AFRICAN DEVELOPMENT BANK

AFRICAN DEVELOPMENT FUND

REPUBLIC OF UGANDA

COUNTRY STRATEGY PAPER 2022-26

REPORT

Team Members	**Task Manager / Country Economist**	Peter Engbo Rasmussen	ECCE
	Country Program Officer	Milly Chelagat Chesire	COUG
	Agriculture Specialist	Asaph Nuwagira	COUG
	Water and Sanitation Specialist	Andrew Mbiro	COUG
	Social Sector Specialist	Peter Ogwang	COUG
	Energy Specialist	Andrew Muguwa	RDGE
	Transport Specialist	George Makajuma	RDGE
	Oil Sector Officer	Arron Alie Tchouka Singhe	ECNR
	Gender Specialist	Naïda Mohamed	AHGC
	CSO Specialist	Joannes Ezeigbo Chikanne	AHGC
	Fragility Specialist	Emilio Dava	COMZ
	Climate Change Specialist	Olufunso Somorin	RDGE
	Private Sector Specialist	Juliet Byaruhanga	COUG
	Investment officer	Grace Kyokunda	PIFD
	Skills Specialist	Mulle Chikoko	RDGE
	Labour Specialist	Darlison Kaija	AHHD
	Social Safeguards Specialist	Annah Rutebuka Muja	RDGE
	Governance Specialist	Alamir Ahmed	RDGE
	Regional Integration Specialist	Patrick Kanyimbo	RDGE
	Procurement Specialist	Monica Muyingo Nandujja	COUG
	Disbursement Specialist	Gilbert Kagoro	COUG
	Financial Management Specialist	David Mutuku	RDGE
	Education Analyst	Fredrick Wamalwa	AHHD
	Urban Development Specialist	Babati Mokgethi	PICU
	Regional Integration Consultant	Calvin Manduna	RDRI
	Fragility and Resilience Officer	Emilio Dava	RDTS
Peer Reviewers	Macroeconomist	Prosper Charle	ECCE
	Country Economist	Albert Mafusire	ECCE
	Country Economist	Caroline Bernice Akishule Ntumwa	ECCE
	Country Economist	Toussaint Houeninvo	ECCE
Management	Director General	Nnenna Nwabufo	RDGE
	Deputy Director General	Abdul B. Kamara	RDGE/COET
	Director	Emmanuel Pinto Moreira	ECCE
	Country Manager	Augustine Kpehe Ngafuan	COUG
	Lead Economist	Edward Sennoga	ECCE

EAST AFRICA REGIONAL DEVELOPMENT AND BUSINESS DELIVERY OFFICE
COUNTRY ECONOMICS DEPARTMENT
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CURRENCY EQUIVALENTS

Currency		=	Uganda Shilling (UGX)
UA	1.00	=	1.39 USD
UA	1.00	=	1.25 EUR
UA	1.00	=	4,881.41 UGX
USD	1.00	=	3,507.31 UGX

As of January 31, 2022

WEIGHTS AND MEASURES

Metric System

GOVERNMENT FISCAL YEAR

July 1- June 30

Productivity isn't everything, but, in the long run, it is almost everything. A country's ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker.

Paul Krugman, Nobel Prize in Economic Sciences

LIST OF ACRONYMS AND ABBREVIATIONS

ACCF	African Climate Change Fund
AfCFTA	Africa Continental Free Trade Area
ADB	African Development Bank
ADF	African Development Fund
ADF-RO	African Development Fund – Regional Operations
AFD	French Development Agency (Agence Française de Développement)
AFDB	African Development Bank
AGTF	African Growing Together Fund
CPIP	Country Portfolio Implementation Plan
CPPR	Country Portfolio Performance Review
CSP	Country Strategy Paper
DO	Development Objective (rating)
EA-RISP	East Africa Regional Integration Strategy Paper
EITI	Extractive Industries Transparency Initiative
ESW	Economic and Sector Work
EU	European Union
Ex-fin	External (parallel) financing
GAVI	Global Alliance for Vaccines and Immunisations
GDP	Gross Domestic Product
GOU	Government of Uganda
HEST	Higher Education Science & Technology Project
ICT	Information and Communications Technology
IFMIS	Integrated Financial Management System
IMF	International Monetary Fund
IPR	Implementation Performance Rating
M&E	Monitoring and Evaluation
MDGs	Millennium Development Goals
MSMEs	Micro, Small and Medium Enterprises
MTR	Medium Term Review
MW	Mega-Watt
NDC	National Determined Contributions
NDP	National Development Plan
NSC	North South Corridor
NSO	Non-Sovereign Operations
OSBP	One Stop Border Post
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
SDG	Sustainable Development Goals
TF	Trust Fund
TWh	Tera-Watt hours
TYS	Ten-Year Strategy 2013-2022
UDB	Uganda Development Bank
UGX	Uganda Shilling
UNHS	Uganda National Household Survey
URA	Uganda Revenue Authority
URC	Uganda Railway Corporation
USD	United States Dollar
WB	World Bank

MAP OF UGANDA

Source: https://www.nationsonline.org/oneworld/map/uganda-map.htm

EXECUTIVE SUMMARY

1. **This document presents the Bank Group's Country Strategy Paper 2022-2026 for Uganda.** The Country Strategy Paper (CSP) analyses recent political, economic and social developments; provides an overview of structural, sectoral, and cross-cutting challenges; and defines the strategy that will guide the Bank's support to Uganda in the next 5 years. The Strategy considers lessons from the CSP 2017-2021 Completion Report, recommendations provided by the Committee on Operations and Development Effectiveness (CODE), and the independent evaluation of Uganda's CSPs 2011-2021. CODE endorsed the single Priority Area proposed for the new CSP on infrastructure development on July 6, 2021, when it reviewed the Completion Report. In endorsing the single priority area, CODE recommended demonstrating selectivity in practice, enhancing private sector support, and improving gender results. While preparing the CSP key stakeholders in Government, Development Partners, the private sector, and civil society were consulted. Uganda's *Vision 2040* and the National Development Plan III (2021-2025) inform the new CSP. It is aligned with the Bank's Ten-Year Strategy 2013-2022, the Eastern African Regional Integration Strategy Paper 2018-2022 and reflects the High-5 priorities of the Bank. In addition, preparation of the CSP has been informed by the July 2021 Uganda Country Diagnostic Note and the Bank's guidance paper on selectivity.

2. **With a GNI per capita of USD 963 in 2020, Uganda is a low-income landlocked country aiming to transform from a peasant to a modern and prosperous country within 30 years.** The country has made good progress towards macroeconomic stability, consolidating peace and security, and reducing poverty. However, annual trend growth has slowed to 4.4% (2015-20) from 5.4% (2010-15); a large segment of the population is stuck in low-income work or subsistence agriculture; slow economic transformation; persisting inequality; stagnation of poverty trends; and vulnerability to domestic and external shocks and occasional socio-political tensions. Broad-based growth is constrained by low productivity in agriculture caused by climate change, reduced soil fertility, limited availability of water, limited diversification and mechanisation, high cost of doing business, and few employment opportunities for youth.

3. **COVID-19 with its associated travel restrictions and lockdowns, impacted the economy in 2020 and 2021, lowering growth, increasing fiscal spending, and weakening the external balance.** In 2020, GDP contracted by 0.8%, compared to 7.7% expansion in 2019. Services contracted by 3.2%, while industrial expansion slowed to 1.2% below the 6.5% average (2015-20). Higher spending during 2020/21 increased the fiscal deficit to 9.9% of GDP from 7.2% in 2019/20. The deficit was financed through increased domestic and external borrowing, raising debt levels to about 50% of GDP, the debt limit in the Government's Fiscal Charter. Inflation was maintained below the 5% target. The external balance was affected by lower exports relative to imports, increasing the current account deficit to 10.0% of GDP in 2020 compared to 6.9% in 2019. COVID-19 impacts have continued during 2021, with new lockdowns in June and July, lowering growth expectations for the year to under 4%. Revenue collections are likely to fall short of budget expectations. The economic slowdown led to income losses with an estimated 1.3 million people falling into poverty.

4. **In the medium term, emphasis will be on post-COVID-19 economic recovery with the growth outlook remaining challenging as fiscal policy is expected to tighten.** Accommodative monetary policy is needed to counter lingering COVID-19 impacts and slow recovery of global and regional economies. In the longer-term (beyond 3-years) the economy is expected to fully recover, driven in part by increased investment in infrastructure and industry, especially oil and petrochemicals. New lockdowns will pose downside risks to the recovery until vaccinations are rolled out to most of the population.

5. **The performance of the ongoing portfolio is satisfactory with an overall rating of 3.2 (on a 4-point scale) based on a high likelihood of projects meeting development objectives and performance targets.** The average portfolio age is 4.8 years with one problematic project, and 27% flagged projects. The ongoing portfolio comprises 24 operations totalling UA 1.2 billion.

Portfolio cumulative disbursements were 31.4% at the end of September 2021. Infrastructure projects account for 80% of portfolio - transport (61%); energy (10%); water and sanitation (9%) - followed by agriculture (14%) and other (6%).

6. **Performance has been affected by systemic issues that have led to implementation delays.** Delays have been attributed to long parliamentary ratification and cabinet clearance procedures; delayed compensation to project affected persons (PAPs); procurement delays; and delays in releasing counterpart funds. Progress has been made in addressing some of these challenges, e.g., road projects in the IOP for 2021–2022 were granted prior approval by Parliament. To maximize the impact of the Bank's support under the new Strategy, concerted actions will be taken in collaboration with the Government to address the challenges through enhanced dialogue on the timely release of counterpart funds for PAP compensation, improved procurement planning, and fiduciary training.

7. **Increasing productivity and accelerating structural transformation requires higher value-addition and skilled jobs that will drive higher income levels and move people out of poverty.** Uganda's overarching development challenge is the limited diversification and competitiveness of its economy, and slow integration into regional and global markets. Underlying development challenges, aggravated by COVID-19, include infrastructure bottlenecks, limited access to capital, shallow and underdeveloped financial markets, insufficient formal business growth, low-quality skills, and weak institutional capacity.

8. **To respond to Uganda's development challenges, the main objective of the new CSP 2022-2026 is improved connectivity and industrial competitiveness to expand non-traditional exports and reduce vulnerability to external shocks.** To achieve this objective, the CSP focuses on one single Priority Area: *Develop quality and sustainable infrastructure to support industrialization and private sector development*, aimed to strengthen the Bank's position and build on and consolidate its previous achievements. The Bank's new CSP takes the view that more emphasis should be put on addressing the fundamentals for industrialisation, aligned with the NDP III. Thus, the new CSP differs from the previous CSPs by contributing to a more focused approach to help establish the foundations for industrialization. Priority sectors include agriculture, transport, energy, and water and sanitation. Support to infrastructure development places emphasis on bolstering industrialization, economic diversification, and accelerating structural transformation. The CSP will integrate cross-cutting concerns of gender, climate change, skilling, and economic governance in its operations. Through the non-sovereign operations window (NSO), the Strategy will provide access to long-term finance to boost private sector development. The benefits of the Strategy, in terms of impact and outcomes, will be amplified to the rest of the economy through multiple linkages and spill-over effects of the Bank's interventions.

