice, broken	13,475		59%		60%		100%				
120740 Sesamum seeds, whether or not broken	22,763		43%		39%		61%				
0304Xa Fish fillets and pieces, fresh or chilled	79,300		39%		17%		33%				
721420 Bars & rods,i/nas,hr,hd or he,cntg indent,ribs,etc,prod dur rp/tar,nes	25,285		26%		75%		100%				
1701XX Raw cane sugar	21,688		21%		51%		88%				
110100 Wheat or meslin flour	9,306		72%		75%		100%				
710813 Gold in oth semi-manufactd form n-monetary(inc gold platd w platinum)	12,347		100%		30%		100%				

Source: ITC (2016)

In addition, the World Bank (2015) suggests that a linkages analysis be used to identify products and sectors with scope for development. It recommends stimulation of agro-processing, production of vegetables and bananas, and other services would have a significant impact on other sectors as well as on the whole economy. An understanding of value chains and their linkages – backward and forward – is a critical strategy to identify opportunities and scope for development especially those that give manufacturing a chance. Uganda's oil and gas development is another of the sectors that has sectoral linkages that would bring in increased participation. The oil and gas sector can be at the center of oil refinery linked manufacturing with petrochemical industries developing around it. Industries associated with the oil and gas sector include cosmetics, fertilizers, detergents, synthetic fabrics, asphalt, and plastics among others. The impact of the oil and gas sector on other industries and exports depend on the number and intensity of linkages with other sectors and the size of production over and above Uganda's consumption requirements. Rasmussen index for the analysis of sectoral linkages, that is, the relative strength of forward and backward sectoral relationships, is an essential part of planning and policy development.

Prof. Justin Lin, recommends that Uganda puts in place policies to attract FDI especially in heavy machinery to tap into the vast potential in the extractive industry; invest in industrial parks to increase the pace of delivery of public serves required for structural transformation; increase productivity in manufacturing value addition; provide business start-ups incentives including access to low interest credit; link low cost producers to other players along various enterprise value chains; establish a jointed up approach to production and marketing that links producers to processors and processers to markets; and reduce the cost of energy by promoting alternative energy sources like wind and solar.

Other areas that are critical to trade diversification include science, research, technology and innovation; corruption that undermines policy implementation when even limited resources are misappropriated; and a need for stricter supervision of policy implementation. At present, the system of education is not geared to support industrial development. The level of unemployment among the educated is very high.

Recommendations on Target Industries

The foregoing suggests that if Uganda is going to transform, then it needs to break out of the limiting production system to one that will accelerate transformation. Uganda must choose and pursue a strategy to catalyze transformative export diversification based on manufacturing playing a leading role accelerate export diversification, alter the pace of transformation quicker. Strategic selection of subsectors of manufacturing would be done according to the strategic bets approach proposed by Hausmann *et. al.* (2014) and must include industries and subsectors with strong linkages formation that can stimulate production and the growth of exports. These suggestions clearly point to Uganda's lack of a strategic industrialization agenda. It is required for directing the development of strategic manufacturing sector industries. Uganda can emulate the example of a number of countries that have chosen a strategic development path and pursued it vigorously including provision of support and assistance to the selected sector or subsector to hasten its flourishing. Examples are Vietnam's breaking into the coffee production industry, Mauritius' textile industries development while Ethiopia promoted growing of flowers for export. Morocco, a desert country, has diversified into gardening through irrigation to produce sizeable produce. An agenda for industrialization is required to guide development because of manufacturing's capacity to increase the pace of structural transformation. Below are some suggestions for industries that have potential to create an impact and cause development.

