AFRICAN DEVELOPMENT BANK
AFRICAN DEVELOPMENT FUND

UGANDA

RESULT-BASED COUNTRY STRATEGY PAPER
2011-2015

COUNTRY AND REGIONAL DEPARTMENT –EAST A (OREA)
JULY 2010

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CURRENCY EQUIVALENTS

Currency		30 June 2010
UA1.00	=	USD 1.47433
UA1.00	=	UGX 3208.49
1USD	=	UGX 2176.24

WEIGHTS AND MEASURES

Metric System

GOVERNMENT FISCAL YEAR

July 1 – June 30

ACRONYMS AND ABBREVIATIONS

ADB	African Development Bank
ADF	African Development Fund
AIDS	Acquired Immunity Deficiency Syndrome
BTVET	Business, Technical and Vocational Education and Training
CAE	Country Assistance Evaluation
CAIIP	Community Agricultural Infrastructure Improvement Programme
CEDAW	Convention on the Elimination of all forms of Discrimination against Women
CGE	Computable General Equilibrium
CHOGM	Commonwealth Heads of Government Meeting
COMESA	Common Market for Eastern and Southern Africa
CPIA	Country Policy and Institutional Assessment
CPPR	Country Portfolio Performance Report
CSP	Country Strategy Paper
DALYs	Disability adjusted life years
DEG	Development Partner Economist Group
DFID	Department for International Development
DPs	Development Partners
DRC	Democratic Republic of Congo
DRM	Domestic Resource Mobilization
DSIP	Development Strategy Investment Plan
EAC	East African Community
EC	European Commission
ESW	Economic and Sector Work
FDC	Forum for Democratic Change
FY	Fiscal Year
GDP	Gross Domestic Product
GNI	Gross National Income
GOU	Government of Uganda
HDI	Human Development Index
HEST	Higher Education, Science and Technology
HIPC	Heavily Indebted Poor Countries
HIV	Human Immuno-deficiency Virus
ICT	Information and Communication Technology
IITC	Inter-institutional Trade Committee
IMF	International Monetary Fund
JBSF	Joint Budget Support Framework
JSAN	Joint Staff Advisory Note
LDPG	Local Development Partners' Group
LRA	Lord's Resistance Army
MATIP	Markets and Agricultural Trade Improvement Project
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
M&E	Monitoring and Evaluation
NAADS	National Agricultural Advisory Services
NDP	National Development Plan
NEMA	National Environment Management Authority
NGC	National Governing Council
NRM	National Resistance Movement
ODA	Official Development Assistance

PBA	Performance Based Allocation
PEAP	Poverty Eradication Action Plan
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PIUs	Project Implementation Units
PMA	Plan for Modernization of Agriculture
POA	Programme of Action
PSI	Policy Support Instrument
RIEEP	Rural Income and Employment Enhancement Project
RWSS	Rural Water Supply and Sanitation
SMEs	Small and Medium Enterprises
SSA	Sub Saharan Africa
UA	Unit of Account
UGFO	Uganda Field Office
UGX	Ugandan Shilling
UJAS	Uganda Joint Assistance Strategy
UNDESA	United Nations Department for Economic and Social Affairs
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
USD	United States Dollar
WB	World Bank

I. INTRODUCTION

1.1 The Bank Group's current strategy for Uganda draws on the Uganda Joint Assistance Strategy (UJAS) and is detailed in an Updated Cover Memorandum that was approved by the Board in September 2008. The Memorandum covering the period 2008/09-2009/10 was warranted by the need to extend the original one (also drawn on the UJAS) that covered the period 2005 to 2007. The UJAS was developed by Development Partners (DPs) and Government to articulate a harmonized response to the country's development aspirations development aspirations set out in the Poverty Eradication Action Plan (PEAP). The Bank Group's specific support is tied to two pillars of the PEAP: (i) enhancing production, competitiveness and incomes, and (ii) human development.

1.2 At the time that the Updated Cover Memorandum was prepared, it was expected that a new UJAS would be prepared by Government and Development Partners and that the Bank would present the new UJAS under a new Cover Memorandum to the Board for review and approval. Since then, however, some developments occurred that necessitated a change in the process going forward, mainly triggered by the Government's shift in FY 2007/08 from the 3-year PEAP to a 5-year National Development Plan. Consequently, it became necessary to review the UJAS and to assess how it can relate to the emerging NDP. The review revealed that although the UJAS was a concise document, it was rapidly overtaken by events such as the difficulty in operationalising the PEAP monitoring framework and the annual review process, changes in leadership across the top of government and events following the 2006 multiparty elections, all of which made it difficult to realize its expectations. Consequently, the review proposed three options: (i) not to formulate a new UJAS; (ii) to revise UJAS so as to address the existing gaps and shortcomings and reflect the new priorities of the NDP; and (iii) to adopt an aid strategy aligned with and anchored in the NDP and based on a shared GOU and DP commitment to improved ways of working for stronger NDP results. After joint consultations, a decision was reached to pursue the third option. Moreover, owing to protracted delays experienced in the process of finalizing the previous UJAS, Development Partners have opted to formulate individual strategies but to undertake consultations jointly. Indeed, one of the major lessons from the UJAS was that it would be more beneficial to both Government and DPs to engage on ways of strengthening the existing mechanisms so as to improve aid coordination and alignment with national priorities, rather than developing a joint strategic document.

1.3 Consequently, the Country Strategy Paper (CSP) for Uganda for 2011-2015 seeks to guide the Bank Group's response to Uganda's emerging development priorities—as envisaged in the NDP and to mitigate the shortcomings of the 2005-2009 UJAS.

1.4 The CSP assesses the country's development prospects and challenges, the Government's strategic options, and the role that the Bank could play, in collaboration with the Government and other development partners, in helping the country realize its development goals. In particular, it analyzes (i) what results are to be achieved and how to deliver them; (ii) how the balance between lending and non-lending activities will be addressed; and (iii) how to maximize collaboration with other stakeholders. The CSP was prepared after discussions and consultations with the Government and other major stakeholders, including Development Partners, private sector organizations and civil society institutions. The discussions focused on (i) the country context and prospects; (ii) the indicative project pipeline and its consistency with the proposed pillars as well as with Government priorities; (iii) what other development partners are intending to undertake in the period covered by the CSP; and (iv) formulation of the CSP Results Framework, focusing on outcome/output indicators.

II. COUNTRY CONTEXT AND PROSPECTS

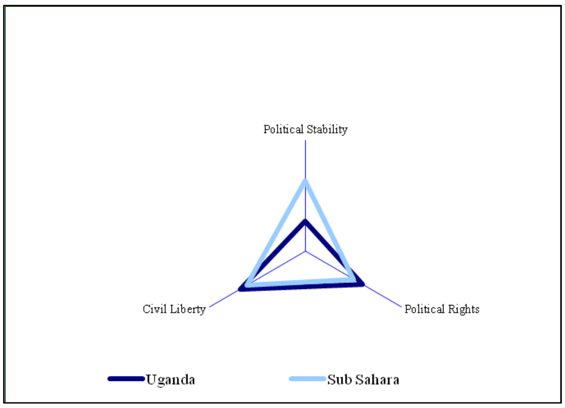
2.1 Political, Economic and Social Context

Political Context

2.1.1 The first multi-party general elections (following the coming into power of President Yoweri Museveni in 1986) were held in 2006, and were won by the President Museveni's National Resistance Movement (NRM) with the Forum for Democratic Change (FDC) emerging as the major challengers. In the run-up to the next elections scheduled for early 2011, the NRM still remains the leading political party, enjoying the benefit of over 20 years in power. However, the adoption of multi-party politics has opened up political space and there are signs of improvement in democratic governance. Indeed, opposition parties have recently formed an Inter-Party Cooperation with the aim of fielding a single presidential candidate in the upcoming elections.

2.1.2 Another significant political development relates to indications that the protracted civil war in northern Uganda has come to an end. People displaced by this war have started to return to their homes and are re-engaging in agricultural production and economic activity. The Government launched the Peace, Recovery and Development Plan in FY 2009/10 to guide the reconstruction and reintegration of Northern Uganda with the rest of the economy. However, the actual challenge now is to maintain stability as economic activity blossoms, and to pre-empt a re-emergence of insurgence by the rebel Lord's Resistance Army (LRA) in the near term. In the rest of the country, particularly in the south, land disputes still persist with land occupants pitted against powerful landlords and the private sector. In an effort to address this, the Land (Amendment) Bill 2007 was passed into law in November 2009 and is set to redress the landlord/tenancy relationship. While this is a welcome initiative, some sections of society have voiced disenchantment with the legislation as they see it as effectively diminishing the power of their cultural kings. Chart 1 depicts aspects of the recent political context in Uganda compared to Sub-Saharan Africa in 2008. It shows that Uganda is at the same level as the average for Sub-Saharan Africa in political rights and civil liberty but fares worse in political stability.

Chart 1: Political Context 2008 (Score -2.5 to 2.5)



Source: ADB Statistics Department

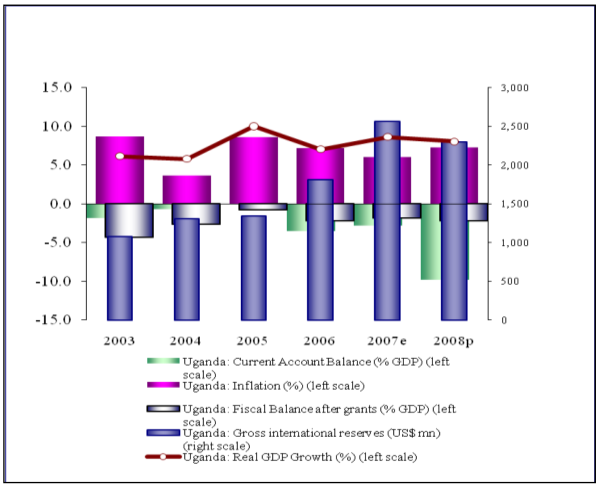
Economic Context

2.1.3 The Ugandan economy continues to be shaped by both external and internal factors. Since attaining independence in 1962, the country has gone through periods of political stability and relatively satisfactory economic progress, as well as periods of political turmoil and economic slowdown. During these periods, economic progress has also been hampered by binding constraints. Moreover, as a landlocked country situated about 800 km from the Indian Ocean, the country has to rely on neighbouring countries, particularly Kenya for critical access to the world markets for its exports and imports.

Growth and Growth Drivers

2.1.4 For the past two decades, Uganda has achieved an impressive record of economic growth (Chart 2). After the end of decades of political instability and civil war in 1986 the economy has grown at an annual average of 7.0%. In the late 1980s, economic growth was driven by post-war recovery and reconstruction and since the early 1990s by comprehensive macro-economic and structural reforms. On the demand side, growth in 2009 was mainly driven by private consumption (accounting for over 80% of GDP), which increased by 6.7% down from 8.1% in 2008. Consumption growth is projected to increase over the next two years, with private consumption rising by 10.1% in 2010 and 9.8% in 2011, while public consumption is expected to grow by 10% in 2010 and 8.9% in 2011. Investment growth also remained strong in 2009, with private and public investment rising by an estimated 8% and 10%, respectively. Private investment growth was led by construction. The gross public and private investment growth rates are both projected to increase to 17% in 2010 and to 18% in 2011. Moreover, economic growth has been export-led with the share of exports to GDP rising steadily through the last two decades, though the growth was a disappointing 2.5% in 2008 and is expected to remain low in the next two years, reflecting the adverse global economic conditions. But the expanding regional market for Uganda's food has for the last five years boosted agriculture.

Chart 2: Selected Macroeconomic Indicators

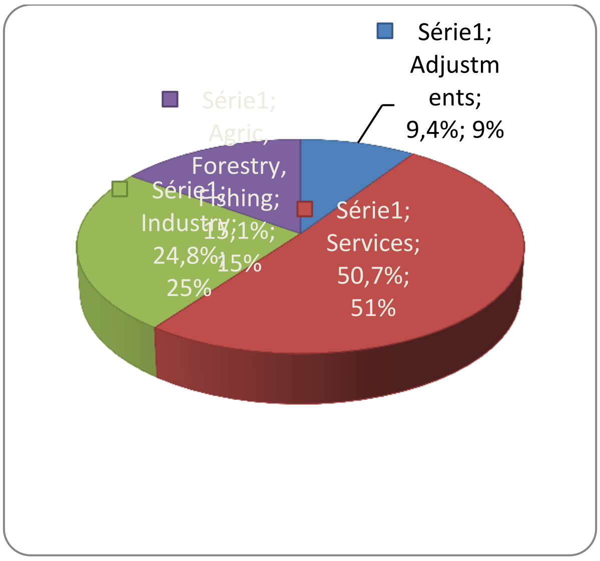


Source ADB Statistics Department, African Economic Outlook, October 2009

2.1.5 On the supply side, growth has continued to be driven by the service sector (financial services, transport and communications, public administration, and defence) which accounted for about a half of GDP in 2008/09 (Chart 3). Agriculture, with a 15% share of GDP in 2008/09, has recently stagnated, growing at only 2.6% in 2008. This reflected the effects of floods in Eastern Uganda and the persistent decline in the stock of fish due to chronic overfishing, especially Nile Perch in Lake Victoria. Other problems include the use of inferior inputs and lack of value addition that have limited productivity and profitability of the sector.

2.1.6 The industrial sector (manufacturing, construction and mining) has improved from the previous near collapse during the turbulent 1980s and accounted for 25% of GDP in 2008/09. However, its growth slowed down in recent years due to the effect of the global economic crisis. This was mainly due to the slowdown in the construction sector reflecting the drop in remittances that had hitherto fueled a construction boom in the country. The slowdown was also due to the increase in prices of imported inputs arising from the depreciation of the Uganda shilling.