9. **The new CSP will mainly be financed through ADF and ADB resources.** ADF resources are estimated at UA 333 million (ADF-15, 2022; ADF-16, 2023-2025; ADF-17, 2026), in addition to ADF-regional resources of UA 90 million. Additional resources from the non-concessional window are expected. However, fiscal impacts and rising debt have limited Uganda's access to ADB resources in 2021 with a heightened risk in the medium term. ADB sovereign resources are estimated to UA 500 million. To mitigate financing gaps, the Bank will pursue co-financing from other development partners (EIB, JICA, EU, AGTF) and seek out trust funds. ADB non-sovereign window are available at up to UA 150 million per year, supporting the private sector.

10. **The Bank's 3-year rolling Indicative Operational Pipeline (IOP) 2022-2024 comprises 9 projects amounting to UA 615 million.** All projects have been endorsed by the Authorities. It is worth mentioning the Pipeline includes a transformational railway project that supports more competitive transport pricing with up to 50% reduction in cost per ton kilometre, thereby strengthening Uganda's industrial competitiveness. With the uncertainty of non-concessional funding availability, two additional projects have been placed on reserve.

11. **Management hereby invites the Committee on Operations and Development Effectiveness (CODE), to review and endorse the Bank Group's CSP 2022-2026 for Uganda for consideration by the Boards of Executive Directors.**

1 INTRODUCTION

1. **The Country Strategy Paper 2022-2026 defines the strategic framework for Bank support in Uganda for the next 5 years.** The objective of the previous CSP 2017-2021 was to support Uganda to address its infrastructure and human capital needs to reduce the binding infrastructure bottlenecks and create a more enabling business climate by scaling up investments to boost industrialisation, employment, and business creation. Two pillars were supported: 1 - Infrastructure Development for Industrialization; and 2 - Skills and Capacity Development. The achievements, performance and lessons were discussed in the CSP 2017-2021 Completion Report, presented to CODE on July 6, 2021. The Completion Report concluded that the Strategy was aligned with the National Development Plans and relevant to Uganda's development aspirations. However, stronger emphasis is required on industrialisation to support the acceleration of structural transformation if Uganda is to meet its *Vision 2040* targets. CODE recommended to demonstrate selectivity in practice, enhance private sector support, improve gender results, while raising concerns about weak portfolio performance (*A5.1*).

2. **The main objective of the Bank's new CSP 2022-2026 is improved connectivity and industrial competitiveness to expand non-traditional exports and reduce vulnerability to external shocks.** To achieve this objective, the CSP is articulated around one single Priority Area, i.e., to *develop quality and sustainable infrastructure to support industrialization and private sector development*, which mirrors the first pillar of CSP 2017-2021 ensuring continuity and building on and consolidating achievements made by the Bank. However, drawing from the lessons learned, CODE's guidance, and recommendations from Country Strategies 2011-2021 evaluation prepared by the Independent Development Evaluation Department (*A4.2*), the CSP will be innovative and address some of Uganda's main development challenges differently. The new CSP increases emphasis on industrialisation and the need to underpin higher level jobs creation. The Bank shall strengthen its efforts to increase private sector lending, while integrating policy reforms and mainstreaming skilling into operations. The CSP will contribute to the national goal of supporting infrastructure development to bolster industrialization, economic diversification, and accelerate structural transformation. The Bank will prioritise its support on four sectors: agriculture, transport, water and sanitation, and energy infrastructure. The CSP aligns with the goals of Uganda's National Development Plan 2021-2025 (NDP III), SDGs, and African Union's Agenda 2063.

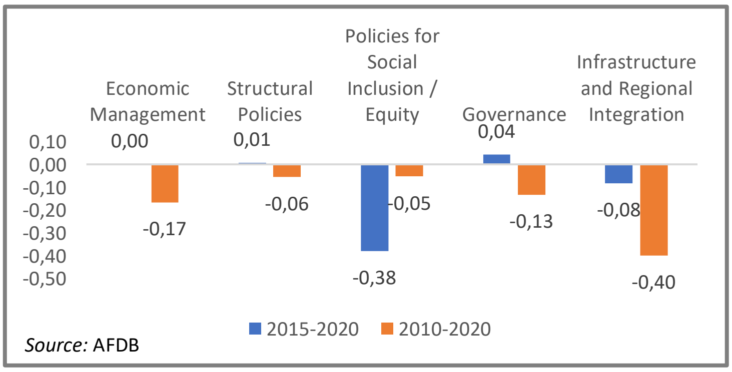
3. **A consultative process was applied in preparing the new CSP.** Key stakeholders in Government, Development Partners, private sector, and civil society were consulted (*A6*). The new Strategy is aligned with the Bank's TYS 2013-2022, reflects High-5 priorities, Gender Strategy (2021-2025), Strategy for Economic Governance in Africa (2021-2025) and the Bank's Eastern African Regional Integration Strategy Paper (2018-2022). Finally, preparation of the Country Strategy was informed by: i) the Uganda Country Diagnostic Note (here); and ii) the Bank's paper on selectivity.

2 COUNTRY CONTEXT AND PROSPECTS

2.1 Political Context and Prospects

4. **Since the second half of the 1980s, Uganda has enjoyed improved political stability and national security under the National Resistance Movement (NRM) government.** The NRM is credited for stopping the political and economic chaos that had engulfed the country for a decade, returning it to growth. Although the NRM Government has been able to

Figure 1: Change in CPIA Scores, 2010 to 2020



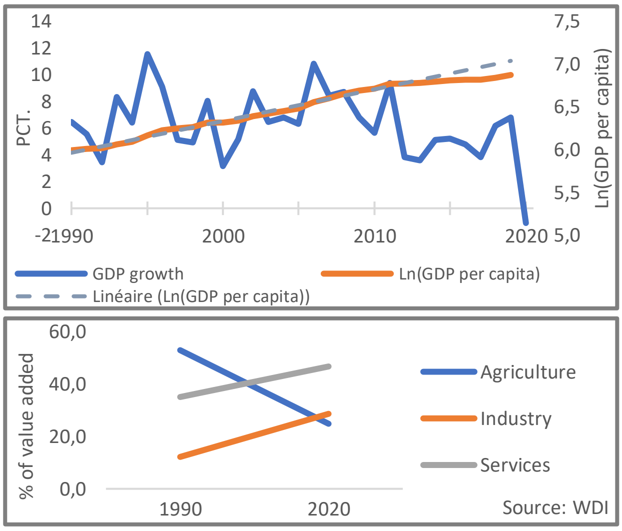
maintain relative peace and stability and underpinned social and economic development, Uganda suffers from a deficit in political inclusiveness. The sporadic violence during the 2021 election showed that more needs to be done to bolster national cohesion and inclusivity. In terms of regional conflict, Uganda has played the role as peace broker. During the South Sudan civil war in the 2010s, Uganda took more than one million refugees. The refugee policy allows freedom of movement and the right to employment, education, health, and to start a business.

5. **During the past 10 years, progress in governance reforms have slowed.** Government is focusing its efforts on strengthening democracy, socio-economic transformation, and regional integration to create economic opportunities. Despite efforts to strengthen governance, international governance indices show slow progress. The 2020 Mo Ibrahim Governance Index score has increased by just 0.7 points between 2010 to 2019 to 51.8, slightly above the African average of 48.9. The Bank's CPIA Governance rating (3.47) marginally improved since 2015 (*Figure 1*). This was attributed to improved property rights, while transparency and accountability deteriorated. Between 2015 and 2020 the CPIA scores deteriorated across most aspects (*A16*). The perception of corruption has seen limited progress since 2012, remaining unchanged at 27 out of 100 (2020 Transparency International Corruption Perceptions Index). Nonetheless, through independent institutions such as the Inspectorate of Government and the Auditor General, the Government aims to fight corruption.

2.2 Economic Context and Prospects

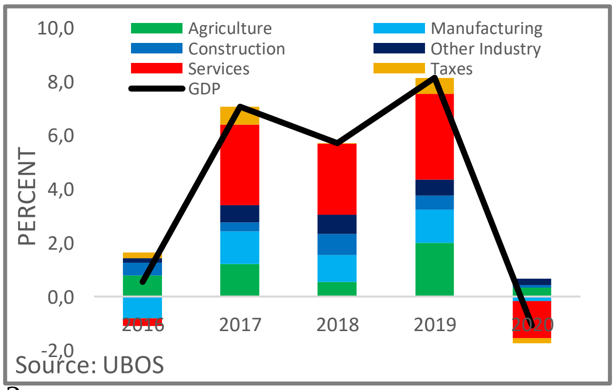
6. **Uganda is a low-income country that has shifted from a largely agricultural driven economy to services.** Economic growth decelerated from an average 7.1% from 2000 to 2009 to 5.4% in the last decade (*Figure 2*). Combined with high population growth rate of 3.2%, average income per capita increased by just USD 145 in the 2010s to USD 963 in 2019. The country follows a free market private sector-led growth model driving opportunities in industry and services. Industry and services have increased from 11% to 29% of GDP and 32% to 46% of GDP, respectively, between 1990 to 2019. Agriculture's economic importance has declined from 57% to 25% of GDP (*Figure 2*), though with hardly any change in agro-workers that remains at two-thirds of the workforce. In the past decade, Uganda has seen an increase in direct Government involvement in productive activities by putting in risk capital to leverage private sector investments, e.g., in manufacturing.

Figure 2: Level and change in GDP, 1990-2020 (%) and sectoral distribution (% of value-added).



7. **Despite a shift in the economy to industry and services, stagnating agricultural productivity combined with insufficient creation of higher value-added jobs hampered structural transformation.** Root causes for slow structural transformation are low labour productivity in agriculture, skills mismatches, limited technological innovation, low firm competitiveness, and limited creation of higher value-addition jobs. Low income and poverty have pushed agriculture labour towards other opportunities, especially low-income informal trading and Boda Bodas (motorcycle taxis). Manufacturing is characterized by high costs, low competitiveness, and low-operations capacity utilization - marginal efficiency of

Figure 3: GDP growth contribution by sector, 2017-



capital averaged 0.2 compared to the 0.3 norm. Most manufacturing (60%) is in food processing, drinks, and tobacco with limited innovation.

8. **The expansion of industry is driven by manufacturing growth (demand for basic goods) and construction through investment in public infrastructure.** Prior to COVID-19, services and industry were important drivers of growth. Services growth was driven by trade and repairs, real estate, and public administration. Industrial growth was driven by manufacturing and construction.

9. **The Pandemic, with its associated travel restrictions and lockdowns, impacted the Ugandan economy in 2020 as it contracted by 0.8%, the worst since the mid-1980s compared to 7.7% in 2019.** Services (hospitality and education) contracted by 3.2%, while industrial expansion slowed to 1.2% below the 5-year average of 6.5% (*Figure 3*). The economic slowdown led to significant income reduction, and with 1.3 million people falling into poverty (UNHS 2019/20).

10. **The growth outlook remains challenging as fiscal policy will require tightening, while accommodative monetary policy is needed to counter lingering impacts of COVID-19 and slow recovery of the global and domestic economy.** Over a 3-year horizon the economy is expected to fully recover, although in the medium-term, recovery will be slower. Renewed lockdowns were implemented in Uganda during June and July 2021 following a surge in new cases of COVID-19. The September 2021 AEO projections revised growth to 4.0% in 2021 from 4.8%, 4.7% in 2022, 5.6% in 2023 and 6-7% from 2024. Downside risks to full economic recovery include lingering COVID-19, and slower than expected recovery in manufacturing, construction, and hospitality.