Uganda can target industrial development of manufacturing industries premised around exploitation of natural resources, value addition and processing of these which include iron ore, oil related petrochemical industries and phosphates. Resources can be a base for scaling up industrialization through the development of strategic regional industries. Iron and steel, because of the broad range of uses to which iron but especially steel can be put to makes this attractive. In addition, the scope of potential for the growth of downstream industries and its capacity to create backward and forward linkages across the region, generate multiplier effects and position the region on the path of sustainable long-term growth make it attractive. It can be used in the manufacture and production of steel and manufacturing of structural metal products such as steel structures for factories and related installations, spare parts, motor vehicle bodies and trailers, domestic appliances, water tanks, and electricity conductors. Some iron and steel products recommended by Hausmann include structures and parts of iron, steel; other sheet and plates of iron or steel, worked; trailers and transports containers; miscellaneous articles of base metal which would fit in this. More importantly, the development of iron and steel related manufacturing requires sound machine processing. The development of the machine industries would be an important part of the capital goods sector development.

In addition, manufactured steel products also have wider uses and applications in sugar industries, tea factories, railways, cement plants, cotton ginneries, textile industries, steel plants, mining, and electrical machinery. The iron and steel industry is an attractive industry because it has significant technology trajectories and economies of scale, with the potential to generate far-reaching positive effects. It should, however, be noted that the majority of iron and steel factories currently operating in the region depend on steel scrap, whose supply is uncertain. Yet potential exists for an integrated iron and steel mill utilising the existing iron ore in the region.

The emerging oil production but especially the refinery in Uganda can also be the basis for the development of petrochemical industries. This is an industry to plan for as Uganda moves towards oil production. Because of the importance of agriculture, the production of fertiliser and chemicals to boost agricultural production and ultimately, agro-processing. Besides feeding its own population, Uganda can export agro-processed food.to neighbours and other food deficit countries in Africa.

This section looked at national plans and strategies for trade diversification and how they are being implemented. The main point from this section is that a commitment to adequately resource all strategies and plans can ensure that plans are implemented. It ended with suggestions for industries Uganda can develop which would help exports diversification and structural transformation of the economy. In the next section we shall look at approaches supporting the process of trade diversification.

Section 4: Approaches Supporting the Process of Trade Diversification

The last section looked at the national plans and strategies for trade diversification and how they were implemented. Gaps and challenges to the successful implementation of the plans and policies were briefly discussed. In this chapter, we look at the approaches that have been used and would be useful to support the process of diversifying trade and changing the structure of the economy going forward.

The Government of Uganda has adopted a number of approaches to support trade diversification including trade agreements and regional integration to increase market access and investment inflows. The government has created institutions to deal specifically with the development of export products. In addition, trade policy formulation is achieved through a consultative process between Government and the private sector.

Establishment of support institutions

The government has created and established institutions to ensure availability of goods and services thereby expanding domestic markets, and diversifying exports and markets. The Ministry of Trade, Industry and Cooperatives is charged with responsibility to create an enabling environment through policy formulation, provision of infrastructure and negotiation of market access. Other institutions working on trade aspects which support the export diversification initiative include: Uganda Export Promotion Board (UEPB), Uganda National Bureau of Standards (UNBS), Management Training and Advisory Centre (MTAC), Uganda Warehouse Receipt System Authority (UWRSA), Uganda Cooperatives Alliance (UCA), Uganda National Chamber of Commerce and Industry (UNCCI) and Uganda Free Zones Authority (UFZA). In the private sector, partners with government are the Uganda National Farmers Federation, Private Sector Foundation Uganda, Uganda Manufacturers' Association, Uganda Flower Exporters Association and Uganda Fish Processors and Exporters Association among a host of organizations.

Participation in trade arrangements to increase market access

Participation in regional and multilateral trade arrangements is an approach to secure markets for commodities. Uganda is a member of the EAC, COMESA, IGAD and the Tripartite Free Trade Area. The EAC integration has progressed through a customs union to a Common Market where Ugandan goods enter partner states territories unhindered access. Collectively, the EAC has a common external tariff which is applied to goods from outside the region. In addition, Uganda is a member of WTO and the Commonwealth and has bilateral trade agreements with a number of countries. As an LDC, currently it enjoys duty free quota free market access trade with a number of developed countries. For example, Uganda is a beneficiary of the AGOA trade facility. All these add to the initiative and drive to secure markets for Uganda's products and attract investments into Uganda. More opportunities to increase and diversify export markets will soon be on offer through trade arrangements that Uganda is participating in shaping under the Tripartite Free Trade Area and in the negotiations for the Continental Free Trade area. These are initiatives designed to unlock market access within the region and at a continental level. However, these will have to be accompanied by intensive infrastructure development to increase connectivity within the continent since travelling between regions can be a challenge.