Chart 3: GDP by Sector (2008/09)



Source: Uganda Bureau of Statistics and Ministry of Finance, Planning, and Economic Development

Note: Adjustments comprise taxes and Financial Intermediation Services indirectly measured.

Macroeconomic Management

2.1.7 Since December 2006, macroeconomic management has been guided by the Policy Support Instrument (PSI) approved by the IMF. According to a review undertaken by the Fund in December 2009, the programme has been implemented prudently. The program goals include macroeconomic stability, sustainable economic growth, poverty reduction, financial sector deepening, and improved public sector financial management.

2.1.8 Annual headline inflation returned to single digits for the first time since April 2009, falling to 8.9% for the year ended January 2010, and further to 7.5% for the year ended February 2010 and has declined steadily to 4.4% for the year ended May 2010. The reduction in annual headline inflation is on account of falling food prices, appreciation of the local currency and weakenening consumer demand. Core inflation also dropped from 7.4% in December 2009 to 5.5% in January 2010, and declined further to 4.6% in May 2010. Government revenue and grants decreased from 16.3% of GDP in 2007/08 to 15.5% in 2008/09 and are projected to decline further to 15.4% of GDP in 2009/10. The tax to GDP ratio stood at 12.2% in 2008/09, down from 12.9% in 2007/08 and is projected to improve to 12.5% in 2009/10, but still less than the 12.7% target on account of the knock on effects of the global financial crisis and low compliance. The fiscal deficit is thus expected to increase in short to medium term. Exports fell sharply to 11.1% of GDP in 2008 from 15.5% in 2007, with the estimate for 2009 and outlook for 2010 poor. The trade deficit is estimated to have dropped to 7.1% of GDP in 2009, down from 11.9% in 2008, but slightly higher than 6.3% in 2007. The current account deficit widened sharply to 6.1% of GDP in 2008, before improvingly slightly to 5.3% of GDP in 2009 on account of strong performance of cross border exports. Projections are for further improvements in 2010.

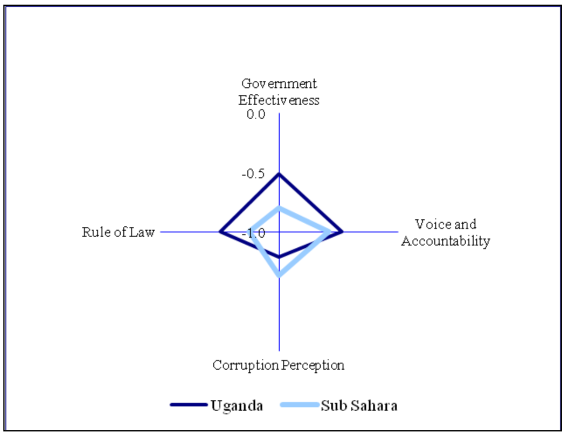
2.1.9 Uganda reached completion point under the enhanced heavily indebted poor countries (HIPC) initiative in May 2000, making it eligible for debt write-offs. In 2006, the country benefited from further debt relief under the multilateral debt relief initiative (MDRI), through which 100% of the debt owed to the World Bank, the IMF and the African Development Bank (ADB) by the countries that had reached completion point under HIPC was written off. The IMF wrote off Uganda's debt in January 2006, with the World Bank and the ADB following suit in July. This reduced the external debt stock from 44% of GDP at end-2005 to 11% of GDP by end-2008. Government's Debt Strategy formulated in 2007 has ensured a cautious borrowing strategy leading to a low risk of debt distress. The Debt Strategy prescribes that external borrowing is only undertaken on concessional terms and for strategic investments, which increase the country's productive capacity and stimulate GDP growth and exports.

2.1.10 The macroeconomic outlook over the period of the CSP remains broadly positive. Growth is expected to rebound to its potential of 7.0% in 2011/12 and 7.5% in 2014/15, reflecting the supportive fiscal stance and higher regional demand. Inflation is projected to remain around 5% and international reserves to rise above 5 months of imports. Nonetheless, considerable risks also remain, mostly related to security, weather-related shocks as well as unexpected shortfalls in aid. It is instructive that the authorities have expressed their commitment to maintain macroeconomic stability in the face of these expected external and domestic shocks, as they have in the past.

Governance

2.1.11 Governance indicators prepared by the World Bank in 2009 show low rankings in most dimensions of governance (Chart 4). The lowest percentile ranking was in political stability, in which the rank was 19 out of the 215 countries surveyed, which means that the country fared better than only 19% of the countries surveyed. Other aspects with low rankings were control of corruption (23) and voice and accountability (33). The Corruption Perceptions Index published by Transparency International in 2009 shows that Uganda had a score of 2.5, thereby ranking 126th out of 180 countries, behind Rwanda and Tanzania (both at 102nd), but better than Kenya (147th). The extent of the rampant corruption can be deduced from the Global Corruption Barometer that attempts to assess the actual experience of people of corruption. This exercise undertaken in Uganda for the first time in 2009 revealed that 53% of people surveyed reported paying a bribe within the previous year.

Chart 4: Governance (Score -2.5 to 2.5)



Source: ADB Statistics Department using data from the WEF, 2009

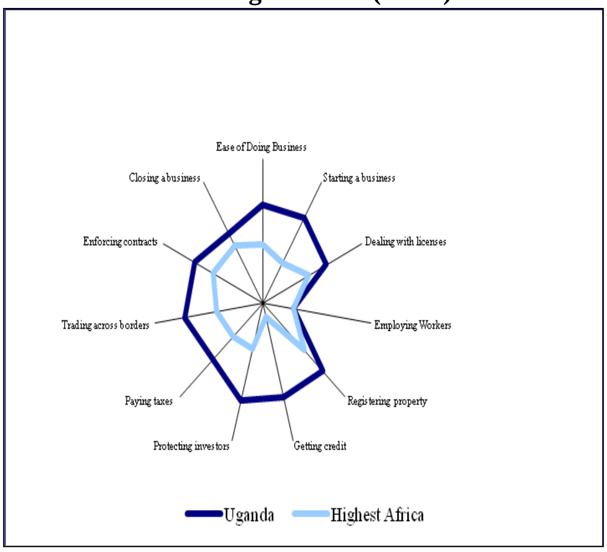
2.1.12 While the basic policy, legal and institutional framework for improved accountability is in place[1], enforcement is lacking as evidenced by wastage and leakage of public funds in areas such as Universal Primary Education capitation grants, Ministry of Health drug procurement and management and funds earmarked for the National Agricultural Advisory Services (NAADS). Recent cases of alleged grand corruption have also emerged in relation to the National Social Security Fund and the Commonwealth Heads of Government Meeting (CHOGM).

2.1.13 As concerns public financial management (PFM) systems, the Public Expenditure and Financial Accountability (PEFA) report done in 2008 concluded that Uganda has robust systems of PFM laws and regulations. However, major challenges were noted to exist in particular relating to compliance by ministries and agencies with existing regulations; arrears and procurement.

Business Environment and Competitiveness

2.1.14 In the 2010 World Bank's Ease of Doing Business Report, Uganda ranked 112 out of 183 countries. Among its neighbours in the region, this placed the country behind Rwanda (67th), Kenya (95th) but ahead of Tanzania (131st). The major constraints include registering property, trading across borders, protecting investors, and starting a business (Chart 5).

Chart 5: Ease of Doing Business (Rank)



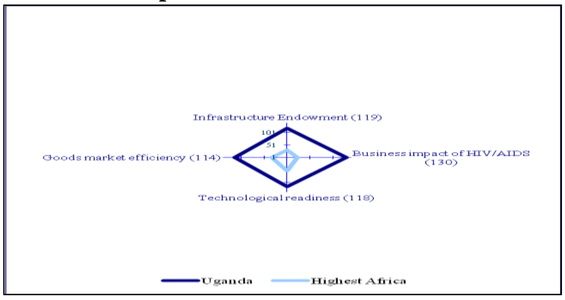
Source: ADB Statistics Department using data from Doing Business, WB, 2009

2.1.15 In terms of competitiveness**,** Uganda ranks below the average for Sub Saharan Africa (SSA) on infrastructure endowment, human development index (HDI), technological readiness and market efficiency (Chart 6 and Chart 7). These constraints need to be addressed to enable

[1] Since July 2008 a number of anti-corruption policies and laws that had been held up in the legislative process were finally passed and enacted including the Anti-Corruption Act 2008, the National Audit Act 2008 and the National Anti-Corruption Strategy 2009/13.

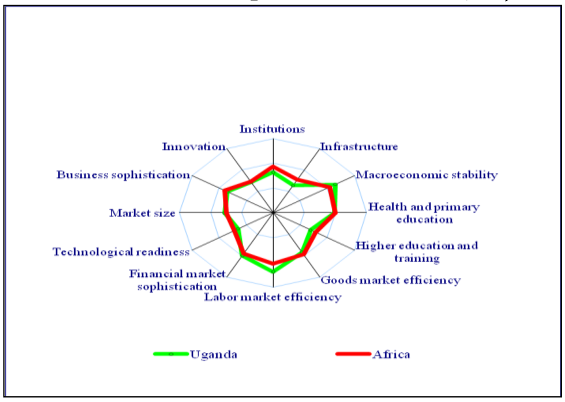
the private sector to be the engine of growth as envisaged in the National Development Plan (see 2.2.1.3).

Chart 6: Competitiveness of Production Factors



Source: ADB Statistics Department using data from the WEF, 2009

Chart 7: Global Competitiveness Score (1-7)



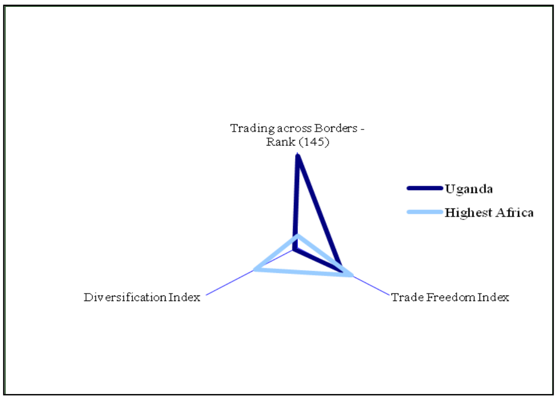
Source: ADB Statistics Department using data from the WEF, 2009

Regional Integration and Trade

2.1.16 Being a landlocked country, regional integration is critically important to Uganda. The country is a member of the East African Community (EAC) and Common Market for Eastern and Southern Africa (COMESA). The authorities recognize foreign trade as an important stimulus for economic growth and its trade policies aim to contribute to poverty reduction, promotion of employment and diversification and promotion of exports particularly of non- traditional products. These policy objectives have been pursued through continuing liberalization, deregulation, privatization and participation in regional agreements, particularly the EAC. Economic cooperation in the region has become a reality with the signing by the East African Community (EAC) Heads of State on 20 November 2009 of the Protocol for the establishment of the EAC Common Market. The Protocol came into effect on 1 July 2010 following ratification by the five Partner States and will set the stage for the free movement of goods and persons within the region.

2.1.17 Uganda has implemented both external and domestic trade liberalization since 1987. External trade liberalization included a whole range of measures such as lowering and binding of tariffs, simplification of trade procedures and abolition of licensing as well as administrative controls. Domestic trade liberalization included elimination of state controls and monopoly commodity marketing boards and state companies, liberalization of the foreign exchange market as well as an attempt to open rural areas to markets through improvement of infrastructure (Chart 8).

Chart 8: Regional Integration



Source: ADB Statistics Department using data from Doing Business Databases, World Bank, 2009

2.1.18 In terms of policy, the fundamental building blocks are now in place. Uganda has adopted a National Trade Policy and a National Trade Sector Development Plan, which are important tools for the sustained growth and performance of the trade sector. The authorities have also developed reasonable capacity to guide the country in policy development, trade negotiations and setting prioritised strategic options to take advantage of trade opportunities at the country's disposal. Equally, the Inter-institutional Trade Committee (IITC), an institutional framework for trade policy consultation and dialogue is in place.

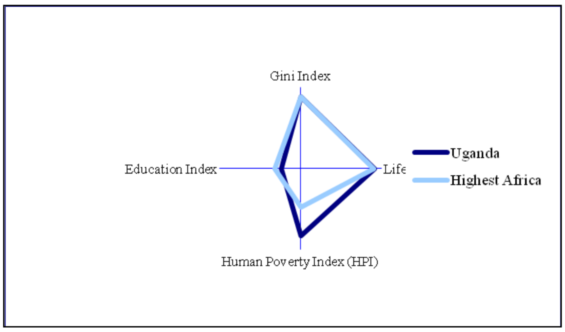
2.1.19 Regarding direction of trade, COMESA and the European Union (EU) member states are the major destinations for Uganda's exports, accounting for shares of 42.1% and 26.7% in 2008 respectively. The current crisis in the Euro zone can, therefore, be expected to have significant impact on Uganda's export earnings and underlines the need for diversification of the country's trading partners. With regard to imports, the Asian continent is the leading source of Uganda's imports and accounted for 34.8% of imports in 2008. Within the EAC, Kenya leads as the main trading partner. There is also a substantial amount of informal trade with the neighbouring countries mainly in food items. According to a survey done by the Uganda Bureau of Statistics in 2008, Sudan was the main final destination for Uganda's informal exports and source of informal imports, mainly due to the emerging political stability in both Northern Uganda and Southern Sudan that subsequently increased the demand for consumer and producer goods. To this end, the outcome of the referendum for the autonomy of Southern Sudan scheduled in January 2011 remains critical.