11. **Over the past 5 years, fiscal expansion associated with public investment, security, and rising debt service repayments, and during 2020 and 2021, the rise in COVID-19 linked expenditures and lower than projected tax revenues led to an expanding fiscal deficit.** Since 2016/17, Government has increased expenditures from 16.1% to estimated 24.5% of GDP in 2020/21. Over the same period, revenues only expanded from 12.9% to 14.6% of GDP, thus giving rise to a deficit of 9.9% of GDP in 2020/21 (*Table 1 and A9*). Increased public spending seems to have spurred higher private sector investment, both from domestic and foreign investors.

Table 1: Medium term fiscal projections (% of GDP).

	2020/21e	*2021/22*	*2022/23*	*2023/24*	*2024/25*	*2025/26*
Revenue (w/grants)	14.6	14.7	14.7	15.0	16.0	17.6
Expenditure	24.5	21.1	18.5	18.5	19.4	20.0
Overall Deficit	9.9	6.4	3.8	3.5	3.4	2.4

Note: 2020/21 is an estimate, beyond are projections. Source: MOFPED

12. **The fiscal outlook is projected to improve over the next 5 years as fiscal policy tightens.** The 2021 IMF Extended Credit Facility (ECF) arrangement will underpin Government programs in the short term, while supporting the medium-term recovery (*A11*). ECF conditionalities will safeguard social spending, maintain debt sustainability, and strengthen governance, while sustaining macroeconomic stability. Recent lockdowns have led to concerns of a shortfall in domestic revenues for 2021/22 of 1% of GDP. Despite the risk of delays in medium term fiscal consolidation, the Government plans to increase domestic revenues by 0.5% of GDP per year over the medium term, reduce non-priority spending, strengthen commitment controls to limit accumulation of new arrears, and strengthen cash management through extension of the single treasury account to extra-budgetary units. Slower economic recovery will add potential downside risks to domestic revenues, while weak implementation capacity of public investments could reduce efficiency.

13. **To finance public investments and the fiscal deficit, the Government has increased commercial borrowing.** Government has prioritised concessional financing through multilateral agencies, but increasingly turned to non-traditional lenders such as China to finance energy and road projects. Total public debt reached 35% of GDP in June 2019, increasing to 41% in June 2020. Despite the rise in public debt, Uganda maintains a prudent borrowing policy steered by the 2021 Charter for Fiscal Responsibility, which is the guiding framework for fiscal policy and the national budgets. In the wake of COVID-19, additional external borrowing was required to close fiscal financing gaps. Debt hit 50% of GDP in June 2021 and is projected to reach 54% of GDP by 2022, although the recent appreciation of the Shilling has moderated debt-to-GDP. Higher pace of

borrowing with risk of higher debt trajectory, led Government to reclassify risk of debt distress from low to moderate in December 2020. The IMF followed reclassifying risk of debt distress from low to moderate citing vulnerability related to debt servicing (DSA, 2021). Despite the recent developments, public debt is sustainable over the projection horizon (*Table 2*).

Table 2: Debt Sustainability Indicators

	Thresholds	*19/20*	*20/21*	*21/22*	*22/23*	*23/24*	*24/25*	*25/26*
External Debt								
PV of External Debt to GDP	40	20.9	24.3	26.7	27.0	27.5	27.0	26.1
PV of External Debt to Exports	180	140.6	157.7	155.1	157.2	158.4	160.8	154.6
External Debt Service to Exports	15	8.2	12.3	10.5	12.9	12.3	13.3	13.5
External Debt Service to Revenue	18	9.8	14.4	13	15.4	14.3	14.3	13.3
Public Debt								
PV of public debt to GDP	55	33.2	41.2	43.7	43.0	41.7	40.4	38.0
PV of public debt to revenue	-	251.6	282.0	296.8	288.8	272.6	254.7	219.1
Debt service to revenue	-	46.1	55.7	55.9	51.4	40.5	39.3	36.5

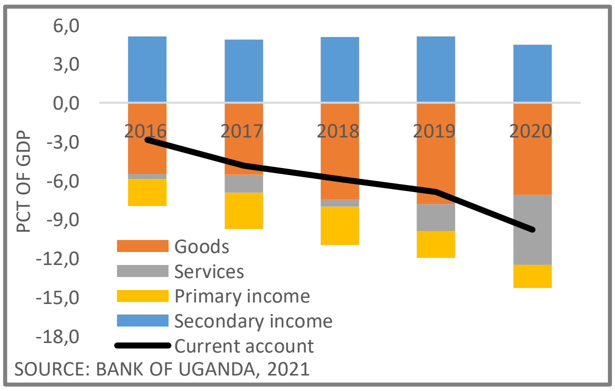
Source: IMF Debt Sustainability Analysis Report (2021).

14. **The monetary policy framework of the Central Bank (Bank of Uganda) aims to maintain stable prices, targeting medium term inflation at 5%.** Since the *Inflation Targeting Lite Policy* was implemented in 2012, average annual inflation has been maintained within 2.5 percentage points of the 5% target rate. As price pressures have eased, the Central Bank has lowered the policy rate since 2016. Price pressures eased further, with inflation averaging 3.8% in 2020, allowing a reduction in the policy rate by 2 percentage points and another half point in 2021 to 6.5%. In 2021, inflation is estimated at no more than 3%, while adjusting towards the 5% target over the medium term as economic activity picks up. Continued foreign exchange inflows (remittances, development aid and relief funding), during 2020 and 2021, have strengthened the Uganda Shilling by 4% against the US-dollar. On-going reforms include enhancing effectiveness of the Anti-Money Laundering and Combating Financing of Terrorism frameworks by strengthening supervisory capacity.

15. **Accommodative monetary policy has led to a decline in nominal interest rates while real interest rates remain high.** Commercial lending rates declined to 19.1% (2020) from 19.9% a year earlier, with a further decline in 2021 estimated at 18.1%. Despite the downward trend, commercial lending rates are buoyed by government borrowing needs, market risks, and information asymmetry. During COVID-19, borrowers struggled to repay loans. The Central Bank extended funding and allowed Banks to restructure loans to ensure that businesses could stay afloat. Nevertheless, credit to the private sector has declined since mid-2019, as Banks have tightened lending, while interest rate spreads widened.

16. **Uganda has maintained a current account deficit for two decades, financed by debt, donor support and remittances.** During the past five years, exports and imports averaged 11% and 18% of GDP, respectively, widening the trade gap (*Figure 4*). Services recorded a deficit of USD 240 million during 2016-18, rising to USD 2.0 billion in 2020, as tourism declined. Net remittances have increased in importance exceeding USD 1.4 billion in 2019 though declining to USD 1.0 billion in 2020. With foreign portfolio investors continuing to tap into the domestic bond market, interest payments have been a significant source of outflows under the primary income balance. The current account deficit was 6.9% of GDP in 2019 rising to 9.8% of GDP in 2020. To support external price stability, liquidity support from IFIs have bolstered reserves, which were USD 4.0 billion in August 2021, equivalent to 4.1 months of import cover. The current account is projected to improve by 1-2 percentage points in 2021 and 2022, but remains in deficit in the

Figure 4: Current Account Balance, 2016-2020.



medium term, driven by imports of goods and services associated with oil investments.

17. **Reforms in economic governance and public financial management have improved transparency and enhanced accountability, while efficiency of public spending lags.** The Bank's CPIA indicates slow progress in quality of public finances (*A16*). While there is greater consultation on planning and budgeting, and more information released to the public domain, there is limited discussion on budget execution in the key sectors, and the results are quite limited in terms of outcomes and impacts. The 2017 Public Expenditure and Financial Accountability assessment (PEFA) confirms improvements in terms of budget credibility, revenue forecasting, and participation in the budget. The PEFA and the Fiduciary Risk Assessment (CFRA, *A14*) confirm that internal control and audit demonstrated some improvement while risk remain high. Arrears management deteriorated despite efforts to clear arrears through prepayments for utilities. External audit function has improved through the adoption and use of audit standards; however, the public accounts committee reporting is lagging, leaving the accountability cycle incomplete.

18. **To improve the efficiency and impact of public investments in the NDP III, proper prioritization, sequencing, and management of investments are required.** Public investments should not only enable growth but be structured to unlock and catalyse critical private sector investments that create jobs, wealth, and growth. Actions will be needed to improve operational efficiency by resolving challenges such as limited counterpart funding, prioritisation and sequencing of projects, weaknesses in procurement systems, and land acquisition. The PFM Strategy 2018-2023 was rolled-out to support previous gains made and introduce an accompanying M&E framework for implementation of the reforms. The Strategy seeks to enhance resource mobilization; policy-based planning and budgeting; public investment management; effective accountability systems; compliance in budget execution; and oversight and governance. The public procurement framework follows good international practice, but irregularities are not always addressed. Private sector still finds difficulties in participating in large infrastructure procurements due to insufficient working capital, equipment, and manpower.

19. **The financial sector has expanded rapidly in the past two decades with access to finance reaching 78%, yet just 20% used formal financial services in 2018.** Competition is limited and the sector exhibits lack of innovation. Despite efforts to deepen and broaden the financial sector, high Government borrowing needs have limited long-term finance. The sector is unable to provide the types of services required to fuel economic transformation and support SME development, the largest underserved segment. High interest rates (19-23%), limited bankable projects, high cost of doing business, and underlying economic risks have contributed towards low credit growth and curtailed business expansion. Most credit flows to personal loans and mortgages (37%) with just 12% flowing to manufacturing, mainly basic food processing. Consumers are willing to adopt new technology, as mobile financial services expanded from 500,000 users in 2009 to 15.3 million users in 2019. In 2020/21, mobile money payments increased 19%, reaching USD 21.6 billion by June 2021. Agent Banking is growing and has close to 9,000 agents, providing financial services to remote locations in the country.

20. **The private sector contributes 80% of GDP, of which Micro, Small and Medium sized Enterprises (MSME) account for 18% of GDP, and more than half originate from the informal sector.** There are 1.1 million firms that employ 2.5 million people, most of which have 1-4 employees. MSMEs are predominantly informal and younger than 5 years, with no specific skills available and characterized by low labour productivity. Industrial production is mainly low value addition agro-processing (i.e., sugar, cotton and coffee processing, and beverages), elementary household items and building materials. The low value addition production comprises 75% of production. The private sector is constrained by limited access to affordable finance, low technology uptake, poor skills, and little business innovation. The 2019 Global Competitiveness Index ranks Uganda 115 (out of 141), 7 positions better than 2015. To support SME development and mitigate COVID-19 impacts, the Government has provided and plans to extend seed capital for small enterprise groups (EMYOOGA funding),

capitalise Uganda Development Bank and the Small Business Recovery Fund, and strengthen business support service centres at regional level, during 2022-2023. Equity participation, through Uganda Development Corporation, with the private sector is planned for transformational projects in agro-industries and manufacturing.