Investment Promotion

In 1991, Uganda enacted the Uganda Investment Code (The *Investment Code* Act, CAP 92). The Act established a *code* to make provision in the *law* relating to local and foreign *investments* in *Uganda* by providing more favorable conditions for *investment,* to establish the *Uganda Investment* Authority and to provide for other related matters. The average annual growth of investment started to increase after 1992 and there has been a dramatic increase since then. The evidence shows that Uganda has been successful in attracting inward investment flows. The average annual growth rate of investment over the period 2000 to 2015 was 18.0 percent. By 2015 investment had risen to US$1.057 billion from US$181 million in the year 2000. Investment inflows peaked at US$1.205 billion in 2012.

A major success of the investment promotion is the flows into the minerals, oil and gas sector where Total, CNOG and Tullow have made significant investment. The benefits of these initiatives will be realized when Uganda produces oil and attracts investments in related sectors. Other areas include steel manufacturing and agro-processing.

Infrastructure, logistics and trade facilitation

Box 1: Exporter's Experience: The Example of Amos Dairies

Amos Dairies Uganda Limited is dairy processing company that was established in Uganda in 2013. The factory is located in Kirihura District. It is a subsidiary of Amos Dairies Limited and Indian firm. The shareholders Voxtra (a Norwegian Equity Fund); Erie Foods (USA) and Amos Dairies (India). The firm was attracted to Uganda by availability of organic material and the chain link – cows producing milk with scope to increase supply capacity. Uganda was the perfect place because of opportunities for increased cap.

The firm started with an investment of $22 million and capacity to process 400,000 litres of milk/day and the plan is increase capacity to 2 million litres/day. It started production in 2014 but is already established a leading exporter; it exports casein to the USA, Amos Dairies produces casein, anhydrous milk fat, ghee and whey. Casein used in the production of coffee creamers, baby foods, chocolate and body building supplements.

Amos Dairies does not sell any products on the domestic market but exports 100% of its production. It exports casein to the USA; ghee to India, Pakistan, Syria and Turkey; and whey to the USA. Uganda is now the third largest supplier of casein to the USA after the EU and New Zealand.

The key success factors for Amos' establishment and performance include: government support and focus on the supply chain and access to an assured market. The Government of Uganda provided support in its promotion of investment, tax concessions, and power and water connections to the factory. Erie Foods, one of its shareholders buys Amos Dairies' entire casein production ex-factory and facilitated market entry in the USA. Amos does not have transport issues to worry about.

There are plans for expansion through establishment of two additional factories within the next 3 years. The processing plants are planned for South Western Uganda with capacity to process 400,000 litres/day and another one for Uganda's central region with capacity to process 200,000 litres/day. These plans are motivated by availability of market for the main product in the USA where estimations are that expansion to produce 10 times the current level of casein would still all be absorbed. The knowledge and availability of milk is also a motivating factor. South Western Uganda is reckoned to have potential to produce 18 million litres of milk a day.