Social Context and the Environment

Social Inclusion and Equity[2]

2.1.20 Poverty levels have declined from 56% in 1991/92 to 31.3% in 2005/06 and Uganda is expected to meet the Millennium Development Goal (MDG) target of halving the poverty rate by 2015. However, income inequality worsened, with the gini coefficient increasing from 0.3 in 1992 to 0.41 in 2005/06 (Chart 9). Population growth rate at 3.2% per year—among the highest in the world—coupled with the 20-year insurgency in Northern Uganda have been handicaps to socio-economic transformation. The implementation of the Peace, Reconciliation and Development Programme in Northern Uganda in 2009 is expected to integrate this region with the rest of the country, both economically and socially. Inefficiency in the management of the social sector budget, inadequacy of resources, and a combined unemployment and under-employment rate of 14% (2005/06) need to be addressed.

Chart 9: Policies for Social Inclusion



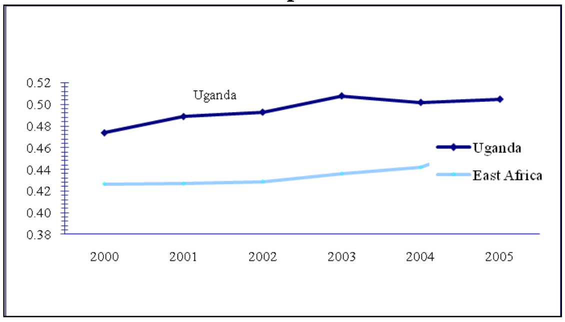
Source: ADB Statistics Department using data from the UNDP Databases, 2009

2.1.21 The Government has made significant efforts to expand access to social services but various non-income indicators of poverty are also a matter for concern. While primary school enrolment more than doubled from 3.1 million children in 1996 to 7.4 million in 2008 (mainly due to the introduction of the Universal Primary Education), completion rates at 37.9%, have been less than satisfactory. Infant mortality has declined from 122 deaths per 100 000 live births in 1991 to 75 in 2006 while stunting in children under five is high at 32%. The maternal mortality rate is also high although it fell from 505 per 100 000 live births in 2000 to 435 in 2006. HIV/AIDS prevalence fell from 18% in 1992 to 6.4% in 2008 but continued vigilance is needed to combat the pandemic. Communicable diseases contribute over 50% of disability adjusted life years (DALYs) lost. This dismal performance of the health sector reflects limited access to existing facilities most of which are in poor physical condition, since they were built before 1972. With regard to increasing access to safe water and sanitation, the Government has made significant progress but access to potable water remains low especially in rural areas. It is estimated that only 65% of

[2] The data and information in this section are derived from various official sources including the NDP and the 2006 Uganda National Household Survey.

the rural population and 66% of urban population have access to safe water, while access to sanitation is estimated at 68% and 73% for the rural and urban areas, respectively. This means that over 30% of Uganda's rural population is without adequate water and sanitation facilities. In sum, Uganda is on track to achieve at least three of the eight MDGs, namely halving poverty HIV/AIDs, achieving universal primary school enrollment, and addressing gender inequality. However, strategic interventions are urgently required to sustain progress and to meet the other MDGs especially those relating to reducing child mortality and improving maternal mortality (Annex VI).

Chart 10: Human Development Index



Source: ADB Statistics Department using data from the UNDP Databases, 2009

Gender

2.1.22 Uganda has made major strides in mainstreaming gender issues in most national aspects. It is a signatory to various international commitments, including the Convention on the Elimination of all forms of Discrimination against Women (CEDAW), the Beijing Platform of Action, and the Millennium Development Goals. The country also has a Gender Policy that provides a framework for gender responsive development. Moreover, the Constitution guarantees equality between women and men, and includes affirmative action measures to increase women's role in decision making and participation in the development process. This has led to the improvement in female social indicators. For example the proportion of girls in primary schools improved from 44.2% of pupils in 1990 to 49.8% in 2006. The ratio of 15 -24 year-old literate women to men is about 0.92. The share of women in wage employment in the non-agricultural sector is 28.9%, and 30% of Parliament members are women.

2.1.23 However, women still lag men in a number of important aspects and more needs to be done to address the numerous constraints to full gender equality. For example, there are still cultural attitudes and practices that are biased against women and which hinder women's access to education, health and decision-making.

2.1.24 Cases also exist of discrimination of women at the work place with different activities and responsibilities subscribed for women and men that tend to relegate women to the lowly paying jobs that negatively impact their earning abilities. Another source of women discrimination is on access to and control over resources which impacts the way men and women have access to resources, including economic and productive resources such as land, credit as well as political and negotiation resources such as education, health, decision-making, leadership and participation. However, it is worth noting that the Domestic Relations Bill that is currently being debated aims to address some of these issues. In addition, there are institutional constraints such as inadequate capacity of ministries and personnel to increase outreach within the gender framework, to integrate the gender and human development approach in programmes and projects, the required conducive legal framework, and the preparedness of national, regional and local administration to highlight and address needs and gaps for a better gender and development approach.

Environment and Climate Change

2.1.25 While the Government has made progress in the institutionalization of environmental protection through the creation of the National Environmental Management Authority (NEMA), compliance with environmental laws and regulations is inhibited by the inadequate capacity of the Authority. As a result, there has been little progress in reversing environmental degradation, including declining soil fertility, deforestation, pasture degradation, decreasing fish stocks, and water pollution caused by effluent discharge from industry and domestic water use. The main causes of the environmental degradation include poor farming methods, demographic pressures leading to land scarcity, limited non-farm income generating opportunities, inefficient use of energy sources, and land use conflicts. Moreover, climate change imposes number of challenges especially in the agriculture sector. Erratic unpredictable and poor rains, together with higher temperatures have recently been recorded in some parts of the country. This may have a devastating effect on Uganda's rain-fed agriculture especially for crops (like coffee and tea) that do not do well in warm climates. Warmer temperatures may also lead to an increase in pests and emergence of new ones. Adverse weather has also impacted hydropower generation. The water level in Lake Victoria fell substantially from 11.33 metres in 2004 to 10.66 metres in 2006 following an unusually prolonged dry season thereby leading to rampant electricity load shedding in 2007.

2.1.26 The Government's priorities for tackling climate change include the enhancement of climate data collection measures and ensuring that the data reach the intended beneficiaries in order to enable reliable and quick response to disasters arising from climate change. There have also been efforts at encouraging reforestation by distributing tree seedlings to the population or paying money to individual farmers to convert some of their farmland into woodlots so as to reverse deforestation. In addition, the Government is planning measures to mitigate the perceived environmental threats, including the construction of reservoirs and pilot irrigation schemes, growing fast-maturing crops resistant to low rainfalls, and building the capacity of NEMA and the Meteorological Department. A National Disaster Preparedness and Management policy framework is under consideration with the involvement of stakeholders.

2.2 Strategic Options

2.2.1 Country Strategic Framework

2.2.1.1 The Government launched the National Development Plan covering the period 2010/11 to 2014/15 in April 2010, as a successor to the second Poverty Eradication Action Plan (PEAP) of 2004. The PEAP 2004 had identified four core challenges: (i) restoring security, dealing with the consequences of conflict, and improving regional equity; (ii) restoring sustainable growth of the incomes of the poor; (iii) human development; and (iv) using public resources transparently and efficiently to eradicate poverty. These challenges were to be addressed through a series of policies and measures grouped under five pillars, namely economic management; enhancing competitiveness, production and incomes; security, conflict resolution, and disaster management; governance; and human resource development.

2.2.1.2 The replacement of the PEAP with the NDP was necessitated by the need to accommodate a sufficient planning horizon to allow for the consolidation and scaling up of successes achieved by the PEAP. In addition, emerging opportunities—such as the discovery of oil deposits—and challenges—including the need to ensure quality service delivery—necessitated a shift to an overarching policy framework capable of prioritizing development as opposed to simply achieving a reduction in poverty. The overall goal of the NDP is to increase per capita incomes from US $ 506 in 2008/09 to US $ 850 by 2014/15 and to reduce incidence of poverty from 31% in 2005/06 to 16% by 2015, almost half of the MDG target of 28%. The core priorities of the NDP include: (i) agricultural growth; (ii) industrialization and value-addition; (iii) infrastructure; (iv) human resource development; and (v) private sector development.

2.2.1.3 The NDP is shaped by the vision of transforming the country from a peasant society to a modern and prosperous economy in thirty years and its theme is "Growth, Employment and Prosperity for Socio-Economic Transformation." The principles and objectives are set out in Box 1. The approach of the NDP intertwines economic growth and poverty eradication thereby targeting a combination of economic and social development. Thus, the private sector is expected to remain the engine of growth and development while the Government will continue to undertake the facilitating role through the provision of a conducive policy environment and as well as the promotion of public private partnerships.

Box 1: Thrust of the NDP

Principles: (i) Ownership by stakeholders; (ii) Political will to implement the plan; (iii) Good governance; ((iv) Resource availability including improving efficiency and effectiveness; (v) Balanced development and equity; (vi) Behaviour change; (vii) Linkage with national planning processes; (viii) Effective implementation, monitoring and evaluation; and (ix) Sustainable development.

Objectives: (i) Increasing household incomes and promoting equity; (ii) Enhancing the availability and quality of gainful employment; (iii) Improving stock and quality of economic infrastructure; (iv) Increasing access to quality social services; (v) Promoting science, technology, innovation and ICT to enhance competitiveness; (vi) Enhancing human capital development; (vii) Strengthening good governance, defence and security; and viii) Promoting sustainable population and use of the environment and natural resources.

Source: National Development Plan 2010

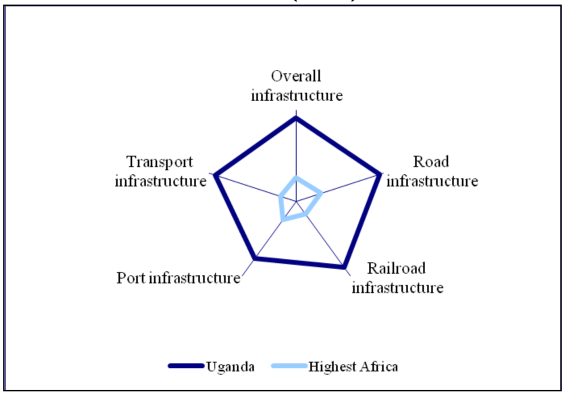
2.2.1.4 It is important to note that the NDP recognises the need for monitoring results and includes a detailed Monitoring and Evaluation (M & E) Strategy. The Strategy outlines macro and sector level indicators that will be used to measure implementation performance and results achieved over the plan period. The level of Government commitment to the process is evidenced by the role entrusted to high level authorities in the M&E process. The Office of the Prime Minister is tasked with the responsibility of monitoring performance and providing bi-annual reports to the Cabinet.

2.2.1.5 According to a Joint Staff Advisory Note (JSAN) published by the IMF and the World Bank in May 2010, the focus of the NDP on structural transformation to achieve faster growth and poverty reduction is commendable. The JSAN notes that the NDP appropriately builds on the achievements under the PEAP, and commends the efforts that GOU is planning to put in place to boost public infrastructure, foster skilled employment growth and facilitate the expansion of higher value-added activities as these are expected to growth and expand opportunities for the poor. However, it is recognized that exogenous shocks, weak governance, limited administrative capacity and delays in structural reforms could impede or constrain the implementation of the NDP, with adverse consequences for growth and for poverty reduction.

2.2.2 Challenges and Weaknesses

2.2.2.1 ***Infrastructural bottlenecks*.** Uganda is a landlocked country and infrastructure is critical for its economic development. However, the country's infrastructure—including energy, roads, and telecommunication—lags behind that of its neighbours and has been identified as a major binding constraint requiring immediate remedy (Chart 11).

Chart 11: Infrastructure (2009)



Source: ADB Statistics Department using data from WEF, 2009

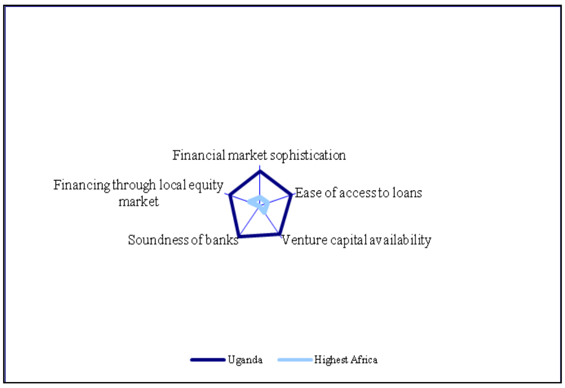
2.2.2.2 ***Weak Human and Institutional Capability.*** Uganda continues to face severe human and institutional constraints in spite of resources already committed to human and institutional development. Uganda's institutional framework is characterized by several coordination failures, corruption in public delivery system and generally endemic malaise in most of the public sector departments. These challenges have constrained planning and budgeting processes leading to inefficient resource allocation and poor public service delivery outcomes.

2.2.2.3 ***High Population Growth Rate***: Uganda has one of the highest population growth rates in the world (3.2% per year). This has a negative impact on the development of the country especially in the areas of social services provision and social outcomes such as high dependency ratio, youth unemployment and underemployment. Unless efforts geared at reducing the high population growth rates like provision of family planning services are intensified, the attainment of the MDGs will be difficult to achieve. This problem is further compounded by an increasing level of urbanization, with the attendant consequences of a proliferation of informal settlements and slums; and poor housing construction. There is an urgent need for the formulation of a national urban policy to guide the urbanization process, in order to ensure orderly development and enhance urban management. Currently, urbanization tends to be taking place organically.