21. **Ratified by Uganda in 2018, effective participation in the Africa Continental Free Trade Area (AfCFTA) provides avenues to facilitate foreign direct investment and open new markets for Ugandan products.** To take full advantage of AfCFTA, Uganda must develop a more comprehensive trade policy and strategy that focuses on improving the quantity and quality of the existing exports, while taking advantage of new markets. This implies that standards must be at the forefront of Uganda's market access penetration activities. Additional challenges to boosting trade include transport and logistics infrastructure, logistics and trade facilitation measures, non-tariff barriers, industrial capacity, regional security, cross-border trading, high costs of doing business, and limited value addition. Moreover, export promotion and market penetration under the AfCFTA requires greater sophistication and is highly dependent on the national quality infrastructure (NQI) to promote product quality. NQI capacity and standards compliance remain weak in both government and private sector, yet both are critical to trade competitiveness in the face of rising import competition in African markets from exporters like China, Europe (under the Economic Partnership Agreements) and India. Limited NQI has impeded the growth of Uganda's exports, e.g., to the USA under the African Growth and Opportunity Act. Increased investments and reforms are needed to improve customs and administrative infrastructure and efficiency, including addressing trade facilitation bottlenecks in transit, border inefficiencies and non-tariff barriers, and improving efficiency and expansion of trade facilitation measures. Uganda also participates in the East Africa Community and Common Market for Eastern and Southern Africa.

22. **With a small open economy, Uganda benefits from trade at global and regional level.** Most exports are gold and agriculture commodities, with manufactured exports accounting for just 12%, of which 45% considered medium to high skill and technology intensive products. However, export growth is constrained by the high cost of transport reducing export competitiveness. Nonetheless, annual growth of exports and imports have been 12.6% and 11.4%, respectively, during the past 20 years, though in the past 4 years growth in imports has exceeded exports by 4 percentage points. Excluding Uganda's gold exports, exports to Africa (mainly Kenya, South Sudan, DR Congo) account for 65% of exports, EU 19%, and Asia 10% in 2020. Key exports are cocoa, coffee, fish, maize, and tea.

2.3 Sector Context

23. **Despite a shift from an agriculture-based economy to one that is services driven; structural transformation has been weak.** The large majority, about two-thirds of workers are still associated with agriculture, with insufficient number of higher value-added jobs. The weak transformation is associated with low competitiveness, low industrialization and value addition, weak public sector management, vulnerability to climate change, corruption, slow pace of infrastructure expansion, inadequate human capital development and low private savings. The remainder of this chapter looks at critical sectors followed by social sectors.

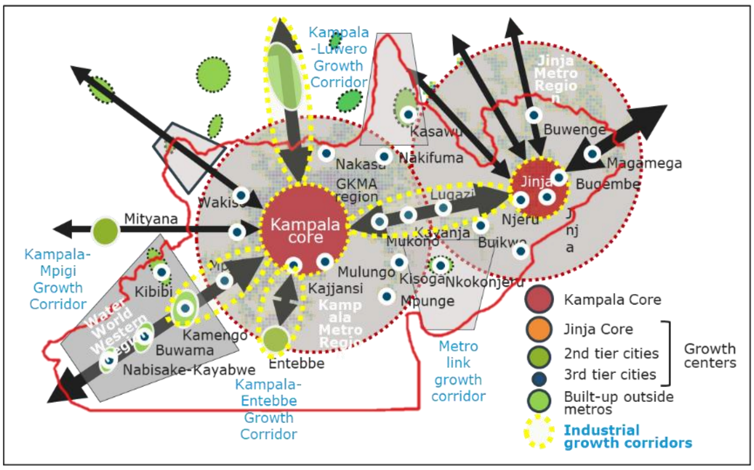
24. **Despite a vast road network of 160,000 km, goods transport competitiveness in Uganda is low with just a quarter of national roads (5,000 km) paved, while less than 1% of district roads are paved.** The poor conditions of the national trunk and main road network leads to high vehicle operating costs, increased cost of goods transport and is a barrier to faster economic growth and regional integration. The rail network in Uganda is barely operational with just 23% utilised. There are existing rail corridors that could be rehabilitated to promote a modal shift. Transporting goods on rail can lower transport costs by up to 50% compared with road transport. In urban areas, the public transport services remain weak and traffic congestion is a major issue in the capital city, Kampala (see Box 1). This results in long travel times, and high levels of noise and pollution. Sector strategies and programmes are aligned to the NDP III objective of consolidating and increasing the stock and quality of productive infrastructure. More specifically, the Integrated

Box 1: AFDB support to spatial economic planning on the Jinja-Kampala-Mpigi regional corridor

Uganda is experiencing rapid urbanization estimated at 20% and by 2050 will be among the most urbanized countries in Africa. The Government recognizes urbanization as a prerequisite for the country to achieve upper-middle-income status. The Government has launched a phased creation of 15 new cities across the country. These cities will exert more challenges that come with urbanization such as slums and informal settlements, poor solid waste management, deteriorating urban environment, urban sprawl, inadequate urban infrastructure services, ineffective urban governance and management and urban transport challenges.

The Bank is providing support to the Ministry of Lands, Housing and Urban Development in developing a spatial economic development plan for the critical economic corridor of the country. The aim is to align the Plan within the National Physical Development Plan to limit future congestion and strengthen urban development that will drive industrialisation, growth and provide the required services needed to attract investments to the Capital City.

Idea for the Spatial Development Plan Jinja-Kampala-Mpigi Regional Corridor (part of the EAC Northern Corridor).



Transport Infrastructure and Services Programme aims to promote seamless, safe, and sustainable multi-modal transport systems. In addition, the Sustainable Urbanisation and Housing Programme 2020-2025 aims to attain inclusive, productive, and liveable urban areas for socio-economic transformation. Given the resource constraints, emphasis is placed on using innovative financing models including PPPs for projects where cost recovery is potentially high. This would include expressways, multimodal logistics hubs, and vessels for inland water transport. Particular attention will be given to decarbonising the sector and building climate resilient infrastructure.

25. **A regional priority is to develop intermodal transport infrastructure to enhance interoperability and integrate with industrial clusters that can facilitate growth in exports.** Examples include the Northern Economic Corridor and initiatives like the Gulu Logistics Hub and the Tororo-Gulu Railway rehabilitation, which began in 2020. The Hub will consist of custom offices, container cleaning and repair, a railway siding, vehicle holding area, weigh-in motion bridge, and a container freight station with the capacity to handle more than 500,000 Twenty-foot Equivalent Units (TEU) a year. Services provided will include tax payment, maintenance and repair, banking, information, and communication technology, among others. The Hub will serve the trade corridors of Kampala, Gulu, Elegu-Nimule, the Juba Trade Corridor, and the DR Congo Trade Corridor. The hub is located adjacent to the current Gulu railway station. It is expected to reduce transport costs and barriers to trade between northern Uganda and South Sudan, eastern DR Congo, and north-western Kenya.

26. **Despite a doubling of generation capacity during the past decade, the electricity subsector faces obstacles related to limited grid access.** Due to insufficient expansion of transmission and distribution lines, access rates have not increased as fast as planned. The access rate to electricity of 56% (2019) is low taking into consideration the fast-approaching 2030 universal access target, which is impeded by affordability challenges related to the high end-user tariffs, alongside expensive connection costs. The security of the main grid supply is furthermore vulnerable to adverse climate change effects since the energy mix is mostly dependent on hydro resources, whose levels continually decrease due to erratic and reduced rainfall patterns and high rates of evapotranspiration. In addition to the quality and reliability issues, the high network losses pose financial sustainability challenges, worsened by excess generation capacity, and declining demand during 2020 and 2021 triggered by COVID-19.

27. **Pre-COVID-19, the electricity subsector experienced substantial growth in energy sales attributed to the expansion of manufacturing.** The installed capacity was 1,269 MW in 2020 with total bulk energy purchases of 4.4 TWh. Karuma dam will add an additional 600 MW of installed capacity in 2022. During 2018 and 2019, total electricity sales increased by 7.6% per year, with industries growing by 9-10%. Among others, the expansion driven by a good regulatory regime (Electricity Regulatory Index for Africa 2020), which motivated efficiency gains. Despite improved utility performance, the electricity supply industry faces challenges. Network losses continue to remain high are estimated at 3.7% and 18.2% for transmission and distribution networks, respectively. Several reforms are, therefore, planned over the next five years to further rationalize the electricity supply industry. Besides institutional reforms and the proposed amendment of the 1999 Electricity Act, the 2002 Energy Policy will be revised to reflect the prevailing situation including off-grid electricity access and clean-cooking solutions.

28. **The water sector faces challenges as climate change disrupts the natural restoration of water resources.** Furthermore, higher temperatures increase evapotranspiration, and significant deforestation and encroachment on wetlands, riverbanks, and lakeshores by people searching for economic development also affect restoration. Rapid population growth adds to over harvesting on private forests and local government reserves, leading to environmental degradation and climate related disasters across the country and affecting fragile ecosystems. To safeguard the quality and volume of future water sources, reforestation and rehabilitation of watersheds must be carried out. Other challenges stem from the large number of refugees in Northern Uganda and the West Nile Sub region, requiring additional investments in water resources; land acquisition and compensation of project affected persons for construction of Water for Production facilities; and high rate of urbanization and need for water related infrastructure. Budgetary allocations fall short of needs. Households with access to "*improved water source*" have declined marginally between the two Household Surveys 2016/17 and 2019/20 from 80% to 79%.

29. **To resolve some of the challenges, the sector has adopted a policy shift from the use of point water sources to introducing piped water supply systems in the medium and long term, which is expected to be sustainable and address water needs for both rural and urban areas.** This policy shift entails development of large gravity-fed piped water supply schemes, promotion of integrated rainwater harvesting, development of solar-powered mini-piped water schemes, and promotion of appropriate technologies by undertaking action research and development. The sector is also incorporating the principles of integrated water resources management to introduce a catchment-based approach to addressing water resources related challenges; investment planning; and a participatory approach. Ecosystem management and restoration are, therefore, key for enhancing land productivity, reducing poverty, building resilience against the impacts of climate change, and improving livelihoods for communities within and around the catchments.

30. **Agriculture remains heavily reliant on rainfall and is, therefore, affected by the vagaries of climate change and environmental degradation.** Just 20,000 ha of land uses formal irrigation technologies compared to the potential of 3 million hectares of irrigable land. The constraints to increasing value addition and agro-industrialisation include: i) low levels of agricultural production and productivity per unit area compared to research station performances; ii) weak linkage between research and extension that would accelerate agricultural production and productivity; iii) low quality production standards and limited infrastructure for postharvest handling and regulatory services; iv) limited marketing infrastructure and unaffordable financial services curbing investments in agricultural value chains. Despite challenges, agriculture remains the backbone of the economy and livelihood means for most rural dwellers.

31. **The Agriculture Sector Strategy (2021-2025) provides the strategic framework, designed to take forward the agro-industrialisation programme under the NDP III.** Existing policy and strategies that will enhance implementation of the Sector Strategy, include the Agricultural Policy, the Irrigation Policy and Master Plan, the Climate Change policy and related strategies for environment and natural resources management, the local economic development programme, and the new Parish Development Model. Key priority investments include: i) agricultural infrastructure to open up highly productive agricultural areas; ii) large scale and farm level infrastructure for water for production and increase investment in the management of related watershed areas; iii) localized Special Agro-Industrial Processing Zones to boost refined products for export and in-country consumption; iv) localized small-scale value chain development and value addition to selected enterprises to boost production and productivity, create jobs, and increase exports; v) social infrastructure promoting gender equality and women empowerment; vi) extension services infrastructure; and vii) regulatory and quality controls in infrastructure to enhance adherence to quality standards of inputs and products of the agro-industrialisation processes.

32. **The oil industry shows promise despite the climate and energy transition that constrains investments.** Investments, worth USD 17 billion, are close to final investment decision and include development of King Fisher and Tilenga oil fields, the Refinery and Petrochemical Complex, and the East African Crude Oil Pipeline. The investments will supply local petrochemical needs and export excess to the region. Uganda also has a plan to build a gas pipeline to transport gas from Tanzania to develop the domestic steel industry (Box 2). In advance of oil flows, Uganda was accepted as a member of the Extractive Industries Transparency Initiative in 2020.