On the challenges faced, this is mainly from the suppliers who should organize their milk production along commercial lines. Amos Dairies buys raw milk from between 7,000 and 10,000 smallholder farmers. The required volume is not always assured. The farmers need education to value what they do. Some export markets levy high taxes in Amos' exports. For example, duty on butter and ghee in Syria is 42%, 40% in India and 35% in Turkey. The government can negotiate effective bilateral trade agreements that could lower these taxes

Another of Uganda's approach is partnering Kenya and Rwanda, to prioritize regional infrastructure development along the Northern Corridor. The aim is to facilitate trade, ease the flow of trade and reduce on the transit time and costs of trade in order to improve the competitiveness of goods. Among the intervention targets are l*ogistics* to eliminate hidden costs along the chain and the harmonization of legislation; clearance of goods at Mombasa Port; and the elimination of NTBs and a reduction in the cost of doing business under the SCT. The Standard Gauge Railway is the main project among the Northern Corridor Integration projects. The Northern Corridor stretches from Mombasa Port to Kigali. Along the corridor, the partner states have also considered the development of growth hubs to stimulate economic activity including agriculture, settlements and urban based investment and production activities. In Uganda, investment in the railway project is an opportunity for private sector to supply goods and services. The Buy Uganda Build Uganda policy is designed to ensure local participation large projects.

Partnership with the Private Sector

The private sector and the government are cooperating in encouraging Ugandans to consume locally made products, an approach can foster competitiveness, employ more Ugandans and generate revenue to the national coffers. In support of this approach, the government developed the '**Buy Uganda, Build Uganda**' Policy guided by both the National Trade Policy and the National Industrial Policy. There is also a move towards entrenching government procurement as big business that can be used to stimulate manufacturing production.

The approaches outlined above have been implemented and are being implemented. Trade diversification like development itself, will take time but some results are coming through. Uganda has been successful in the approaches adopted to diversify trade; the end is still far away and the experience so far can still be used to refine performance and address outstanding issues. In the next section, we outline the best practices that have worked and can be used for the future.

Section 5: Documenting Best Practices and the Way Forward for Trade/Export Diversification

The last section highlighted the approaches that have been used to diversify trade. In the current chapter, the successful elements of Uganda's export diversification and best practices are outlined. These are based on the foregoing discussion on export diversification. The objective going forward is to identify and offer these as applicable and useable in low income country circumstances.

Uganda has demonstrated the value of a robust planning and policy development framework; fundamentals for export diversification, the role and value of supporting developments and the impact of participation in regional integration and trade agreements. The manufacturing sector is a bedrock on which trade diversification and transformation will occur. Above all, a vision for development is critical. The Uganda government consistently emphasized the value export diversification from the late 1980s up to the present. It put in place policies to give effect to the message. There is no doubt that exports have been diversified and some structural transformation achieved.

The Government developed a vision for trade diversification, and structural transformation to guide what is to be done, plans and policies. The message about export diversification has appeared in many a policy document since 1987. Along with the vision is the requirement to be consistent in pursuing and maintaining a focus on the desired goal. Although the Uganda Vision 2040 was first mooted in 2007, the indications are that it was only formally outlined and published in 2013. Develop a vision for the state of development you aspire for your country.

Uganda's planning and policy development thrusts are a solid base on which trade diversification has been based on. Development of robust planning and policy development frameworks are highly critical for trade diversification. These have been responsible for the development and preparation of plans and policies.

Uganda has made major strides in the courting investors and an ability to attract and retain investor interest and commitment that has led to significant investment inflows. This is supported by attractiveness of policy, availability of resources and raw materials, and having a mechanism, an enabling environment within which these can be exploited with security for investors. There are a number of investment opportunities which is the basis for Uganda to engage the investor community. The President has led in the initiative for attracting investors and chairing the Presidential Investors RoundTable which is a model for acceptance and interest in investment and investor issues by the highest office in the country.

Policies need to be implemented. Uganda has created institutions to manage and implement the policies. These must be adequately capacitated to be effective. The institutions must be capacitated and allowed to develop as well lead in the development and creation of working strategies. It is important to eliminate over-laps and conflict but foster the creation of a harmonious working environment. In this regard, Uganda's Sector Working Group approach to dealing with sectoral issues providing a platform for stakeholder to participate can be a useful model.

The consultative approach to the development of trade policies is a strong base for launching and ensuring the effectiveness of the policies. The Government, the private sector and other stakeholders are critical contributors.