2.2.2.4 ***Low Tax Revenue and High Aid Dependence.*** In 2008/2009, Uganda's tax-to-GDP ratio was 12.2% of GDP, lower than the 20% average for Sub-Saharan Africa and that of Tanzania and Kenya at 15% and 22%, respectively. A narrow tax base, tax policy weaknesses [3], and low compliance are the major contributors to this low tax effort. The low tax-to-GDP ratio has contributed to the rise in the donor funded share of Uganda's budget from 27.6% in 2007/08 to 42.4% in 2008/09. Although aid can contribute to development, it has the potential of weakening economic management and crowding out private investment, which currently accounts for only 10% of Uganda's GDP. In recognition of this shortcoming, the Government is seeking to improve domestic resource mobilization through a combination of measures to broaden the tax base and improve tax policy and administration.

2.2.2.5 ***Constrained Private Sector Development.*** Uganda's private sector is constrained by several factors including weak human and institutional capacity, infrastructure bottlenecks, and limited financial sector development (Chart 12). These factors have contributed to low productivity in the private sector and high "mortality" amongst start-up firms.

Chart 12: Financial Sector 2008 (rank out of 133)



Source: ADB Statistics Department using data from the WEF, 2009

2.2.2.6 ***Narrow Export Base and Terms of Trade Vulnerability.*** Uganda is heavily dependent on coffee as a key source of foreign exchange, making the country vulnerable to commodity price changes. Constraining factors to Uganda's export diversification include stagnant

[3] For instance, Uganda's tax laws do not adequately provide for taxation of profits/ incomes from betting, billiards, and gambling. Further, new developments such as the recent discovery of oil necessitate review of tax legislation to ensure adequate taxation of oil related transactions and revenues.

agricultural productivity, low value-addition, regulatory constraints—which inhibit competition in marketing and export of cash crops, and tax policy—trade taxes—that promotes non-competitive industries.

2.2.2.7 Uganda's CPIA ratings have been above average and rising since 2006 (Annex VII). It has performed very well in the areas of economic management and structural reforms—notably in its regional integration and trade agenda. Uganda's scores in the area of social inclusion and equity have not improved much, with its scores on social protection and labour, and the efficiency of public resource use being below average. The country receives low scores in public management in the specific areas of revenue mobilization, quality of public administration, and corruption in the public sector, which is in line with the governance challenges articulated earlier (2.1.11 to 2.1.13). These issues inform the areas identified for dialogue and for Economic Sector Work (see 3.2.6 and 3.4.3).

Box 2: Key Development Weaknesses and Challenges

(i) Infrastructural bottlenecks
(ii) Weak human and institutional capacity
(iii) High population growth rate
(iii) Low tax revenue and high aid dependence
(iv) Narrow export base and terms of trade vulnerability
(iv) Constrained private sector development.

2.2.3 Strengths and Opportunities

2.2.3.1 ***Oil discovery and mineral development***. Commercially viable quantities of oil have been discovered in Uganda and some estimates indicate that the country has the potential of producing up to 200,000 barrels of oil a day, sufficient to generate US$ 5 billion annually in oil export earnings. Oil production is expected to commence in 2015 with the processing of up to 40,000 barrels of oil per day into diesel, kerosene, and heavy fuel oil that can be used to generate electricity but limited production is expected to start in 2010 mainly targeting power production from gas. In addition, geological investigations indicate that Uganda is endowed with favourable geological conditions associated with a rich and diverse mineral resource base with commercial potential. This mineral wealth has the potential to generate increased private sector investments and lasting benefits to the country.

2.2.3.2 ***The return of peace and security in Northern Uganda and Great Lakes Region***. The civil strife in Northern Uganda that was perpetrated by the rebel Lord's Resistance Army (LRA) seems to have come to an end. This will allow for the re-integration of Northern Uganda with the rest of the economy, and is expected to contribute significantly to economic growth particularly given this region's agricultural and mineral potential. The cessation of hostilities in Southern Sudan and the Great Lakes Region will increase Uganda's benefits especially through regional trade and the construction of regional infrastructure.

2.2.3.3 ***Information Technology and the Knowledge Economy***. Uganda has in the last 20 years seen rapid growth in the application of computing and information communications technologies in service delivery and business operations. Government has provided a number of incentives including tax exemptions on computers and a range of related IT equipment and Government is also supporting the construction of the National ICT backbone through a public-private partnership is building. This has helped in the development of software and supporting technologies for the application of new computing and communication systems and is expected to revolutionize the conduct of business and help spur the growth of IT based employment.

2.2.3.4 ***Tourism***: Currently, tourism is Uganda's single largest foreign exchange earner, bringing in about US $ 500 million annually. Earnings from Uganda's tourism sector could be enhanced by strengthening the regulatory and support policy framework, marketing of the sector's key attractions, ensuring sustainable utilization of wildlife and other natural resources. In this area, the country needs to emulate the experiences of neighbouring countries that have more advanced tourist sectors and improve the overall tourist infrastructure.

2.3 Aid Coordination/Harmonization

Recent Developments in Aid Coordination/ Harmonization

2.3.1 In 2005, Development Partners (DPs) and Government developed the UJAS to articulate a harmonized response to the country's Poverty Eradication Action Plan (PEAP) and it has provided the primary aid coordination framework. Even after expiry of the UJAS in 2009, close coordination has continued through regular meetings of the high level Local Development Partners Group (LDPG), composed of heads of all development agencies, as well as in the over 25 diverse macro and thematic sector working groups. The opening of the Country Office in 2004 and its subsequent strengthening has facilitated active participation in these meetings and working groups with a view to contributing to aid effectiveness, in line with the partnership principles and the Bank Group's Medium Term Strategy. Moreover, the Bank is currently chairing the Development Partner Economist Group (DEG) and its effective role has been appreciated by both Development Partners and Government. In particular, during its tenure as DEG chair, the Bank has redesigned the framework for recording and reporting ODA to Uganda thus enhancing government planning processes and macroeconomic management. In addition, the Bank has also organized knowledge sharing sessions to engage with the authorities on alternative approaches for actualizing Uganda's development priorities.

2.3.2 The Bank Group's level of participation in the aid coordination mechanism has, however, been constrained by the predominant aid modality (project financing) it uses in Uganda. This reflects Government's preference in recent years for the Bank Group to provide project financing rather than general budget support[4]. Consequently, the Bank has been participating in the Joint Budget Support Framework (JBSF) as an observer on condition that it will provide budget support in subsequent years[5]. Under the framework, non-budget support DPs will only attain full membership status when they become budget support DPs. The inability of the Bank Group to effectively contribute to policy dialogue and harmonization processes through the JBSF could impede the Bank Group's efforts to contribute to improved aid effectiveness, per the Paris Declaration and Accra Agenda for Action. To address this anomaly, the Bank Group agreed with the Government that one of the interventions in the water and sanitation sector under ADF 12 could be provided in the form of sector budget support.

Key Development Partners and Areas of Focus

2.3.3 Twelve (12) DPs including the Bank Group account for about 90% of total ODA to Uganda (Annex VIII). The current World Bank portfolio in Uganda comprises diverse operations in infrastructure, agriculture, water and sanitation, social protection, human development, governance, and the private sector, amounting to about US$ 1.4 billion. The World Bank uses both project and budget support financing modes with the latter comprising Poverty Support Reduction Credits (PRSCs) averaging US$100

[4] This was based on past experience where Bank Group support in the form of general budget support tended to suffer considerable implementation delays. GOU also reiterated this preference during the 2009 CPPR and the recent consultations on this CSP.

[5] The admission of the non-budget support DPs as "observers" is approved by a consensus decision of the JBSF policy committees, after which they are allowed to participate in the DP JBSF-policy committee and High Level Dialogue, and contribute as invited or as requested by the Chair of the JBSF. The JBSF currently comprises seven bilateral development partners (Denmark, Germany, Ireland, the Netherlands, Norway, Sweden and the United Kingdom), the World Bank and the EU.

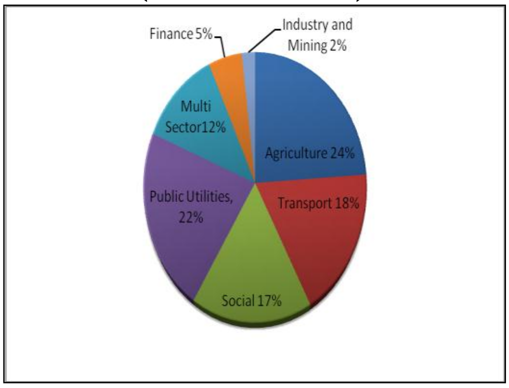
million annually. DFID utilizes budget support mode of financing targeting human development; water and sanitation; and governance and accountability sectors. USAID is engaged in health and the reconstruction of Northern Uganda and most of this support is off-budget.

Bank Group's positioning in Uganda

2.3.4 Portfolio Analysis

2.3.4.1 Cumulative Operations: Since commencement of operations in Uganda in 1968 and as at 30 June 2010, the Bank Group had approved loans and grants for 88 operations for a net total amount of UA 1.086 billion, of which, UA 233.86 million originated from ADB resources, UA 847.65 million from ADF Resources, of which UA 121.67 million were grants, and UA 4.83 million from NTF resources. Private sector loans amounted to UA 127 million, representing 12% of net commitments as at 30 June 2010. Chart 13 depicts the portfolio composition and commitment by sector since 1968 (up to 30 June 2010).

Chart 13: Composition and Commitment by Sector since 1968 (as at 30 June 2010)



2.3.4.2 Ongoing Operations: As at 30 June 2010, nineteen (19) operations were on-going, with a total commitment value of UA 556.21 million—UA 478.20 million (86%) allocated to the public sector and UA 78.01 million (14%) allocated to the private sector—out of which UA 211.27 million has been disbursed. The average disbursement rate, therefore, stood at a level of 40%. Agriculture dominates Uganda's portfolio (32% of commitment value), followed by Transport (19%), Social and Power (each at 17%), Water and Sanitation (6%), and Industry (1%) (Annex II).

2.3.4.3 The limited level of operations in the private sector mainly reflects the constraints that inhibit the business environment (see 2.1.14 and 2.1.15). It is also possible that most entrepreneurs lack adequate information about the facilities available from the Bank. This underlines the need for the Government to undertake measures aimed at improving the business environment in line with the envisaged role of the private sector as the engine for growth. On its part, the Bank could organize a Private Sector Road Show to publicize its facilities to a wider audience.

2.3.5 Portfolio Performance

According to the Country Portfolio Performance Review undertaken in 2009, the performance of the portfolio has slightly improved and was rated satisfactory with an overall assessment of 2.4 compared to 2.2 in 2007. Projects at risk declined from 28.6% in 2007 to 17.6% in 2009 which was less than the Bank Group target of 25%. The projects at risk comprised one problematic project and two potentially problematic projects, leading to a level of commitments-at-risk of 3.5%, also below the 2007 Bank Group average of 39%. However, it was noted that the classification three projects were classified as being at risk due to delays in obtaining Parliamentary ratification and Government's legal opinion on approved projects, procurement delays, and limited capacity of implementing agencies.

2.3.6 The average project size increased from UA 23.7 million to UA 28.1 million while the average project age declined from 4.3 years to 3.1 years. The disbursement rate also improved significantly from 19.6% to 49.6%. However, in spite of these positive aspects, the developments in some areas raised concerns. For example, while there were no problematic projects in 2007, the number increased to 5.9% of the ongoing portfolio in 2009. Other impediments to portfolio performance that were noted included (i) limited capacity of PIUs; (ii) inadequate counterpart funding, and (iii) unsynchronized procurement and financial management policies. These problems point to the need for the Bank Group to pro-actively engage the Government and other stakeholders, principally at the project design phase, with a view to enhancing quality at entry, implementation and quality at exit.

2.3.7 Following the CPPR, the Bank Group and the Government drew up an Action Plan to improve portfolio performance. Various actions that have been taken to this effect include designating new project teams to oversee the projects, and cancellation of certain project activities for which implementation had not been initiated. Consequently, portfolio performance has improved and as at June 2010, the proportion of projects at risk declined to 10.6%, which falls within the 10-30% range indicative of satisfactory portfolio performance, vis-à-vis exposure to risk.

III. BANK GROUP STRATEGY FOR UGANDA

3.1 Rationale for Bank Group Intervention

3.1.1 There are compelling reasons for the Bank Group's continued support to Uganda. First, the country has a remarkable macroeconomic performance and remains one of the fastest growing economies in Africa with sustained growth averaging 7.8% since 2000. However, there is a need to ensure that this growth is sustained in order for it to be translated into tangible benefits for the majority of the population. Social economic indicators (such as per capita income, life expectancy, population growth rate) show that a lot still needs to be done in order to address constraints which, if not addressed, will pose serious development challenges.

3.1.2 Second, the CSP is timely as it coincides with the launching by Government of the National Development Plan which places renewed emphasis on growth, employment and prosperity. The priority actions include adopting strategies to unlock the binding constraints in the economy by: (i) improving public sector management and administration; (ii) increasing the quantity and improving the quality of human resources; (iii) increasing the stock and improving the quality of physical infrastructure; (iv) transformation of attitudes, mindset and perception; (v) promoting science and technology and facilitating access and availability to critical production inputs.

3.1.3 Third, in view of the current global economic meltdown, it has become imperative for the Bank Group to demonstrate its responsiveness to the needs of its RMCs to help them tide over the crisis. In Uganda, a case in point of the impact of the financial crisis was the decision Government undertook to put on hold plans to raise $1 billion from the sale of Eurobonds to fund road, rail and energy projects. It is clear that the authorities are looking up to the Bank Group and other development partners to address such critical needs.

Lessons from implementation of CSP (2005-09)

3.1.4 As discussed earlier, the ongoing Bank Group's strategy for Uganda draws on the UJAS (see 1.1) and is tied to two pillars of the PEAP. Some useful lessons have emerged from evaluations undertaken recently that have informed the process going forward. These include the Country Portfolio Performance Review (the results of which are discussed earlier in 2.3.5 and 2.3.6), the Joint ADB/World Bank Country Assistance Evaluation (CAE) and the Bank Group Strategy Completion Report.