33. **Oil has the potential for linkages to other economic sectors to support industrialisation and diversification.** Sector development comes with related infrastructure and creation of direct and indirect high value jobs and spillover of revenues, skills, and technology to other sectors. Local content policy specifies processes and requirements for employment in and supply to the industry. The Uganda National Oil Company has made significant progress in operationalizing these requirements, notably with a Diversity and Inclusion Committee. Oil will be used as raw materials for fertiliser manufacturing and lubrication products. Oil infrastructure will also support digitalization and telecommunication development. The pipeline is planned to carry Uganda’s second optical fibre line connecting to the Eastern African Submarine Cable System.

34. **Developing the steel industry requires synergies among minerals, energy, and other sectors of the economy.** Uganda has the potential to develop its steel industry beyond light steel and iron product manufacturing and put in place a strong metallurgical industry to support industrialisation. Unleashing the rich iron ore resources is contingent upon availability of affordable energy, investors, technology and human capital. Demand is high and growing in Uganda and neighbouring countries given the need for roads, bridges, commercial and industrial buildings, housing, railways, and other infrastructure. Conditions to attract investors

Box 2: Oil and gas, and minerals development

Uganda has proven oil reserves of 6 billion barrels. An estimated 1.5 billion barrels are commercially recoverable with a planned daily production of 260,000 barrels. Critical infrastructure will include an oil refinery (USD 3-4 billion), an oil pipeline (USD 3.5 billion), Hoima international airport (USD 318 million) and oil roads (USD 600+ million). Additional upstream investments of USD 6 billion for production equipment will be needed. According to baseline estimates the project will generate an annual average of USD 2.1 billion over a 33-year period, corresponding to USD 38 per capita per year. The Uganda National Oil Company is investing in an industrial park to strengthen domestic linkages with other sectors, especially agro-industry (fertilizer). Iron ore and steel making is another opportunity for Ugandan industrial development. EU supported studies show that Uganda has reserves of 583 million tons of a high-quality iron ore of 55%-68% iron content. Local production can be increased from 210,000 tonnes to 1.4 million tonnes annually by 2024. This requires industry support and infrastructure investments. Local gold production has increased rapidly since 2014 when refining capacity was initiated. Local refining capacity offers opportunities for the local gold mining industry to expand production. The risks associated with gold suggest that Uganda should make purchasing, production, and sales of gold more transparent.

are planned, which include technology acquisition, skills development for a sustainable steel industry and gas supply from Tanzania to power the steel industry.

2.4 Social Context and Cross-Cutting Themes

35. **Income growth has not been sufficiently inclusive partly because agriculture, the major source of livelihood for 43% of households, has not improved productivity.** Food crops are critical and attributed to subsistence farming. Furthermore, climate change impacts have aggravated the situation through poor yield, crop damage from floods, droughts, pests, and diseases. Although poverty was above 50%, three decades ago, poverty reduction seems to have stagnated around 20% with the last three household surveys since 2012 showing poverty rates of 19.7%, 21.4% and 20.3% (UNHS 2019/20). The north-eastern (Karamoja) and northern (Acholi) parts of the country are more prone to poverty than other parts of the country. Karamoja poverty is estimated to 65.7% and Acholi to 67.7%. Lockdowns have affected people in subsistence and low-income work. Estimates on inequality indicate a stationary level, with the Gini-coefficient ranging between 0.40 and 0.42 since 2005. Urban inequality, 0.42, is somewhat higher than rural inequality, 0.38. The progress on the Sustainable Development Goals indicates that half of the key indicators are stagnating or declining (*A12*).

36. **The African Gender Index shows that Uganda, 0.613 (rank 13 out of 51 countries), is making progress in promoting gender equality, but challenges remain.** Although the country presents a satisfactory score on the social level (0.917), it scores unsatisfactory on the economic level (0.664) and the empowerment of women (0.379). The low proportion of women in paid employment (13.0%) and the low proportion of businesses with female ownership (26.6%) corroborate the economic level score. The Ministry of Gender, Labour and Social Development supports women-led SMEs with access to credit to support business expansion and to facilitate women, youth and disability led businesses to become public suppliers (2017 Public Procurement Act). The Government is revising its 2007 Gender Policy and enhancing women empowerment.

37. **The implementation of laws promoting and protecting women's rights remains a challenge in the country.** According to customary law, women can neither inherit nor own land, thereby limiting their benefits from productive sectors. Gender-based violence is covered by an action plan (2016), but requires additional policy reforms on the regulatory framework, according to the Gender Ministry and CSOs (*A6.3*). Government efforts to integrate gender expertise in all Ministries is still on-going. For example, the Ministry of Works and Transport neither has a gender unit nor updated sectoral gender strategies.

38. **Uganda experiences widespread youth unemployment and a notable skills mismatch.** Youth unemployment constitutes 13.3%, which is above the national average of 9%. Youth (18-30 years) constitute about 51% of the working age population (14-64). The transition from school to work is low due to skills mismatch and lack of employable skills. The low quality of the education system and limited linkage between education/skills development and the industry/labour market compromises the quality of the workforce and their employability, contributing to unemployment and underemployment, especially among graduates. The informal sector has become an alternative avenue for youth employment (92%). About 41% of youth are *Not in Education*, *Employment* or *Training*. Skills shortages are prevalent in several sectors. Growing investments in agriculture, energy, transport (roads, railways, marine, air) and infrastructure (construction) are likely to increase the demand for practical and specialised skills. However, training capacity for skills relevant to these sectors is limited. To address shortages, some sectors with needs for specialised skills in energy, transport, and industry, plan to establish training facilities to equip workforce with the relevant skills. A Green Jobs Programme was launched in 2020 to promote workplace skilling, productivity and competitiveness among workers. Agricultural value chains will require technical and entrepreneurial skills for inclusive agro-industrial development and trade. In the wake of COVID-19, the importance of digitalisation for service delivery in the public and private sector is expanding, driving the need for integration of ICT and digital skills in the workforce.

39. **Most sectors of the economy rely on environmental and natural resource goods and services to enhance productivity and provide the necessary raw materials to foster national development.** More than two-thirds of the labour force is employed in agriculture and forestry and depend on sustainable natural resources management. Aspirations to achieve middle-income status has led to conversion of natural habitats to agriculture land and space for large infrastructure projects, leading to significant loss of biodiversity. Other threats include proliferation of invasive species, human-wildlife conflicts, illegal wildlife trade, climate change, and pollution. Key challenges for addressing environmental issues relate to weak capacity development, lack of cross sector coordination on environmental aspects among agencies, and limited resources. Key Environmental and Social issues are addressed by the National Environment Management Policy; the Environmental Impact Assessment Regulation; the Client Service Charter (2018-2022); The National Climate Change Communication Strategy 2017-2021 and other sectoral strategies and policies.

40. **Uganda is vulnerable to the impacts of climate change due to the country's dependence on climate sensitive sectors such as rainfed agriculture, water, energy, fisheries, tourism, and forestry.** Key climate risks are increased flooding, landslides, rising water levels, higher temperatures, and drought. Environmental degradation (land, forests, wetlands, water catchments) and soil erosion are high across the country with an estimated 41% of land in degraded state caused by a combination of factors: land conversion for farming; urbanization; population pressure, and climate change. Uganda is revising its Nationally Determined Contributions and developing a Long-Term Strategy for low carbon and climate resilient development. These plans have prioritized mitigation, adaptation and resilience building actions in agriculture, water, energy, and transport sectors.

41. **The petrochemical industry is striving for high environmental standards to mitigate climate change and underpin environmental sustainability.** There are plans to supply the pipeline with solar energy, while operations will be guided by the "No-Flare" policy, which limits release of greenhouse gases. The gas by-product from oil and refining will be used to supply energy; the rest will be processed to produce LPG for clean cooking, replacing firewood; and used as raw material for petrochemicals and fertilisers manufacturing. The Uganda National Oil Company is working with Forests Management Agencies on programs to develop 40,000 hectares of forest to sequestrate the CO_2 that will be produced through the petroleum value chain, ensure net zero carbon emission, and seize opportunities related to the EU Emission Trading System.

42. **The 2020 Country Resilience and Fragility Assessment (CRFA)** demonstrates immense country resilience in Uganda. However, some vulnerabilities remain, such as exposure to international terrorism, legal treatment of corruption, high immigration and malnutrition levels, social and economic infrastructure shortcomings, and regional integration challenges. Building on the country's capacities, there are some levers that the CSP can exploit to address the vulnerabilities currently faced by Uganda. These include: i) **expanding socio-economic infrastructure** such as roads, energy and telecommunications, which are required to improve interconnection between urban and rural areas, between agro-production and consumption centers and boost regional integration. ii) **Developing skills** necessary for the youth to promote and take advantage of economic transformation efforts and the advent of economic opportunities with the exploitation of oil. Skills development can also strengthen institutional capacity and improve public services delivery. iii) **Optimizing natural and mineral resources** such as gold and the hitherto unexploited oil, to increase fiscal revenues and social spending in rural and marginalized areas of the country (especially the north and the east), and to advance economic transformation. Resilience analysis is presented in *A12*.

43. **The COVID-19 pandemic has strained the Ugandan health care system and highlighted weaknesses in the system to care for the increased numbers of sick needing hospital treatment and care**. By November 2021, more than 126,000 were confirmed to have been infected with COVID-19, with about 97,000 recoveries. About 3220 COVID-19 related deaths have been reported since the first confirmed Ugandan case in March 2020.

2.5 Country Strategic Framework

44. **In 2013, the Government launched *Vision 2040* as the flagship development framework to transform Uganda from a peasant-led agricultural economy to a prosperous nation within a generation.** *Vision 2040* focuses on developing social and economic infrastructure, raising human capacities, eradicating the high cost of doing business that has constrained the private sector, addressing low agricultural productivity, and enhancing the efficiency of state institutions. *Vision 2040*, hence, marked a shift away from the focus on poverty reduction to the pursuit of structural transformation, driven by the country's ambition to own and control its destiny (Hickey, 2013).

45. ***Vision 2040* is implemented through six 5-year medium term National Development Plans (NDP) and supported by rolling medium term expenditure frameworks.** So far, two successive 5-year medium-term strategies (NDP I & II), covering the first ten years of *Vision 2040*, have been completed, while the current (NDP III) covers 2021-2025. Progress made so far shows that while average per capita income has grown by 3.1% since 1990, the past decade's performance has been lacklustre, with per capita income growth averaging only 1.9% between 2010 and 2019. It is clear, if the per capita target of USD 9,500 is to be achieved by 2040, spectacular growth (in the order of 12% and above) will be required for the remaining part of the Vision horizon.

46. **Strengthening industrialisation in support of higher value-added jobs has shifted the NDP III in the direction of growing the real sectors of the economy.** Furthermore, driving structural transformation is a key concern of Government. Accelerating structural transformation requires addressing binding constraints, i.e., i) increasing production, productivity, and value-addition in economic growth areas; ii) increasing the stock and quality of strategic infrastructure to accelerate competitiveness; iii) enhancing human capital development; and iv) strengthening mechanisms for quality and efficient delivery of services. NDP III identifies several central sectors - agriculture, mineral beneficiation, construction, manufacturing, ICT, health, education, and security services - as key drivers of the economy. NDP III, has shifted to a programme approach to integrate coordination and harmonization of activities across sectors. Key programmes include agro-industrialisation, mineral development, private sector and manufacturing, integrated transport infrastructure and services, regional development, and public transformation.