There is a lot of mileage that the Government of Uganda has derived from its partnership with the private sector. It is a viable strategy that must be encouraged which can assure success.

Regional integration and participation in trade agreements creates avenues for access to markets, cooperation with others in building momentum for large scale developments that one country cannot go for alone. Uganda has been at the forefront of encouraging collaborative efforts within the region to stimulate trade. The EPA was initiated in Kampala in 2007. In the same vein, engagement with and support from international development partners highlights a good practice.

There is a high level of literacy which helps the employment of individuals in the primary sector and other low skilled jobs leading to injecting earnings in the economy in the process creating further demand for more and new products. The development of domestic markets and internal consumption is important for any economy.

Uganda's export products and export markets have grown over the last two decades prompted by policies and conditions created by the government. The growth of exports has brought about structural transformation. Structural transformation, a benefit mainly from increases in productivity has been held back by a focus on agriculture and reduced and rather subdued due to lower growth of manufacturing industries. Development of manufacturing industries can catalyze improvements in productivity and cause structural transformation leading to higher economic growth. The government of Uganda has provided support by developing and implementing plans and strategies, creating institutions and entering into cooperation agreements. It can still play an active role through improved resource allocation to support plans and strategies and strengthen institutions. It can also revamp the strategies and be more focused in the promotion of manufacturing industries growth in order to accelerate structural transformation. It is important to emphasize that structural transformation is a continuous process even in developed economies. So while, best practices have been identified, there is room and scope for doing better particularly in the areas where gaps have been identified. The application of technology and innovation to production is a major source of productivity gains. Skills will be required to operate at selected levels of an economy's operations. Uganda must aim to address its gaps and perceived weaknesses to propel the growth of production, exports diversification and structural transformation which will help the realization of the vision of middle incomes status.

Annex Table 1: Products for parsimonious industrial policy

Products for parsimonious industrial policy		Products for Strategic bets industrial policy	
Product	Distance	Product	Distance
Food processing		*Construction and industrial materials*	
Margarine etc.	0.86	Printed matter,	0.91
Confectionery, non-chocolate	0.86	Varnishes and lacquers; distempers etc.	0.90
Jams, jellies, marmalades, etc.	0.86	Miscellaneous articles of base metal	0.91
Edible products and preparations,	0.87	Paper and paperboard cut to size or shape,	0.90
Fruit, temporarily preserved	0.87	Wadding, wicks and textiles fabrics for machine use	0.91
Other materials of vegetable origin,	0.87	Aluminum and alloys, worked	0.90
Tobacco, manufactured	0.87	Structures and parts of, of aluminum;	0.91
Bakery products	0.87	Wood packing cases, boxes, cases, crates, etc.	0.90
Plastic packing containers and closures	0.87	Metal casks or drums for packing goods	0.90
Fixed vegetable oils,	0.88	Trailers and transports containers	0.91
Cigarettes	0.88	Articles of paper pulp, paper, paperboard,	0.90
Packing containers of paper	0.88	Polyvinyl chloride	0.91
Beer made from malt	0.88	Polyethylene	0.90
Bottles etc. of glass	0.88	Structures and parts of, of iron, steel	0.90
Flour and meals of fruit and vegetables	0.88	Builders` carpentry and joinery	0.90
Vegetables, frozen or in preservative	0.88	Printed books, pamphlets, maps and globes	0.91
Non-alcoholic beverages,	0.88	Gauze, cloth, grill, netting, reinforced fabric, etc.	0.91
Insecticides	0.87	Plastic packing containers and lids	0.87
Fertilizers,	0.87	Fibre building board of wood or vegetable material	0.89
Propellant powders and other explosives	0.87	Paper and paperboard, creped, crinkled, etc.	0.89
		Other sheet and plates, of iron or steel, worked	0.91
		Polypropylene	0.90
		Packing containers, box files, etc., of paper	0.88
		Construction materials of cement	0.89

Source: Haussmann *et. al*. (2014)

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