3.1.5 The CAE covered the period 2001-2007 and rated the overall outcome of the Bank Group's support to Uganda during this period as moderately satisfactory. The major findings were positive and included: (i) the alignment of the Bank's strategies with the Government's Poverty Eradication Action Plan (PEAP); (ii) provision of selective assistance by complementing the activities of other development partners; and (iii) valuable contribution in improving access to potable water supply, mental health, primary healthcare, education services and improvement of rural incomes through support for agriculture.

3.1.6 In spite of these positive developments, the CAE noted that there were various shortcomings that impinged on the Bank Group's performance. These included: (i) delays in project effectiveness and extended gestation periods, which tended to impede the timely realization of project benefits; and (ii) less than effective support in anti-corruption efforts, as well as critical issues in quality in healthcare and primary education. Based on these findings, the CAE made various recommendations including: (i) the strengthening of country presence by relocating sector specialists to the country in order to raise its profile and improve policy dialogue especially in the areas where the Bank plans to stay engaged; (ii) more effective use of limited resources by seeking deeper engagement in a limited set of areas; and (iii) undertaking regular (perhaps joint) economic and sector work and project self evaluation to underpin strategy and project assistance.

3.1.7 The overall finding from the Bank Group Strategy Completion Report is that while some progress has been made under both pillars supported by the Bank, the contribution can be said to be moderately satisfactory. On the whole, the Bank Group's strategy and assistance programme under UJAS was generally relevant to Uganda's officially stated long term development objectives. Nevertheless, there is room for improvement thereby underlining enhanced dialogue in the context of the next strategy. The key lessons include: (i) the formulation of a joint strategy, prepared in collaboration with other development partners is neither a sufficient nor necessary condition for more effective aid; (ii) development of a clear, concise and credible results framework for the CSP as well as for individual projects is essential in order to assess the relevance of Bank Group strategy and operations; (iii) quality at entry is a critical factor in the success of operations; and (iv) Bank support need not be confined to lending operations but should also include good quality Economic Sector work.

Pillars for Bank Group Support

3.1.8 The choice of pillars for the CSP derives from (i) the operational focus of the Bank Group's Medium Term Strategy 2008-2012; (ii) the lessons learnt from the Bank's previous engagement with the Government of Uganda; and (iii) the thrust of the NDP; and (v) the Bank Group's efforts to enhance integration in the region as detailed in the Regional Integration Strategy Paper for East Africa that is under preparation.

3.1.9 The Bank Group's Medium Term Strategy 2008-2012 places emphasis on selectivity, with particular operational focus on infrastructure, governance, developing a more robust private sector, and higher education[6]. With regard to infrastructure, the Bank will direct a significant proportion of its new commitments to infrastructure investments, especially for transport, power, ICT and water and sanitation. In the area of governance, the focus will be on strengthening transparency and accountability in the management of public resources, at the country, sector and regional levels. To enhance private sector development, operational focus will be on infrastructure, industry and services, financial intermediation and microfinance/

[6] It is recognized that the CSP covers a longer term than the Medium Term Strategy but the sectoral areas of focus that are identified are expected to continue being relevant in coming years.

SMEs. As concerns higher education, the focus will be to invest in upgrading and rehabilitation of existing facilities (including national and regional centres of excellence) in order to provide quality tertiary level training to improve the conditions for scientific and technological innovations.

In view of these considerations, the following pillars are proposed:

Pillar 1: Infrastructure Development

3.1.10 This pillar focuses on two outcomes namely (i) development and rehabilitation of critical economic and social infrastructure (roads, railways, energy, water, health facilities); and (ii) increased agricultural productivity. This stems from recognition of the fact that the Government has prioritized the development of infrastructure and the enhancement of agricultural productivity among its major objectives. With regard to road transport, the focus will be on the construction, upgrading, rehabilitation and maintenance of critical roads that are important to promote production, competitiveness and regional trade. The road infrastructure provides for over 90% of passenger and freight traffic. In addition to connecting districts in the country with one another, Uganda's road network also serves as transit corridors linking the land-locked neighbouring countries of Rwanda, Burundi, southern Sudan and parts of eastern Democratic Republic of Congo (DRC) to the Indian Ocean ports of Mombasa and Dar es Salaam. However, only about 25% of national roads are paved. This is further aggravated by the dilapidated status of the rail network of which only 26% is functional. As a result, the system carries only 3.5% of the freight and there is an urgent need for rehabilitation and standardization from the current 1.0m gauge to 1.435m in line with a recent continental agreement. To improve this, Bank Group interventions will be drawn from the National Transport Master Plan.

3.1.11 Equally important will be the upgrading of community access roads to enhance agricultural productivity as well as other infrastructure to support the agriculture sector, such as monitoring, control and surveillance infrastructure for fisheries to ensure the sustainability of this sub-sector. This is in line with the Government's overall goal in the agricultural sector to contribute to poverty reduction and economic growth through enhanced marketing of agricultural produce and other merchandise as articulated in the Plan for Modernization of Agriculture (PMA) and its successor, the Development Strategy Investment Plan (DSIP) became effective in July 2010. Specifically, the Government is aiming at improving marketplace economic and social infrastructure thereby inducing incremental production and marketing of agricultural commodities, enhancing the incomes of vendors, increasing employment and increasing customer satisfaction. This will remain the focus of Bank Group's interventions in this area.

3.1.12 Access to clean water and sanitation remains low in both urban and rural areas (see 2.1.21). The Government recognizes the importance of adequate water supply and improved sanitation in promoting economic growth and reducing poverty. To this end, Bank Group intervention will be geared towards improving access to water and sanitation to follow up on previous operations especially in rural areas and small urban centres through both sector budget support as well as project financing.

3.1.13 Another major infrastructural constraint relates to energy. Access to electricity remains very low due to limited national power grid coverage and low generation capacity. In terms of geographical divide, only 6% of the households in the rural areas have access to grid power as compared to 40% of urban households. In spite of having a potential hydroelectric power generation capacity of about 5300 megawatts, Uganda currently produces about 400 megawatts of electricity. This problem is further compounded by the surge in national demand on account of the fast growing economy. The Government is taking steps to address this deficiency and is seeking to expand access to affordable, reliable and adequate energy to meet ever increasing household, commercial and industrial demands. Bank Group support will be geared towards upgrading substations to improve national and regional interconnection.

3.1.14 With regard to social infrastructure, the focus will be on rehabilitation of health facilities in recognition that the country has a high disease burden especially in communicable diseases. The goal of the Government's health strategy is to reduce morbidity and mortality by delivering the Uganda National Minimum Health Care Package as stipulated in the Health Sector Strategic Plan and the National Development Plan. While the Government has undertaken various reforms in the health sector, substantial bottlenecks still exist including (i) underfunding and misalignment of development assistance with national priorities; (ii) weak procurement and supply chain management of third party commodities; and (iii) constraints in recruitment, deployment and management of the health workforce. To this end, the NDP aims to give priority to the promotion of health and prevention of disease, strengthening of health systems and it also focuses on programmes of national interest namely reproductive health and child survival, HIV/AIDS, tuberculosis, malaria and nutrition. Bank Group intervention will therefore be strategically focused on rehabilitating the dilapidated health infrastructure (see 2.1.20) in order to improve the access to facilities as well as improving the major teaching hospital in the country in line with the Bank Group's Strategy for Higher Education, Science and Technology (HEST). This approach takes into account the proposed focus for the Bank Group to provide limited support to the health sector under ADF XII and is rationalized on the need to help the country to accelerate progress toward the achievement of MDGs, particularly by strengthening health systems with a view to improving access to quality services.[7] Besides, a functioning health system is a prerequisite for improved investment in the country in all other sectors.

Pillar 2: Improving Capacity Skills Development for Poverty Reduction

3.1.15 Although Uganda is known for its impressive economic performance, it still remains among the least developed countries in sub Saharan Africa and its population growth rate and dependency ratio are among the highest in the world. In education, the objective is to achieve the target of universal primary and secondary education by 2015 through the implementation of Universal Primary Education and Universal Secondary Education programmes. It is also recognized that the current education system prepares graduates to become job seekers rather than job-creators. Little emphasis has been placed on entrepreneurship development, vocational training and skills development at all levels of education. Bank Group intervention will be guided by the 2008 Strategy for HEST that links higher education to the labour market needs and is geared towards making the training more relevant to supporting economic growth.

3.2 Deliverables and Targets

3.2.1 In line with the two strategic pillars of the proposed CSP, an indicative work programme is being proposed. The work programme takes into account the full ADF XII cycle (2011-2013) and the first two years of the ADF XIII cycle (2014-2015). It combines both lending and non-lending activities and would be reviewed periodically (mid-term review and if necessary annual updates) to take into

[7] The Government concurs with this approach and has approached other DPs to finance the other non-infrastructure needs in the proposed health intervention.

account changing conditions and Government priorities.

3.2.2 Uganda's ADF XI allocation for 2008-10 was reduced in February 2010 from UA 348.06 million to UA 309.5 million, all of which has been committed to finance 7 projects in the lending programme[8]. The allocation for ADF XII has not yet been determined but there are ongoing discussions with the Government to identify and agree on an indicative programme. Given that ADF funds are allocated on the basis of country performance, it is reasonable to expect Uganda's allocation under ADF XII will increase, or at least remain unchanged.

Lending Operations

3.2.3 The Bank Group will deliver its assistance through various modes including sector budget support, stand alone local projects, regional operations and private sector interventions. In all these modes of financing, the Bank will utilize and also support improvements in country systems. Table 1 presents a summary of the indicative lending programme.

Table 1: Indicative Lending Programme

Year	Amount (UA million)	Sectors/Themes
2011	46	(i) Rehabilitation of Mulago Hospital and Kampala City Council Health Facilities
	90	(ii) Support for Agricultural Infrastructure Improvement
	40	(iii) Support to Improve Water Supply and Sanitation in Rural Areas and Small Towns
2012	70	Education Sector Support V
	80	Road Sector Support Programme IV
2013	30	Upgrading of Substations under NELSAP
2014-2015	To Be Determined during Mid Term Review in 2013	
Multinational Projects		
2011	EAC Trade and Transport Facilitation Project II	
2012	Lakes Albert and Edward Fisheries Development Project	
2013-2015	To Be Determined during Mid Term Review in 2013	
Private Sector Operations		
2011	Rehabilitation of Kenya-Uganda Railway	

Non Lending Operations

3.2.4 In addition to its lending activities the Bank Group will provide assistance to Uganda during the proposed CSP period by investing in non-lending activities such as Economic and Sector Work (ESW) in collaboration with other development partners. The ESW would provide the analytical underpinning for the lending programme, facilitate policy advice and inform future operations.

3.2.5 Some ESW is already ongoing and is expected to be finalized during the first year of the CSP. This includes: (i) A study on Domestic Resource Mobilization for Poverty Reduction: Sharing Best Practices in East Africa, South Africa and Korea; and (ii) A study on Prospects and Challenges for Enhanced Regional Integration.

3.2.6 In addition, there is an envisaged programme that is proposed to cover critical areas that are deemed to require attention as summarized in Table 2.

3.3 Monitoring and Evaluation

3.3.1 One of the lessons derived from the previous Bank Group Strategy is that credible, concise and realistic results for the CSP and for individual projects are essential in order to assess the relevance of

[8] The reduced amount had been programmed to cover rehabilitation of health facilities including Mulago Hospital and it is therefore proposed to retain the health sector intervention as a priority in ADF XII.

Bank Group strategy and operations. This underlines the need for Bank-financed operations to make a provision to strengthen the M&E framework in order to generate the requisite data and information. The results-based framework that would be used jointly by the Government and the Bank to monitor the outcomes of this CSP is shown in Annex 1. It is based on Uganda's National Development Plan as a starting point and focuses on the outcomes that can be influenced by Bank-financed interventions during the period. The main objectives and priority areas of Bank Group support are covered under each pillar. As indicated, the existing stock of projects in the current portfolio will account for a significant share of outcomes during this CSP.

Table 2: Indicative Non Lending Programme and Economic Sector Work
(i) A Policy Note on Modalities of Investing Uganda's Oil Revenues: Infrastructure versus Trust Funds; (following up on one of the recommendations of the National Oil Seminar that the Bank Group facilitated in 2008);
(ii) Development of a National Urban Policy (in view of the urbanization challenge articulated in 2.2.2.3);
(iii) Microeconomic work on factors affecting access to safe water and sanitation in Uganda to inform Computable General Equilibrium (CGE) Modeling work conducted jointly with the UNDP under the United Nations Department for Economic and Social Affairs (UNDESA) MDGs program[9];
(iv) An assessment of the impact of scaling up infrastructure spending on the Ugandan economy (including the growth effects and also the various forms of infrastructure financing as well as their allied macroeconomic effects);
(v) An evaluation of the robustness of the initiatives undertaken to improve governance in Uganda and identification of areas for improvement;
(vi) Country Portfolio Performance Reviews in 2011, 2013 and 2015; and
(vii) A Private Sector Road Show.

3.3.2 The Bank will conduct country portfolio reviews (preferably jointly with other development partners) at least once every two years to track progress towards the attainment of the development objectives of projects. A mid-term review will be undertaken during the fourth quarter of 2013 to assess progress towards the CSP outcomes. A completion report will be prepared in early 2016.

3.4 Country Dialogue Issues

3.4.1 Portfolio Performance: Satisfactory management and performance of the portfolio ensures that project resources are effectively utilized and helps deliver project benefits on a timely basis. The Bank will therefore, undertake regular monitoring of the implementation of projects/programmes to be financed during the CSP period through periodic supervisions and reviews of Bank's portfolio in the country. The Bank would maintain dialogue aimed at encouraging the authorities to put in place mechanisms to ensure quality at entry and managing for results of Bank's financed projects.