2.6 Aid Coordination Mechanisms, Bank Positioning and Comparative Advantage

47. *Aid Coordination Mechanisms*: **Uganda's aid architecture comprises multilateral and bilateral development partners with a well-established structure for coordination and policy dialogue.** The Local Development Partners Group (LDPG) leads on coordination and dialogue. The group is headed by a quartet that regularly meets with the main counterpart, the Ministry of Finance, Planning and Economic Development to coordinate and engage in high-level policy dialogue. The country dialogue structure is realigned with the 18 government programs with technical working groups associated with each program, although not all groups are equally active. The Bank is mostly active in the Development Economists Group, Agriculture, Transport and Water and Sanitation. The Bank leads discussions on the Jinja-Kampala-Mpigi Regional Corridor 20-year plan and skilling needs in agriculture. Bilateral and multilateral development partners contributed 20% of the national budget, nearly USD 2 billion in 2018-19 in grant aid

Table 3: Development Aid to Uganda, disbursements, (2019)

ODA (USD millions)		Bilateral ODA dist., % (av. 2018-19)	
United States	516.5	Production	24.2
WB (IDA)	366.9	Health and Population	23.1
United Kingdom	196.2	Social infra. and services	17.6
EU Institutions	144.9	Humanitarian aid	12.1
Global Fund	129.4	Economic infra. and services	10.6
GAVI	69.1		
ADB (ADF)	67.1	Multisector	7.3
Germany	66.5	Education	2.8
Japan	65.1	Other and unallocated	1.5
United Nations	61.9	Programme assistance	0.8
Top 10	1,683.7		100.0
ODA	**2,029.5**	**of which bilateral aid**	**1,216.7**

Note: only concessional financing. *Source:* OECD DAC database.

and concessional funding (*Table 3*). The Bank and development partners continue to implement the Paris Declaration and subsequent aid-effectiveness declarations on the use of country systems. Following a Bank fiduciary risk assessment in 2019, it was agreed to increase the use of country procurement procedures. Four AfDB projects were approved to use country systems in 2020. Government is implementing the PFM Resource Enhancement and Accountability Program 2018-2023, which provides opportunities to further strengthen governance, policy dialogue and coordination by civil society and development partners.

48. *Bank Group positioning*: **In terms of annual disbursements, the Bank ranked 7, with World Bank at 2 (*Table 3*), based on volume of concessional financing.** Bilateral development partners contributed 44% to the social sectors, while humanitarian aid amounted to 12%. The share of aid on-budget has fallen from 55% in 2015, to 11% in 2018, due to a shift from budget support to project finance. COVID-19 relief packages were largely provided as budget support, increasing the on-budget share in 2020 and 2021. The division of labour matrix is provided in *A8*. The Bank's analytical work helped improve governance and reforms in state agencies, improving efficiency. The Bank also supported government to restructure the Bujagali project to lower energy tariffs.

49. *Bank Group comparative advantage*: **The Bank maintains a comparative advantage in infrastructure, which accounts for more than 80% of its portfolio.** The Bank is involved in critical road projects in and around Kampala and Jinja aimed at decongestion. Other areas supported are water production in Kampala, rural solar water systems, rural energy and rural feeder roads. The Bank has extended its position as a key partner and often referred to as the "preferred partner agency", bestowing the Bank a special position. Country presence has improved the Bank's ability to respond to requests, shortened the time to follow-up on portfolio issues, and contributed to easier access and enhanced dialogue with stakeholders.

2.7 Strengths and Opportunities, Weaknesses and Challenges

50. **Uganda has several strengths and opportunities that could support socio-economic development and inclusive structural transformation. Nonetheless, the country still faces challenges and weaknesses that require attention to achieve its development ambitions (*Table 4*).** Uganda's overarching development challenge is the limited diversification and low competitiveness of its economy, and slow integration into regional and global markets. Underlying development challenges include infrastructure bottlenecks, limited access to capital, shallow and underdeveloped financial markets, insufficient formal business growth,

Table 4: Summary of Strengths and Opportunities, Weaknesses and Challenges

Strengths	**Weaknesses**
– **Excess energy generation capacity** is available for mining, manufacturing industries, and commerce to power industrialisation – Roads, water and telecoms provide **basic access to linking rural production areas to urban and regional markets** but lack competitiveness – **Rich natural resource base** capable of driving economic development – **Sustains macroeconomic stability**	– **Skills mismatch** affects business development and innovation – **Low institutional capacity, slows progress, and lowers absorption**, delaying infrastructure investment and increasing cost – **High cost of credit** lowers firm investment and **limits expansion** – **Fiduciary risks and corruption** affect development pace – **Low adaptive capacity** to adequately address climate change impacts – **Limited institutional gender mainstreaming,** e.g., missing gender sensitive policies and strategies in works and transport
Opportunities	**Challenges**
– Mineral extraction and **development of iron and steel** can spur industrialisation – **Oil and gas can strengthen the Hoima region** and create economic synergies and jobs, boosting trade, construction, and skills development – Declining costs of small-scale renewable energy create opportunities to provide **affordable electricity to rural areas** – Participation in trade blocs gives **market access** and **improved competitiveness** by lower cost railways	– **Low labour productivity** in agriculture drives stagnating income – Higher cost to access global value chains, driven by the high cost of transport, as country is **landlocked** – **Urban congestion** weakens efforts to improve productivity and grow the economy – **High population growth** undermines economic policy, hampers efficient service delivery, and reduces effects of economic growth – **Regional conflicts risk affecting domestic security,** which will slow development – **High vulnerability in** key sectors to climate change impacts.

skills mismatch, and weak institutional capacity. Country competitiveness is still affected by infrastructure gaps despite the expansion of roads, water, sanitation, and power. Urban congestion is taking root as city centres expand, while grid access to electricity remains a challenge for most of the population. Climate change impacts are also reducing agricultural productivity and causing damage to key infrastructure. Uganda sustains macroeconomic stability, while opportunities lie ahead in the oil industry, with engineering and construction contract awards expected in 2021/22, lower cost rail to improve competitiveness, and industrial parks in Namanve and Kabaale aimed at attracting investors.

3 KEY FINDINGS OF COUNTRY PORTFOLIO PERFORMANCE REVIEW

3.1 Ongoing Portfolio

51. **The Bank's portfolio in Uganda comprises 24 operations with a total net commitment of UA 1.2 billion (*A7.1*).** The portfolio has 19 public sector and 5 private sector operations financed with ADB/ADF loans (21) and Trust Funds (4). Infrastructure accounts for the largest portfolio share (80%): comprising transport (61%), energy (10%), water and sanitation (9%). The rest is for agriculture (14%) and others (6%). The cumulative disbursement rate is 31.4% (September 2021).

3.2 Portfolio Monitoring and Evaluation

52. **The average performance rating for the Uganda portfolio is 3.2 (on a 4-point scale), as all projects have a strong likelihood of achieving their development objectives and performance targets.** Performance against the Key Performance Indicators (*A7.2*) is moderate due to three transport projects and the COVID-19 PBO that faced extensive signature and first disbursement delays. Loan agreements have been signed in 2021 and have been declared disbursement effective except for one transport project. The PBO has disbursed, while the transport projects are progressing well with implementation teams in place and procurement ongoing. During 2021, portfolio performance has improved as key challenges were addressed. There is one problematic project in the portfolio, while flagged projects have decreased from 34% in March 2021 to 27% in September and are projected to below 20% by December 2021. Loans qualifying for cancellation have decreased from 10 in March 2021 (when the last CPPR was undertaken) to 5 in September. Once the new transport projects disburse, there will only be one private sector guarantee instrument qualifying for cancellation. The low cumulative disbursement rate is mainly due to the new transport projects that entered the portfolio.

3.3 Country Portfolio Improvement Plan

53. **Key portfolio challenges that affect implementation include start-up, procurement and implementation delays; delays in processing disbursement applications and justification of special accounts; weak project management; and delays in submission of audit reports.** To address these issues the Country Office has strengthened its internal portfolio management, with the adoption of a more pro-active approach to project management and by boosting human resources in the transport sector, which was largely understaffed. Project coordinators and Bank staff meet often to discuss implementation issues and ways to address them. High level meetings with line Ministers and Heads of Executing Agencies are also held to discuss strategic issues and implementation challenges.

54. **The Government continues to show strong commitment to intensify project implementation**. The Ministry of Finance and Economic Development has strengthened its oversight function and enhanced its monitoring and evaluation activities, including closer follow-ups with line ministries and executing agencies. Parliament has also ratified all Bank projects in the 2021-2022 IOP to quicken processing. Government is yet to implement actions related to timely compensation of PAPs, timely justification of special account balances and timely submission of audit reports. These actions were included in the 2020 CPIP.

55. **The 2020 CPIP was prepared following broad-based stakeholder consultations including a CPPR workshop in November 2020**. The CPIP, which remains relevant to date,

agreed on several remedial actions including provision of adequate budget to Executing Agencies (EA) for timely payment of compensation; signature of outstanding loans; close monitoring of procurement plans; reduction of turnaround time for review of bid evaluation reports by EAs; and timely submission of audit reports and justifications for special accounts. Progress in the implementation of these actions is outlined in *A7.3*.

4 LESSONS LEARNED

56. This section summarises lessons and recommendations from the Independent CSP 2011-2021 Evaluation and the CSP 2017-21 Completion Report (*A4*).

57. **At the strategic level, the BDEV evaluation and the CSP 2017-2021 completion reports confirmed** that support to infrastructure development in transport, water, energy, and agriculture are relevant and aligned to national development plans and policies. However, a standalone priority to support skilling and technical education should not be pursued given government's preference for grant financing and the division of labour (*A8*). Likewise, CODE recommended more selectivity and would not support a priority focused on skills development. In line with Government's guidance, it was agreed to integrate skilling in operations under infrastructure.

58. **At the operational level, the evaluation and completion reports concluded** that better alignment to government processes and procedures could mitigate quality at entry delays. The Bank should work closely with the Government to ensure feasibility and detailed design studies are ready for pipeline operations. The Bank should also ensure that Agreements for Government signature are submitted on time to ensure that conditions precedent to first disbursement are fulfilled within six months from the date of Board approval.

59. **Blending of ADF/ADB funds, has supported delivery of more projects, while co-financed operations were limited**. Given the limited ADF funding, blending with ADB funds has successfully allowed the Bank to support more projects in Uganda. Without an increase in ADF funding, raising more co-financing will be essential to deliver on Government project needs. Enhancing dialogue with DPs will be needed to identify co-financing opportunities. While preparing this CSP, the Country Office has engaged with several potential co-financiers (EIB, EU, AGTF, and JICA) on relevant projects, especially in the transport sector.

60. **Additional guidance by CODE (*A5*) was on strengthening gender results, improving portfolio management, stressing the importance of policy dialogue, and enhancing support to the private sector.** During the ED's visit in April 2021, portfolio improvement was stressed, in particular in land acquisition and parliamentary ratification, importance of private sector development, extending support to transmission and distribution in the electricity sector, and the importance of maintenance to extend asset life. The Bank aims to increase its engagement with private sector through backward and forward linkages during the construction and operation phases of infrastructure projects, support a more conducive business environment by reducing travel times and transport costs, provide financing and technical assistance to eligible businesses through the NSO window and special initiatives such as the Affirmative Finance Action for Women in Africa.

5 BANK GROUP STRATEGY

5.1 Strategy Rationale, Selectivity, Objective and Priority Area for Bank Support

61. ***Rationale:* Supporting Uganda's aspirations of achieving upper middle-income status by 2040, creating a more inclusive society and reducing poverty require accelerating the creation of higher value-added and skilled jobs.** Consistent with findings of the Uganda CDN, the country's overarching development challenge is the limited diversification and low competitiveness of its economy, and slow integration into regional and global markets. Underlying development challenges include infrastructure bottlenecks, limited access to capital, shallow and underdeveloped financial markets, insufficient formal business growth, skills mismatch, and weak institutional capacity. Low labour productivity and slow

growth in higher value-added jobs slows income growth, poverty reduction and inclusivity. Infrastructure gaps and lack of efficient transport systems lowers country competitiveness. Climate change further threatens development as the economy is reliant on natural resources. COVID-19 has aggravated these development challenges, as the slowdown in economic activities has narrowed the fiscal space for growth enhancing public spending. This Country Strategy aims to address some of these areas to facilitate structural transformation.

62. ***Selectivity*: Addressing Uganda's development challenges requires a selective approach applied in a cost efficient and sustainable manner that integrates resilience building.** Addressing the development challenges also requires a collective effort from the international community based on comparative advantages. To ensure that the Country Strategy is well-targeted and consistent with the Bank's guidance on selectivity, the Strategy applies the following selectivity principles: i) alignment; ii) consolidation and comparative advantage for impact; iii) division of labour and collaboration; and iv) embedding cross-cutting themes for enhanced impact (*Box 3*). These criteria strengthen the alignment of Bank support ("Sharpening the Bank's Strategic Focus – A Proposal to Increase the Bank's Selectivity", approved by the Board in May 2021).

63. ***CSP Objective and Priority Area for Bank Support:*** Based on the selectivity criteria and the findings of the CDN, the main objective of the Bank's CSP 2022-2026 for Uganda is to improve the country's connectivity and industrial competitiveness to expand non-traditional exports and reduce vulnerability to external shocks. To achieve this objective, the CSP is articulated around one single Priority Area for Bank support: *Develop quality and sustainable infrastructure to support industrialization and private sector development.* Bank support under the CSP's single Priority Area will be provided selectively in the following 4 sectors: transport, energy, water and sanitation, and agriculture infrastructure.

The new CSP builds on and consolidates past achievements of Bank support, by focusing efforts on a single priority area, building on the Banks comparative advantage. The approach to the new CSP builds on the first pillar of the previous CSPs 2011-2021, enabling the Bank to scale-up, focus, and consolidate its achievements in Uganda, considering the division of labour in Uganda (*A8*). The approach is warranted as Uganda's main development challenges have remained unchanged, except for the evolving COVID-19 pandemic. Given the recommendations from BDEV's CSP 2011-2021 Evaluation, guidance from CODE, and lessons drawn from the previous CSP at strategic level, the new CSP will contribute to a more focused approach to help establish the foundations for industrialization to support jobs creation. The new CSP will contribute to the national goal of supporting infrastructure development to bolster industrialization, economic diversification, and accelerate structural transformation. To this end, as mentioned above, Bank support will be provided selectively in the 4 sectors of transport, energy, water and sanitation, and agriculture infrastructure. Through the NSO window, the Strategy will strengthen its efforts to increase support to the private sector by providing access to finance and advisory services to eligible enterprises, while integrating policy reforms and mainstreaming capacity development and skilling into operations. The impacts and outcomes of the Country Strategy will be amplified to the rest of the economy through multiple linkages and spill-over effects of the interventions.

64. ***Alignment.*** The selectivity criteria (*Box 3*) underscore the Bank's emphasis on providing its support to Uganda in a well-focused manner, consistent with the National Development ambitions and SDGs 6, 7 and 9, among others. Similarly, the new CSP's single Priority Area is aligned with the twin objectives of the Bank's Ten-Year Strategy (TYS) 2013-2022 (inclusive growth and transitioning towards green growth). Consistent with the seventh General Capital Increase and ADF-15 commitments, the TYS areas of special emphasis, notably gender, and climate change are also incorporated in the Bank's interventions. The Bank's support is aligned with its sector policies and strategies (*A1.1*) and the guidance on selectivity. In particular, the Bank's support under the CSP priority area underpins 5 strategic High 5 priorities (*A3.3*): strengthen transmission and distribution systems; strengthen agricultural value chains; strengthen regional infrastructure connectivity; support enterprise

Box 3: Single Priority Area - Selectivity Criteria applied in for the Uganda CSP 2022-2026

i) **Aligned to Government priorities with emphasis on industrialisation -** the strategic, sectoral, and operational choices are aligned with the NDP III, and were discussed and validated during in-country stakeholder consultations, which confirmed that the Bank Group should continue to focus on infrastructure, while stepping up actions to support private sector. The strategic areas are consistent with the SDGs and TYS dual objectives and High 5s priorities.

ii) **Build on and consolidate past Bank support and achievements, utilising the Bank's comparative advantage -** the Bank has developed a strong position in infrastructure support consistent with government policies to support connectivity, competitiveness, and industrialisation.

iii) **Consider other DP priorities** consistent with the donor division of labour (see *A8*), while seeking possibilities for collaboration to leverage resources and enhance impact.

iv) **Embedding cross-cutting themes enhances developmental impact -** notably empowering gender-youth, enhancing productive skills, adapting to climate change, and strengthening economic governance **-** to enhance impact and sustainability of Bank supported projects.

development; and support integrated water resource management and expand water supply, sanitation and hygiene services.

5.2 Strategy and Expected Results

65. **Bank support under the CSP's single Priority Area focuses on the development of well-maintained quality and sustainable infrastructure to improve market access, and competitiveness to bolster industrialization.** The theory of change linking the 4 sectors supported by the Bank (transport, energy, water and sanitation, and agriculture infrastructure) and the strategic outputs and outcomes envisaged by the CSP are demonstrated in *A1*. In line with the ADF-15 commitments, support to infrastructure development will be delivered through investment operations, technical assistance, and advisory services, and will emphasize quality and sustainability, i.e., infrastructure development that considers the economic, social, environmental implications and climate risks. The Bank assistance aims to: i) reduce carbon and environmental footprints; ii) enhance resilience to climate change; iii) emphasize compliance with labour standards and boost jobs creation; iv) catalyse innovation in infrastructure technologies to spur industrialization; v) demonstrate economic viability; and vi) bolster private investment and finance. Operations will sustain focus on including beneficiaries in project cycle activities.

66. ***Strategic Outcome 1 (transport):*** **Support to roads and rail aims to increase connectivity and improve access to domestic and regional markets**. Developing an efficient rail and road transport network will promote inclusive, green, competitive, and socio-economic development by underpinning businesses and job growth and improving household access to markets and basic social services. Rail and road services will be linked through intermodal transport hubs, while improved infrastructure quality will increase transport services safety. Environmental and institutional strengthening, emphasis on maintenance and climate proofing of assets will be integrated into Bank operations to enhance sustainability. Interventions to promote trade facilitation such as establishment of one stop border posts and implementation of simplified trade regimes (STR) will be integrated in the transport operations to enhance the developmental impact of Bank support along trade corridors. Support from the Bank will comprise a combination of lending and non-lending activities for national and regional projects. The expected outcomes include reduced travel times and costs for freight and passengers, increased trade flows with neighbouring countries, increased average infrastructure lifespan, and creation of new economic opportunities. Specifically, the prioritised interventions are expected to enhance connectivity to enable tourism, agro-processing, industrialization, trade under the ACFTA and create a conducive business environment for private sector operators to thrive**.**

Specific outcomes envisaged: i) 1.0-2.0 average weighted travel time (hours) between major urban centres, ii) 0.16 USD/km reduction in vehicle operations cost, iii) 20% of total freight on the North South Corridor (NSC) moved on Rail, iv) less than 20 derailments annually on NSC, v) 10% reduction in time spent on Border clearance (trucks, cross border traders) at Goli-Mahagi One-Stop-Border-Post (OSBP), and vi) 10% increase in Cross-border trade at Goli-Mahagi OSBP.

67. ***Strategic Outcome 2 (energy):*** **Energy sector investments will support expansion of electricity networks on the grid with the aim of increasing access and usage of electricity and improving efficiency in utilities.** The Strategy will support the development of efficient and sustainable utilities by increasing investments in transmission and distribution, expansion of green mini-grids, institutional development, and capacity building. This will promote industrialization, value addition, jobs, and inclusive sustainable growth, while securing the goals of climate change mitigation. The Bank will consider investments in renewable power generation (including off-grid) and is open to participating in PPP initiatives in transmission and distribution networks. The investments in transmission lines will help reduce excess supply through exports to South Sudan and the Democratic Republic of Congo. The investments will strengthen services through more efficient and sustainable utilities, lowering the cost of energy.

Specific outcomes envisaged: i) 60% National Access Rate, and ii) 350 GWh Energy Exports.

68. ***Strategic Outcome 3 (water and sanitation)*****: Investments in water supply and sanitation will improve access to clean and safe water and improve sanitation in homes, institutions, and businesses in urban and rural areas.** The Bank will support the adoption of environmentally sustainable and climate resilient water and sanitation management technologies, provide technical assistance to strengthen sustainability through preserving water resources and developing them for productive uses such as irrigation, energy, tourism, and fisheries. Bank interventions will strengthen resilience against extreme weather events, contribute to reduced health risks associated with unsafe water, increased production, and productivity of industry. Reducing constraints and addressing vulnerability to extreme weather events will strengthen the foundation for more sustainable investments in agro-processing, manufacturing, tourism, and mining, supporting decent job growth.

Specific outcomes envisaged: i) 85% Ugandans with access to improved water services, and ii) 60% Ugandans with access to improved sanitation facilities.

69. ***Strategic Outcome 4 (agriculture)*****: Investments in improved rural access and agricultural value chains will enhance agro-industrialization, economic diversification, and transformation.** Support will reduce rural poverty and promote inclusive and green growth. The Bank will focus on infrastructure for value chain development, including rural market access roads, market infrastructure, and climate smart agriculture investments. Bank support for regional integration should target the development of agriculture and agri-business value chains that are export ready, trade facilitation, improvement of quality infrastructure for standards and certification, and transport and logistics. Bank interventions will expand market access for agro-inputs and outputs, supporting productive areas, and contributing to increased jobs along the value chains. Bank interventions will increase: agro-productivity; access to finance; value addition to agricultural products; and agricultural exports.

Specific outcomes envisaged: i) Boost to agricultural production by increasing rice production to 428,000 MT, Cassava to 6,585,000 MT, Maize to 6,885,000 MT, Beans to 2,169,000 MT, and Dairy Milk to 3,200,000,000 litres, and ii) 27,000 Ha of new irrigation.

70. **Bank support will consider various cross cutting issues and mainstream them into operations where relevant and appropriate.**

Gender: To ensure greater inclusivity, Bank interventions will consider gender mainstreaming. The Bank's Gender Strategy 2021-25 will guide the choice and structuring of programs and target outcomes in operations to maximize development impact. Gender Based Violence should be considered during implementation in male-dominated sectors along with teenage pregnancy, HIV, and COVID-19. Systematic integration of Sexual Exploitation, Abuse and Harassment awareness measures, cultures in Uganda, and training will mitigate these risks in projects. The Bank's Uganda Gender Profile will be updated in 2022, while gender policy dialogue will be informed by gender and sectoral studies (*A6*).