3.4.2 Enhance Regional Integration: Economic cooperation in the region has become a reality with the signing by the East African Community (EAC) Heads of State on 20 November 2009 of the Protocol for the establishment of the EAC Common Market. The Protocol is expected to come into effect on 1 July 2010 following ratification by the five Partner States and will set the stage for the free movement of goods and persons within the region. The Bank Group will maintain dialogue with the Government with a view to assisting the country to enhance national capacity in order to effectively harness prospects and opportunities as well to mitigate the challenges of regional integration.

3.4.3 Improving Governance: In view of the emerging cases relating to allegations of grand corruption, the Bank would maintain dialogue with Government and other development partners aimed at supporting the design and implementation of Action Plans to address the problem. The Bank will also hold discussions with the authorities on the most appropriate intervention it can provide to promote

[9] This will then feed into policy analyses using the Marquette for MDG Simulations model.

good governance especially through capacity building to key institutions[10].

3.4.4 Addressing Constraints to Private Sector Development: The National Development Plan envisages an increased role for the private sector as the engine of growth and development. However, under the prevailing environment, this role is difficult to realize. The Bank will therefore maintain dialogue with Government to reiterate the importance of addressing the factors that constrain the business environment in order to improve the country's competitiveness and ranking in the region. This will have the additional benefit of enhancing the Bank Group private sector portfolio that is currently limited.

3.4.5 Enhancing Domestic Revenue Mobilization: Uganda's tax effort remains the lowest in the EAC region. The on-going Domestic Resource Mobilization (DRM) study aims to identify key lessons of experience and international best practices in the EAC region, South Africa and Korea so as to enhance the EAC member states' DRM efforts. The Bank Group will maintain dialogue with Government with a view to supporting the implementation of key strategic DRM best practices and lessons.

3.5 Potential Risks and Mitigation Measures

The following are some of the key risks to the implementation of the CSP, and proposed mitigation measures:

3.5.1 Political uncertainty arising from the upcoming elections in early 2011: Since elections, by their nature, are competitive, there is a risk that the first year of the CSP will be characterized by political tensions and uncertainty. Experience shows, however, that putting in place mechanisms that allow the various key stakeholders to be actively involved in the electoral processes is vital in abating electoral-related conflicts and rendering the process credible and acceptable to all. To this end, it is laudable that Uganda has been participating in the African Peer Review Mechanism and the Government launched the Country Review Report including a National Programme of Action (POA) in March 2009. Taking the process further, a National Governing Council (NGC) was also inaugurated to oversee the implementation of the POA. The NGC has gone ahead to create a non-partisan platform for continuous dialogue on critical issues identified in the POA and this can be expected to tamper political tensions before they degenerate into conflicts.

3.5.2 Challenges arising in management of oil revenues: The discovery of oil needs to be managed well so that the country can avoid the so-called 'natural resource curse', where some natural resource endowed countries have failed to reap the expected benefits but instead suffered from loss of competitiveness arising from the appreciation of their currency on account of significant levels of foreign exchange inflows. As a mitigating measure, it is laudable that the Government has drafted a new Oil and Gas Policy (drawing from the National Seminar that the Bank Group facilitated in 2008) to ensure that the realization of anticipated benefits is in accordance with the laws of the country is done with utmost transparency, efficiency and accountability. Government is also taking measures to review tax legislation so as to allow for the effective taxation of oil related transactions and revenues. To take the process further, there is a strong case for the country to consider becoming a signatory of the Extractive Industries Transparency Initiative that aims to strengthen governance by improving transparency and accountability in the extractives sector.

[10] This was the approach adopted under the recent successfully completed Institutional Support Project for Good Governance Project that supported the Office of the Inspector General, Auditor General's Office, Ministry of Local Government, and the Prime Minister's Office.

4. CONCLUSION AND RECOMMENDATION

4.1 This CSP comes at an opportune time with (i) the launching of the first 5year National Development Plan; (ii) improved prospects arising from the discovery of oil, enhanced regional cooperation and cessation of civil strife in the North; and (iii) finalization by several development Partners of their country business plans and strategies.

4.2 To this end, supporting social and economic infrastructure to (Pillar I) and equipping the population with better capacity skills (Pillar II) remain key priorities for the Government and the Bank. Bank Group support towards these pillars will improve Uganda's prospects for economic growth and job creation and will enable it to play its rightful role in an integrated East Africa.

4.3 The Boards of Directors are invited to consider and approve the proposed Country Strategy Paper for Uganda for 2011–2015.

Annex I: Uganda's 2011-2015 CSP Results Monitoring Matrix

Country Development Goals	Constraints hindering achievement of desired outcomes	Final Outcomes (by 2015)	Final Outputs (by 2015)	Mid-Term Outcomes (by 2013)	Mid Term Outputs (by 2013)	Bank Group Interventions during CSP period (ongoing and proposed)
PILLAR I: Infrastructure Development						
Transport						
Improve national road network and reduce transport costs	Inadequate funds for routine and periodic maintenance High unit cost of road construction Weak legal and regulatory framework to ensure compliance to standards Weak local private sector participation	Increase in proportion of paved roads as % of national roads from 15% (2009) to 21 % (2015)	355 km of roads upgraded /constructed from gravel to bitumen Reduction in average travel time between Kabale and Kisoro districts; Kabarole and Bundibuygo districts; and between Kiruhara, Ibanda and Kamwenge districts. Reduction in vehicle operating costs per km in the above districts	Increase in proportion of paved roads as % of national roads from 15% (2009) to 18 % (2013)	212 km of roads upgraded /constructed from gravel to bitumen Reduction in average travel time Kabale and Kisoro ditricts; and between Kabarole and Bundibuygo districts Reduction in vehicle operating costs per km in the above districts	Proposed: Road Sector Support Project 4 (Hoima-Masindi-Kigumba Road) Ongoing: Road Sector Support Project 1 (Kabale Kisoro Bunagana Road) Road Sector Support Project 2 (Fort Portal Bundibugyo Road) Road Sector Support Project 3
Agricultural Infrastructure						
Enhance marketing of agricultural produce and other merchandise	Inadequate physical infrastructure (roads and railways, energy, water; and storage facilities. Inadequate production and post-harvest facilities Lack of regular and reliable agricultural statistics and market information High cost and limited availability of improved farm inputs	Increase in real growth in agricultural output to 4% (2014/15) from 0.7% (2007/08)	Rehabilitation of 715 km of district roads and 4365 km of community roads Construction of 175 market places Installation of agro-processing and storage equipment (108 rice hullers, 175 grain mills, 61 milk coolers, 143 cold rooms, 175 produce stores)	Increase in agricultural produce marketed as % of total from 80% (2003) to 90% in 26 districts Increase in farm gate prices by 20%	Rehabilitation of 390 km of district roads and 3510 km of community roads Construction of 78 market places Installation of agro-processing and storage equipment (52 rice hullers, 78 grain mills, 39 milk coolers, 78 cold rooms, 78 produce stores)	Proposed: Support for Agricultural Infrastructure Improvement Ongoing: Community Agricultural Infrastructure Improvement Programme I and II; Markets and Agricultural Trade Improvement Project I (MATIP I)

Country Development Goals	Constraints hindering achievement of desired outcomes	Final Outcomes (by 2015)	Final Outputs (by 2015)	Mid-Term Outcomes (by 2013)	Mid Term Outputs (by 2013)	Bank Group Interventions during CSP period (ongoing and proposed)
Water Supply and Sanitation						
Improving access to water and sanitation in rural and urban areas	Insufficient funding to meet the high population demands Unplanned settlement patterns Low household income to pay for the services	Number of people with acceptable onsite sanitation increases from 60% (2008) to 85% Improvement in water quality at Murchison Bay of Lake Victoria to national standards	2 sewage and 2 faecal treatment plants constructed Sewer systems in 2 catchment areas rehabilitated 125 toilets constructed in schools and public facilities	Number of people with acceptable onsite sanitation increases from 60% (2008) to 85% Improvement in water quality at Murchison Bay of Lake Victoria to national standards	2 sewage and 2 faecal treatment plants constructed Sewer systems in 2 catchment areas rehabilitated 125 toilets constructed in schools and public facilities	Proposed: Support to Rural and Small Towns Water Supply and Sanitation Ongoing: Kampala Water Sanitation Project
Energy						
Improve generation and distribution of electricity and enhance its affordability and accessibility	Limited power generation, transmission and distribution network High tariffs High losses in distribution system	Total electricity coverage increases from 11% (2008) to15%	Increase power generation capacity to reach 780-820 MW from the current 280-330 MW 220,000 new consumers connected to the national grid Reduce power distribution losses from 40% to 16% Transmission capacity of network from power stations to distribution companies and large consumers increased from 450 MW to 900 MW. Cost of one unit of	Total electricity coverage increases from 11% (2008) to13%	Increase power generation capacity by 295 MW 100 000 new consumers connected to the national grid Transmission capacity of network from power stations to distribution companies and large consumers increased from 450 MW to 900 MW. Cost of one unit of electricity is	Proposed: Upgrading of Substations under NELSAP Ongoing: NELSAP I Bujagali Hydro Power Project Buseruka Hydropower Project Bujagali Transmission Interconnection Project Mbarara-Nkenda/Tororo-LiraTransmission Lines Project

Country Development Goals	**Constraints hindering achievement of desired outcomes**	**Final Outcomes (by 2015)**	**Final Outputs (by 2015)**	**Mid-Term Outcomes (by 2013)**	**Mid Term Outputs (by 2013)**	**Bank Group Interventions during CSP period (ongoing and proposed)**
			electricity is reduced from 22 US cents to 15 US cents. Construction of 250 MV Bujagali hydropower station and 5 small hydropower stations Construction of 260 km single circuit and 160 km double circuit transmission lines One substation built and another one extended.		reduced from 22 US cents to 15 US cents. Construction of 250 MV Bujagali hydropower station and 5 small hydropower stations 260 km single circuit and 160 km double circuit transmission lines One substation built and another one extended.	
Health Facilities						
Promotion of health and prevention of disease, and strengthening of health systems	Dilapidated health facilities Underfunding and misalignment of development assistance with national priorities; Constraints in recruitment, deployment and management of the health workforce.	Improve access and quality of health services in the city of Kampala Reduction in maternal deaths by 25% in 10 districts Percentage of assisted deliveries by trained personnel in 10 districts increase from 38% to 50%	Rehabilitation of Lower Mulago National Referral Hospital Construction of 2 general hospitals in Kawempe and Kiruddu Districts Provision of 154 beds (15 Delivery beds and 59 postnatal beds) Rehabilitation of Mbarara Regional Hospital, 8 district hospitals and 39 health centres Equip health facilities with ambulances On job training of staff in emergency obstetric care Training of traditional birth attendants	Reduction in maternal deaths by 25% in 10 districts Percentage of assisted deliveries by trained personnel in 10 districts increase from 38% to 50%	Rehabilitation of Mbarara Regional Hospital	Proposed: Rehabilitation of Mulago Hospital and Kampala City Council Health Services project Ongoing: Support to the Health Sector Strategic Plan II

Country Development Goals	Constraints hindering achievement of desired outcomes	Final Outcomes (by 2015)	Final Outputs (by 2015)	Mid-Term Outcomes (by 2013)	Mid Term Outputs (by 2013)	Bank Group Interventions during CSP period (ongoing and proposed)
PILLAR 2: Improving Capacity Skills Development for Poverty Reduction						
Improvement of Capacity Skills						
Develop an economically-productive knowledge population, with advanced skills which will lead to economic growth that benefit all sectors of society	Low level of funding to higher education. Capacity constraints in the universities in terms of facilities (lecture rooms, laboratories, ICT facilities) and academic staffing levels, Poor quality of service delivery, especially in science and technological related disciplines that are research-oriented and capital-intensive.	Increase in gross secondary education enrollment from 25% (2008) to 35% Increase in net secondary education enrolment from 21.3% (2008) to 30%	Complete rehabilitation of 42 secondary schools and 2 BTVET institutions 15 secondary schools expanded 12 new secondary schools constructed 71 schools and institutions equipped with teaching and learning resources 2500 teachers and 600 other staff trained Increase in number of places in secondary schools and BTVET institutions from 60,000 (2008) to 80,000 Scholarships for 1000 needy schools	Increase in gross secondary education enrollment from 25% (2008) to 30% Increase in net secondary education enrolment from 21.3% (2008) to 25%	Commence expansion of 42 secondary schools 15 secondary schools expanded 12 new secondary schools constructed 71 schools and institutions equipped with teaching and learning resources	Proposed: Support to Higher Education (Education V) Ongoing: Support to Post Primary Education and Training Project (Education III and IV)

ANNEX II: SUMMARY OF ONGOING BANK GROUP OPERATIONS (JUNE 2010)

	Project Description	Approval Date	Signature Date	Effectiveness Date	Net Commitments (UA million)	Amount Disbursed (UA million)	Disbursed (%)	Deadline for Last Disbursement	Project Age	Remarks
1	Fisheries Development Project	12/06/02	14/11/02	09/05/03	22.00	15.75	71.6%	31/12/10	8.0	
2	National Livestock Productivity Improvement Project	04/12/02	02/06/03	12/04/04	26.54	24.03	90.5%	31/12/10	7.5	PPP
3	Farm Income Enhancement& Forestry Conservation project	29/09/04	18/01/05	17/05/06	41.42	19.99	48.3%	30/12/12	5.8	PPP
4	Community Agricultural Infrustructure Improvement Programme- Project I	31/01/07	17/05/07	21/09/07	30.00	15.99	53.3%	31/12/13	3..5	
5	Community Agricultural Infrustructure Improvement Programme- Project II	17/09/08	11/05/09	02/09/09	45.00	0.74	1.6%	31/12/14	1.8	
6	Urban Markets Project	26/03/09	13/05/09	05/02/10	38.00	0.33	0.9%	30/09/15	1.2	
7	Creation of Sustainable Tsetse and Trypanosomiasis Free Areas	08/12/04	19/05/05	30/12/05	3.69	1.27	34.4%	31/12/11	5.5	PPP
Agriculture - Sub Total					**206.65**	**78.10**	**37.8%**			
8	Road Sector Support Project 1 (Kabale- Kisoro- Bunagana Rd)	27/04/05	19/05/05	15/09/05	28.50	26.21	92.0%	31/12/10	5.1	
9	Road Sector Support Project 2 (Fort Portal-Bundibugyo Rd)	17/12/07	15/05/08	29/07/08	58.00	8.87	15.3%	31./12/13	2.6	
10	Road Sector Support Project 1 Supplementary Loan	20/12/06	22/01/07	18/02/08	32.99	11.48	34.8%	31/12/10	3.5	
Transport - Sub Total					**119.49**	**46.56**	**39.0%**			
11	Kampala Water Sanitation Project	16/12/08	11/05/09	18/02/10	35.00	0.00	0.0%	31/12/14	1.5	
Water and Sanitation - Sub total					**35.00**	**0.00**	**0.0%**			
12	Support to the Health Sector Strategic Plan II	08/11/06	22/01/07	04/06/07	20.00	9.89	49.5%	31/12/12	4.0	
13	PPF-Support to Mulago Hospital Rehabilitation	30/04/09	29/07/09	29/07/09	0.50	0.26	51.2%	28/07/10	1.2	
14	Support to Post Primary Education and Training Project (Education IV)	25/11/08	11/05/09	31/08/09	52.00	0.94	1.8%	31/12/14	1.6	
15	Support to Post Primary Education and Training Project (Education III)	19/12/05	23/01/06	25/04/06	20.00	11.37	56.97%	31/12/11	4.5	
Social - Sub Total					**92.50**	**22.46**	**23.8%**			
16	Mineral Resources Management & Capacity Building Project	29/09/04	18/01/05	18/01/05	5.35	3.92	73.3%	31/12/10	5.8	
Industry - Sub total					**5.35**	**3.92**	**73.3%**			
17	Bujagali Transmission Interconnection Project	26/06/07	26/10/07	15/05/08	19.21	7.64	39.8%	31/12/11	3.0	
18	Bujagali Hydro Power Project	29/06/07	21/12/07	21/12/07	72.17	49.67	68.8%	31/12/12	3.0	
19	Buseruka Hydropower Project	29/07/08	25/04/09	25/07/09	5.84	2.92	50.0%	31/12/10	1.9	
Energy - Sub total					**97.22**	**60.23**	**62.0%**			
GRAND TOTAL					**556.21**	**211.27**	**40.0%**			
PPP= Potentially Problematic Project										

ANNEX III: COUNTRY PORTFOLIO IMPROVEMENT PLAN-PROGRESS AS AT JUNE 2010

Issues & Constraints	Actions Required	Responsible	Time frame	Current Status
Fiduciary & Safe Guard Issues				
Disbursement				
Delays in submission of disbursement requests or inadequate supporting documents by GoU	i. Designate a financial management specialist at project appraisal; ii. Provide adequate financial management training and mentoring to PIU staff in disbursement procedures	GoU/ AfDB	Immediately and continuously	UGFO has routinely been providing support to PIU staff and the quality of applications has improved as evidenced by the decline in the number of rejected applications
Project staff not conversant with Bank's rules and procedures	Provide training on disbursement rules for PIU staff at least once a year	AfDB	Immediate	UGFO has been providing training on a need basis
Inadequate design/ setup of financial management arrangements	i. Ensure highest project quality-at-entry; ii. The Field office should provide technical support to projects particularly in designing and implementation of project disbursement plans	GoU/ AfDB	Continuous	There has been greater inclusion of ORPF and Disbursements staff in field missions
Procurement				
Delays in procurement process caused by inadequate responsiveness of GoU to Bank procurement requirements	i. Ensure bidding documents for the 1st year are ready by Board approval ii. The Bank should support the project to design practical procurement plans that are regularly updated	GoU/ AfDB	FY 2009/10	The quality of applications has improved as evidenced by the decline in the number of rejected submissions
PIUs having follow two parallel sets of procurement rules, i.e., Bank and PPDA rules	i. The Field office should provide technical support to projects particularly in the designing and implementation of project procurement plans so as to minimize delays resulting from the need to reconcile Bank and PPDA rules ii. Align Bank rules and procedures with country systems and reduce complexity of procurement process	GoU/ AfDB	Immediate and continuous	UGFO has been providing necessary support and individual training on a need basis
Project staff not conversant with Bank's rules and procedures	i. Evaluate extent of need and recruit a project procurement assistant when necessary ii. Provide regular and practical procurement training to PIU staff	GoU/ AfDB	Continuous	UGFO has been providing individual training on a need basis
Auditing/ Reporting				

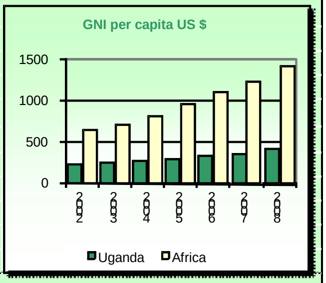
Issues & Constraints	Actions Required	Responsible	Time frame	Current Status
Project staff not familiar with AfDB's audit standards/ requirements	Conduct training on Bank audit standards and requirements for PIU staff at least once a year	GoU/ AfDB	Immediate and continuous	All projects received the revised TOR's for external audit reports as evidenced by the number of audit reports found acceptable by ORPF.
Delays in preparing and submitting financial statements to auditors by PIUs Quarterly Progress Reports (QPRs) are often not sufficiently analytical regarding the identification of bottlenecks and possible solutions	i. Designate a competent project accountant at appraisal and provide requisite training on Bank audit standards at least once a year ii. The Field office should enhance follow-up with the executing agencies to ensure that QPRs are rigorous and are submitted by the recommended deadline	GoU/ AfDB	Continuous	Audit reports were received on time Generally QPRs are being submitted on a timely basis. In the few cases where some delays are noted, UGFO has been routinely following up.
Environment and Social Safe Guards				
Inadequate capacity to follow up and implement safeguard rules and procedures due to lack of awareness of environmental and social safeguards	(i) Sensitize project managers/coordinators on safeguards for instance through IEC performance tools. (ii) Train implementing agencies to monitor and enforce safeguards	GoU/ AfDB	Immediate and continuous	On-going
Government Contributions or counterpart funds				
Inadequate releases of counterpart funding	i. GoU should ensure that counterpart funds are adequately budgeted for and available before Board approval for the 1st project year	GoU/ AfDB	FY 2009/10	Most projects are systematically including counterpart funding in their budget submissions and MoFPED has been making adequate provision
Project Management				
Project Effectiveness				
Delays in obtaining Parliamentary Ratification and GoU's legal opinion on approved projects	i. Increased GoU leadership and commitment to ensure project effectiveness within six months after Board approval ii. Project formulation should as much as possible involve all interested stakeholders, including Parliamentarians	GoU	Immediate and continuous	This issue forms part of ongoing dialogue with GOU

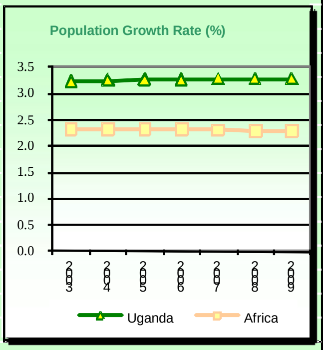
Issues & Constraints	Actions Required	Responsible	Time frame	Current Status
Project Implementation				
Inadequate project implementation capacity	i. Carry out a comprehensive analysis of the capacity of the Executing Agency (EA) to implement the project and where necessary, provide technical assistance to overcome short-term capacity constraints ii. Designate key staff at project appraisal including project manager, financial, and management specialist and provide requisite training; iii. Conduct annual reviews of existing PIU/PMU structures to identify and resolve any implementation challenges	GoU/ AfDB	Continuous	Problems still persist. Continuous follow-up needed
Inefficient oversight resulting from weak coordination between PSCs and PIUs	i. Strengthen the role of the Ministry of Finance to be able to carry out on-the spot supervision/ monitoring of project performance/ progress ii. Strengthen the Office of the Auditor-General and the internal audit function of the EA to enhance monitoring of financial compliance of projects	EAs, GoU and AfDB	Immediate and continuous	Implementation is on-going
Weak project supervision by the Bank	i. Ensure adequate skills mix and sufficient duration per supervision mission ii. Instilling a results–focused supervision culture by shifting to continuous supervision and implementation support in the field; ii. Conduct project coordinators portfolio review meetings on a quarterly basis	AfDB	Continuous	By June 30, 2010 all projects had been supervised at least once
Other issues				
Improve quality-at-entry for future operations	Adopt a readiness filter for future operations to ensure that key staff is designated at project appraisal and implementation plan, baseline survey, M&E schemes and a comprehensive results-framework are in place before Board approval	AfDB and GoU/ PIUs	As from Jan 2010	No new projects have been approved in 2010 but the issue is flagged for operations due to enter the portfolio
Weak M&E systems and lack of capacity at the project level to execute M&E tasks	i. Build capacity for GoU M&E staff and provide adequate budget for M&E ii. Enforce the preparation of annual project monitoring plans; and	AFDB/GOU	Continuous/ as need arises	This has been singled out for follow up in upcoming operations

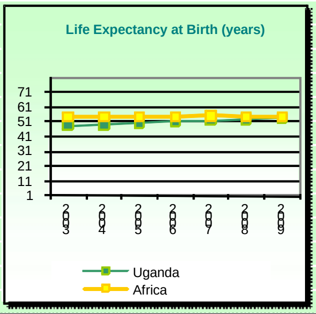
Issues & Constraints	Actions Required	Responsible	Time frame	Current Status
Changes in the project environment affecting progress of project implementation	i. Minimize the time between project design, approval, start-up and implementation ii. Rigorous annual project reviews so as to assess implementation progress, identify implementation bottlenecks, and recommend mitigating measures	GOU/AFDB	Continuous	Problems still persist, continuous follow-up needed
Low morale of seconded GoU officials to projects due to lack of commensurate remuneration for the additional assignments	i. Promote activity based remuneration on a case by case basis per Public Service Regulations ii. Introduce performance-based contracts and a commensurate compensation framework	GOU	FY 2009/10	Problems still persist, continuous follow-up needed

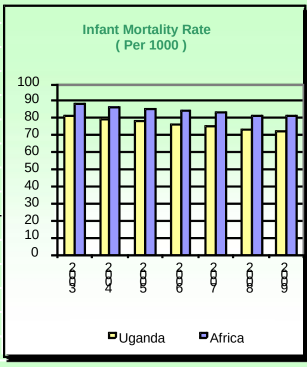
Annex IV: Uganda- Comparative Socio-Economic Indicators

	Year	Uganda	Africa	Develo-ping Countries	Develo-ped Countries
Basic Indicators					
Area ('000 Km²)		241	80 976	80 976	54 658
Total Population (millions)	2009	32.7	1,008	5,629	1,069
Urban Population (% of Total)	2009	13.1	39.6	44.8	77.7
Population Density (per Km²)	2009	135.7	3.3	66.6	23.1
GNI per Capita (US $)	2008	420	1 428	2 780	39 688
Labor Force Participation - Total (%)	2009	44.0	41.2	45.6	54.6
Labor Force Participation - Female (%)	2009	47.8	41.2	39.8	43.3
Gender -Related Development Index Value	2005	0.501	0.525	0.694	0.911
Human Develop. Index (Rank among 182 countries)	2007	157	0.514	n.a	n.a.
Popul. Living Below $ 1 a Day (% of Population)	2005	31.0	50.8	25.0	…
Demographic Indicators					
Population Growth Rate - Total (%)	2009	3.3	2.3	1.3	0.7
Population Growth Rate - Urban (%)	2009	4.5	3.4	2.4	1.0
Population < 15 years (%)	2009	48.9	56.0	29.2	17.7
Population >= 65 years (%)	2009	2.5	4.5	6.0	15.3
Dependency Ratio (%)	2009	105.8	78.0	52.8	49,O
Sex Ratio (per 100 female)	2009	100.3	100.7	934.9	948.3
Female Population 15-49 years (% of total population)	2009	21.6	48.5	53.3	47.2
Life Expectancy at Birth - Total (years)	2009	53.5	55.7	66.9	79.8
Life Expectancy at Birth - Female (years)	2009	54.1	56.8	68.9	82.7
Crude Birth Rate (per 1,000)	2009	45.8	35.4	21.5	12.0
Crude Death Rate (per 1,000)	2009	12.3	12.2	8.2	8.3
Infant Mortality Rate (per 1,000)	2009	71.7	80.0	49.9	5.8
Child Mortality Rate (per 1,000)	2009	118.0	83.9	51.4	6.3
Total Fertility Rate (per woman)	2009	6.3	4.5	2.7	1.8
Maternal Mortality Rate (per 100,000)	2006	435.0	683.0	440.0	10.0
Women Using Contraception (%)	2006	23.7		61.0	75.0
Health & Nutrition Indicators					
Physicians (per 100,000 people)	2004	7.9	42.9	78.0	287.0
Nurses (per 100,000 people)*	2004	57.9	120.4	98.0	782.0
Births attended by Trained Health Personnel (%)	2006	41.9	50.5	63.4	99.3
Access to Safe Water (% of Population)	2006	64.0	64.0	84.0	99.6
Access to Health Services (% of Population)	2006	…	61.7	80.0	100.0
Access to Sanitation (% of Population)	2006	33.0	38.5	54.6	99.8
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2007	5.4	4.5	1.3	0.3
Incidence of Tuberculosis (per 100,000)	2007	330.0	313.7	161.9	14.1
Child Immunization Against Tuberculosis (%)	2007	89.0	83.0	89.0	99.0
Child Immunization Against Measles (%)	2007	86.0	74.0	81.7	92.6
Underweight Children (% of children under 5 years)	2006	20.0	25.6	27.0	0.1
Daily Calorie Supply per Capita	2005	2 371	2 324	2 675	3 285
Public Expenditure on Health (as % of GDP)	2006	1.8	5.5	4.0	6.9
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2007	117.2	100.2	106.8	101.5
Primary School - Female	2007	117.7	91.7	104.6	101.2
Secondary School - Total	2007	88.0	35.1	62.3	100.3
Secondary School - Female	2007	89.18	30.5	60.7	100.0
Primary School Female Teaching Staff (% of Total)	2007	39.2	47.5	…	…
Adult Illiteracy Rate - Total (%)	2007	26.4	59.4	19.0	…
Adult Illiteracy Rate - Male (%)	2007	18.2	69.8	13.4	…
Adult Illiteracy Rate - Female (%)	2007	34.5	57.4	24.4	…
Percentage of GDP Spent on Education	2008	3.8	4.5		5.4
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2007	27.9	6.0	9.9	11.6
Annual Rate of Deforestation (%)	2006	…	0.7	0.4	-0.2
Annual Rate of Reforestation (%)	2006	…	10.9	…	…
Per Capita CO2 Emissions (metric tons)	2008	0.1	1.1	1.9	12.3









Sources : ADB Statistics Department Databases; World Bank: World Development Indicators; last update : May 2010
UNAIDS; UNSD; WHO, UNICEF, WRI, UNDP; Country Reports.
Note : n.a. : Not Applicable ; … : Data Not Available.

ANNEX V: UGANDA: KEY MACROECONOMIC INDICATORS

	2000	2007	2008	2009
Population, total (in millions)	24.4	30.6	31.7	32.7
Area(Square Km) (in thousands)	241	241	241	241
GDP (current US$) (in millions)	6,099	13,572	16,210	15,652
GNI per capita, Atlas method (current US$)	270	370	420	..
Life expectancy at birth, total (years)	46	52	53	53
Real GDP growth (annual %)	11.3	8.1	9.2	6.5
GDP per capita,(current US$)	250	443	512	478
Inflation, consumer prices (annual %)	5.8	6.1	12.0	11.1
Central government, Fiscal Balance (% of GDP)	-6.8	-1.9	-2.2	-2.7
Gross capital formation (% of GDP)	19.0	22.6	23.9	24.8
Gross national savings (% of GDP)	13.2	16.7	18.2	18.9
Real Export Growth, Goods (%)	3.5	27.1	48.6	7.9
Total trade (as % of GDP)	33.2	39.3	48.0	53.2
Current account balance (as % of GDP)	-5.4	-2.8	-6.1	-7.3
Terms of trade, goods (Percentage change)	-37.7	25.1	-46.3	20.5
Total debt outstanding at year-end (As % of GDP)	58.6	10.8	11.6	15.5
Total debt service: interest and amortization paid (As % of Exports of Goods and services)	27.5	4.0	2.5	2.1
Source: ADB Statistics Department				

Annex VI: Uganda-MDGs Status

GOALS/TARGET	Indicator	Current Status	Year	Will the Goal or Target be Met?	State of National Support
Extreme Poverty Halve the proportion of people living in extreme poverty between 1990 and 2015	Proportion of population living below US $ 1 per person per day	31%	2005/06	Probably	Strong
	Poverty gap ratio (incidence x depth)	8.7%	2005/06		
Hunger Halve the proportion of underweight, under-five year olds by 2015	Prevalence of underweight children	20.4%	2006	Potentially	Fair
Universal Primary Education Achieve 100% enrolment of 6-12 year old children into primary school by 2015	Net enrolment in primary	84%	2006	Probably	Strong
	Literacy rate (15-24 yrs)	84%	2005/06		
	Ratio of literate females to males	0.73	2005/06		
Gender Equity and Women Empowerment Eliminate gender disparity in primary and secondary education, preferably by 2005, and at all levels by 2015	Ratio of literate women to me, 15-24 yrs	0.92		Probably	Strong
	Ratio of girls to boys in primary schools	0.99	2005/06		
	Ratio of girls to boys in secondary schools	0.97	2005/06		
	Ratio of girls to boys in tertiary institutions	0.84	2005/06		
	Share of women in wage employment in the non-agricultural sector	28.9	2005/06		
	Proportion of seats held by women in Parliament	30%	2006-2011		
Infant mortality Reduce by two thirds, between 1990 and 2015, the under-five mortality rate	Under five mortality ratio	137 per 1000 live births	2007	Unlikely	Fair
	Infant mortality rate	76 per 1000 live births	2007		
	Proportion of 1 year children immunized against measles	59.4	2004		
Maternal health Reduce, by three quarters, the	Maternal mortality ratio	435	2007	Unlikely	Fair

GOALS/TARGET	Indicator	Current Status	Year	Will the Goal or Target be Met?	State of National Support
maternal mortality rate, by 2015	Proportion of births attended to by skilled health personnel	41%	2006		
HIV/AIDS, malaria and other diseases Halt, and begin to reverse, by 2015, the spread of HIV/AIDS	HIV prevalence rate among pregnant women	6.4	2004/05	HIV/AIDS reduction already achieved; malaria and others potentially	Strong for HIV/AIDS and fair for others
	Access to contraceptives	24%	2006		
	Condom use at high risk sex				
Environmental sustainability Reverse loss of environmental resources by 2015	Degradation of natural resources			Potentially	Fair
Halve, by 2015, the proportion of people without sustainable access to safe drinking water	Access to improved water resources	67%	2006	Probably	Strong
Global partnership Strengthen partnership between rich and poor countries	ODA, Market access, debt sustainability			Probably	Strong

Source: UNDP, Millennium Development Goals, Uganda's Progress Report 2007

ANNEX VII: UGANDA CPIA RATINGS 2006-2008

		2006	2007	2008
A. Economic Management	1. Macroeconomic Management	4.5	4.5	5.0
	2. Fiscal Policy	4.0	4.0	4.0
	3. Debt Policy	4.0	4.5	4.5
B. Structural Policies	4. Regional Integration and Trade	4.5	4.5	5.0
	5. Financial Sector	4.0	4.0	4.0
	6. Business Regulatory Environment	4.0	4.0	4.0
C. Policies for Social Inclusion and Equity	7. Gender Equality	3.5	4.0	4.0
	8. Equity of Public Resource Use	4.0	3.5	3.5
	9. Building Human Resources	4.0	4.5	5.0
	10. Social Protection and Labour	4.0	3.5	3.5
	11. Environmental Policy and Regulation	4.0	3.5	4.0
D. Public Sector Management and Institutions	12. Property Rights and rule Based Governance	4.0	4.0	4.5
	13. Quality of Budgetary and Financial Management	4.0	4.5	4.0
	14. Efficiency of Revenue Mobilization	3.0	3.5	3.5
	15. Quality of Public Administration	3.0	3.5	3.0
	16. Transparency, Accountability and Corruption in Public Sector	3.0	3.0	3.0
Overall Rating		**3.88**	**3.98**	**4.28**

Annex VIII: AID INFORMATION MAP - FY 2008/09

Aid Information Map
FY 2008/09

Lead Role in Sector — Future Lead Role — Active Engagement in Sector — Active Engagement in Subsector — Planning New Engagement — Funding of a sector programme — Leaving Sector

Sectors and subsectors	Active DPs in FY2008/09[1]	Sector Lead in FY2008/2009	Active Engagements in Sector	Active Engagements in Subsector	Planning new engagements	Funding of a Sector Programme	Leaving Sector	AfDB	IMF	World Bank	EC	Austria	Belgium	Denmark	France	Germany	Iceland	Ireland	Italy	Japan*	Netherlands	Norway	Sweden	UK	USA	UNAIDS*	UNDP*	UNEP*	UN-FAO	UNFPA	UNHCR*	UNICEF	UN-IDO*	UN-IFAD	UNIFEM*	UN-OHCHR	UN-WHO*	World Food Programme
1. Security	3	0	1	2	0	0	1																															
2. Roads and Transport	5	1	3	0	2	1	1				8/9			10										9/10														
3. Agriculture	13	3	6	4	0	0	3			8				9																								
4. Education	11	2	5	3	1	0	2									10/11					9/10																	
5. Health	16	2	10	2	0	1	3							10									9+9/10		10/11													
6. Water and Environment																																						
6.1 Water and sanitation	8	1		7	0	1	2	11/12				10/11		8/9		9/10																						
6.2 Environment/Climate change	7	1		6	0	1	0			8/9			12/13																									
7. Justice, Law and Order	10	1	7	2	0	2	1									10/11		9/10																				
8. Accountability	6	0	4	2	0	3	0																	10/11														
8.1 Public Financial Management[3]	3	0		3	0	0	0																															
8.2 Anti Corruption[3]	1	0		1	0	0	0																															
9. Tourism, Trade and Industry	8	0	5	3	1	2	2					9	11																									
10. Information, Communication and Technology	3	1	1	1	0	1	0																									10-14						
11. Energy and Mineral Development	6	1	4	1	1	2	1			8																	9/10											
12. Lands and Housing	3	0	2	1	0	1	0																															
13. Social Development	11	0	7	4	1	0	0																															
14. General Public Administration	2	0	1	1	0	0	1																															
15. Public Sector Management																																						
15.1 Decentralisation	6	1		5	0	0	3				9/10	9	13														8/9[2]											
15.2 Public Service Reform	4	1		3	0	0	1			8/9																												
16. Parliament	5	0	3	2	0	0	0				9/10																9/10											
Cross cutting issues																																						
5.CC HIV/AIDS	18	1	9	8	0	0	0																		8/9													
13.CC Gender	10	1	7	2	0	1	0																												8/9			
DP active in sectors in FY2009/11[1]								8	1	17	9	2	4	7	4	3	4	7	8	7	2	7	8	9	11	1	13	1	8	8	5	8	6	3	1	7	3	8
Sector Lead								1	0	4	2	1	0	2	0	2	0	3	1	0	1	2	1	1	2	1	3	1	0	0	0	0	0	0	1	0	0	0
Active Engagements in Sector								5	0	12	3	1	2	2	0	0	0	2	4	5	1	3	2	3	6	0	4	0	3	4	1	4	0	1	0	3	2	7
Active Engagements in Subsector								1	1	1	2	0	0	3	1	1	4	2	3	2	0	2	4	2	2	0	4	0	5	4	0	3	6	2	0	4	1	1
Planning new engagements								0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	1	0	1	0	1	0	0	1	0	0	0	0	0	0
Funding of a Sector Programme								1	0	0	2	0	2	0	3	0	0	0	0	0	0	0	1	0	0	0	1	0	0	0	4	0	0	0	0	0	0	0
Leaving Sector								0	0	0	0	2	2	3	0	2	0	4	0	0	0	0	2	2	1	0	0	0	0	0	0	0	0	0	0	0	0	0

[1] Active DPs in FY2008/09: includes engagements in all sector, subsectors and cross cutting issues: lead DP in FY2008/09 and future lead DPs, active in sector and subsector.

[2] UNCDF are not resident and their engagement as subsector lead is therefore stated under UNDP.

[3] The DPs in the Accountability sector will be represented by the chair of the PFM group under the LDPG and by the chair of the Anti Corruption group under the PDG.

* For DPs with * information on concentration in sectors refers to the years 2008/09 except when specified otherwise

ANNEX IX: UGANDA- ADMINISTRATIVE MAP

This map was provided by the African Development Bank exclusively for the use of the readers of the report to which it is attached. The names used and the borders shown do not imply on the part of the Bank and its members any judgment concerning the legal status of a territory nor any approval or acceptance of these borders.

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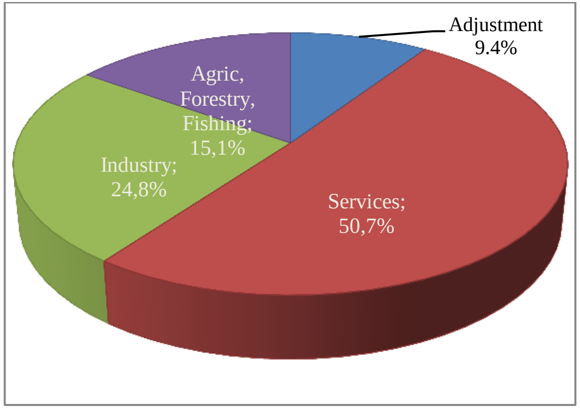
Please find here below a **<u>clear version of Chart 3, page 3</u>** of the above-mentioned document.

…" 2.1.6 The industrial sector (manufacturing, construction and mining) has improved from the previous near collapse during the turbulent 1980s and accounted for 25% of GDP in 2008/09. However, its growth slowed down in recent years due to the effect of the global economic crisis. This was mainly due to the slowdown in the construction sector reflecting the drop in remittances that had hitherto fueled a construction boom in the country. The slowdown was also due to the increase in prices of imported inputs arising from the depreciation of the Uganda shilling. "…

Chart 3: GDP by Sector (2008/09)



Source: Uganda Bureau of Statistics and Ministry of Finance, Planning, and Economic Development

Note: Adjustments comprise taxes and Financial Intermediation Services indirectly measured.