Economic Governance: Improving public investment management efficiency and effectiveness, requires closer monitoring and supervision of Bank supported projects to ensure that these are kept on track. The Bank will consider providing capacity building, training, and technical assistance to support identified policy gaps in the areas supported. Weak governance and fiduciary control will be mitigated by ensuring that Bank fiduciary, procurement, and disbursement policies are complied with in all Bank-funded operations.

Youth and Skills: The NDP III aims to increase the proportion of labour force transitioning into gainful employment and enterprise development from 35% in 2017 to 55% in 2025 and reduce youth unemployment from 13.3% to 9.7%. NDP III targets 2.6 million jobs to be created over 5 years. To contribute to this goal, the operations under the CSP will integrate skills development to equip the youth with employable skills for sustaining investments. Based on a thorough understanding of skills gaps, the Bank will explore collaboration with skills training institutions to equip the youth with relevant skills in the sectors covered under the CSP. Leveraging on the support through the private sector window, the Bank will advocate for the establishment of skills hubs in industrial parks to promote entrepreneurship and innovation for MSME's growth and job creation.

Climate adaptation: Climate proofing will be considered in infrastructure projects to safeguard assets against flooding. Climate smart agricultural innovations will be incorporated to increase resilience against extreme weather events such as drought, changed rainfall patterns, and high temperatures, which increase evapotranspiration. To promote environmental restoration, the Bank will consider integrating elements of natural resource protection and management in projects. The Bank can offer technical support for relevant government officials in developing bankable climate finance proposals, generating, managing, and updating climate related data as well as designing and implementing climate change policies and strategies.

NSO window funding: The private sector funding window will support private sector and financial services to underpin industrialisation through access to affordable long-term finance. Expansion of businesses and production will be supported through lines of credit, technical assistance, and studies to enhance growth, jobs, and wealth creation. Affordable long-term finance will enable SMEs to invest in expansion and modern technology, focus short-term credit to operational activities, and increase production. The private sector has suggested financial packages to support businesses affected by COVID-19. Support to transform the government pension scheme from a pay-as-you-go to a contributory scheme has also been suggested. The Bank could consider a financing facility to address the challenges by providing: i) loans at longer maturities, ii) partial portfolio guarantees to reduce risk exposures for commercial banks, iii) incentives to Financial Institutions to offer equity and other financing instruments like subordinated debt.

5.3 Indicative Lending/Non-Lending Program

71. **The Bank's 3-year rolling indicative lending program (IOP) 2022-2024 reflects Government priorities.** The IOP 2022-2024 includes 9 sovereign projects totalling UA 615 million, focusing on transport, energy, water and sanitation, and agriculture infrastructure. Government priorities for 2025-2026 amount to UA 308 million. Two additional projects are on the reserve list pending available funding (*A3.1a*). Various instruments will be deployed comprising investment operations and technical assistance. Results Based Financing and Policy Based Operations will be considered on a case-by-case basis. Co-financing will be sought through closer dialogue with development partners. Finally, non-sovereign operations (energy, finance, roads, industry) are considered amounting to UA 290 million (*A3.1b*).

72. **The indicative nonlending program will include knowledge work, policy dialogue, advisory services, and technical assistance (*A3.2*).** Analytical work will cover topical demand-driven and operationally pertinent economic and sector work focusing on the core selected sectors and any other areas that might arise as priorities. Envisaged areas include support to policy development in relation to energy, industrialisation, regional integration and corridor development, financial sector development, and public debt management.

5.4 Policy Dialogue

73. **Dialogue with Government will be guided by non-lending activities and focus on**: i) promoting economic recovery, strengthening macroeconomic policy, increasing competitiveness in the financial sector, economic governance reforms, fiscal and debt sustainability drawing from the CDN and CPIA; ii) strengthening partnerships with Government to promote NDP III implementation; iii) increasing economic diversification, transformation and resilience; iv) improving mainstreaming (gender, skills, climate, and governance) in Bank investment sectors; v) ensure financing for maintenance to extend infrastructure asset life and boost sustainability, and vi) improving performance and portfolio management. The Policy Reform Dialogue Matrix (PRDM, *A2*) will be updated regularly and used to monitor the implementation of reforms.

5.5 Financing the Strategy

74. **Strategy Financing: The indicative concessional financing available is estimated at UA 443 million**, comprising the last year of ADF-15, ADF-16 (2023-2025), and the first year of ADF-17 (2026). Given its investment needs, Uganda could absorb more concessional funding if it were available. Shortfalls in ADF funding, will be sourced through ADB sovereign operations window depending on headroom, in addition to non-sovereign operations window. The Bank will explore alternative forms of finance such as co-financing, PPP, and the regional envelope. The CSP will take advantage of climate funds, while seeking funds from special initiatives, e.g., ALSF, Affirmative Finance Action for Women in Africa and Fund for African Private Sector Assistance and consider Trust Funds. While preparing the Country Strategy, the Bank initiated discussions with development partners to identify co-financing opportunities. Discussions will continue during Strategy implementation. The Bank's Uganda Country Financing Parameters were prepared in 2020 and outline various considerations for financing Bank operations (*A17*). The Financing Parameters will continue to be applied during the CSP 2022-2026.

5.6 Implementation Arrangements, Monitoring and Evaluation

75. **Overall guidance to implementation will be provided by the Ministry of Finance, Planning and Economic Development through the multilateral desk**. The main implementing agencies will be the relevant authorities, e.g., the National Roads Authority and Uganda Railways will be responsible for roads projects. The CPIP (*A7.3*) provides guidance on implementation improvements, including regular portfolio meetings, closer monitoring of procurement planning and compensation in relation to project activities.

76. **Monitoring and Evaluation of the results** achieved from the Bank's Country Strategy is based on the strategic alignment and performance matrix (*A1*). Annual CPPRs, the policy reform dialogue matrix, CSP mid-term review, and project supervision reports will provide additional information to track performance and allow adjustments, as required.

5.7 Risks and Mitigation Measures

77. **During the 5-year implementation period the Country Strategy will face global and local risks.** These risks are likely to emanate from political, security, climate, macroeconomic, social and trade environment events (*A15*). Most risks are rated low to moderate likelihood of occurrence and impact. Given Uganda's recent track record in maintaining macroeconomic stability, this risk is rated moderate and mainly concerned with lower-than-expected revenues and slippages in spending. Uncertainty and risk surrounding the national and global economic recovery, lower domestic revenues, and trade restrictions, may see Government's public debt increase. Fiduciary and value for money, and flare-ups in regional and domestic insecurity pose potential substantial risks. At operational level, there are potential risks related to funding headroom, investment management including delays in land acquisition that result in failure to achieve value for money and envisaged benefits of improved service delivery, jobs, and growth.

6 CONCLUSIONS AND RECOMMENDATIONS

78. **Uganda has experienced a transition from an agricultural driven economy to an industrial and services led one.** Like 3 decades ago, two-thirds of the work force are still in low value-added farming with a fifth of the population in poverty. Structural transformation has been limited as industry and services have not been able to create enough higher value-addition jobs. The new Country Strategy 2022-2026 puts emphasis on addressing the underlying constraint of expanding infrastructural fundamentals for industrialisation. The Country Strategy single priority area will *develop quality and sustainable infrastructure to support industrialization and private sector development*. Applying the Banks selectivity policy, the four priority sectors are transport, energy, water and sanitation, and agriculture. NSO financing will support development and expansion of the financial and private sector.

79. **The Board of Executive Directors is requested to consider and approve Bank Group's CSP 2022-2026 for Uganda.**

A1 CSP Results-Measurement Framework

A1.1 Strategic Alignment Matrix

Priority Area 1: Develop quality infrastructure to support agro-industrialization and private sector

National Development Plan	Banks Corporate Policies
Uganda Vision 2040 (broad vision, ch 1.3 pg 4): transform Ugandan society from a peasant to a modern and prosperous country within 30 years. **(specific to infrastructure, ch 4 pg 39)**: Strengthening fundamentals for harnessing opportunities. This includes infrastructure that supports tourism, agriculture, transport (roads and rail), energy, industrialisation, and water. **Uganda NDP III 2020-2025 (wider goal, ch 4, pg 35):** Increase Average Household Incomes and Improve the Quality of Life of Ugandans. Consolidate and increase the stock and quality of productive infrastructure. (4 programs) **Sustainable Development Goals:** Goal 6: Clean water and sanitation. Goal 7: Affordable and clean energy. Goal 9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation. Goal 13: Combat climate change and its impacts.	**Ten-Year Strategy 2013-2022:** (i) Operational Priorities: Infrastructure Development and Regional Integration, (ii) Area of special emphasis: Gender, climate change, agriculture and food security. **High 5 priorities:** (i) Light up and Power Africa; (ii) Integrate Africa; (iii) Industrialize Africa; (iv) Feed Africa; (v) Improve the quality of life for the people of Africa **Eastern African Regional Integration Strategy Paper 2018-2022:** i) Infrastructure connectivity; ii) Trade and Investment.

Country Sector/Thematic Strategy	Bank Sector/Thematic Strategy
NDP III program: Integrated transport infrastructure and services **NDP III program:** Sustainable energy development **NDP III program:** Agro-industrialisation **NDP III program:** Natural resources, environment, climate change, land, and water management **Thematic Strategies (Year):** Transport Policy Energy Policy 2002 (revised) Water and Sanitation - Annual Ministerial Policy Statements Agricultural Sector Strategy (2021-2025) Gender Policy 2007 / Gender and Roads Strategy 2008	**Bank Group Strategy for the New Deal on Energy for Africa** 2016-2025: i) scale-up access to clean energy, improve affordability, reliability and energy efficiency. **Bank Group Policy on Water 2021** **Bank Group Gender Strategy 2021-2025**: Investing in Africa's women to accelerate inclusive growth. **Strategy for Agricultural Transformation in Africa 2016-2025:** i) investment in infrastructure, particularly energy; ii) linking production to markets; iii) strengthening processing capacity and job creation. **Bank Group Strategy for Jobs for Youth in Africa (2016- 2025)**: i) integration, innovation; and iii) investment. **Financial Sector Development Policy and Strategy 2021-2026** (under revision) **Bank's Second Climate Change Action Plan 2016-2020** extended to 2021: i) agri-industry and strengthened value chains ii) sustainable infrastructure

Country Development Results/Indicators (from NDP III, pg 37-39)

Indicator	Baseline (2017/18)	Target (2025)
Power Infrastructure		
Households with access to electricity (% of population)	21	60
Energy generation capacity (MW)	984	3,500
Electricity consumption per capita (kWh)	100	578
Transport		
Percent of paved roads (of total national roads network)	21.1	36.0
Percentage of district roads in fair to good condition	61.0	80.0
Proportion of freight cargo by rail (%)	3.5	25.0
Water and Sanitation Infrastructure:		
Safe water coverage, rural/urban (%)	70 /74	85
Sanitation coverage (improved toilet)	19	40
Hygiene (handwashing)	34	50
Agricultural Value Chain Development		
Agriculture: sectoral contribution to GDP (% of total GDP)	22.9	19.9
Manufactured exports as a percent of total exports	12.3	19.8

Bank's interventions & Resources:

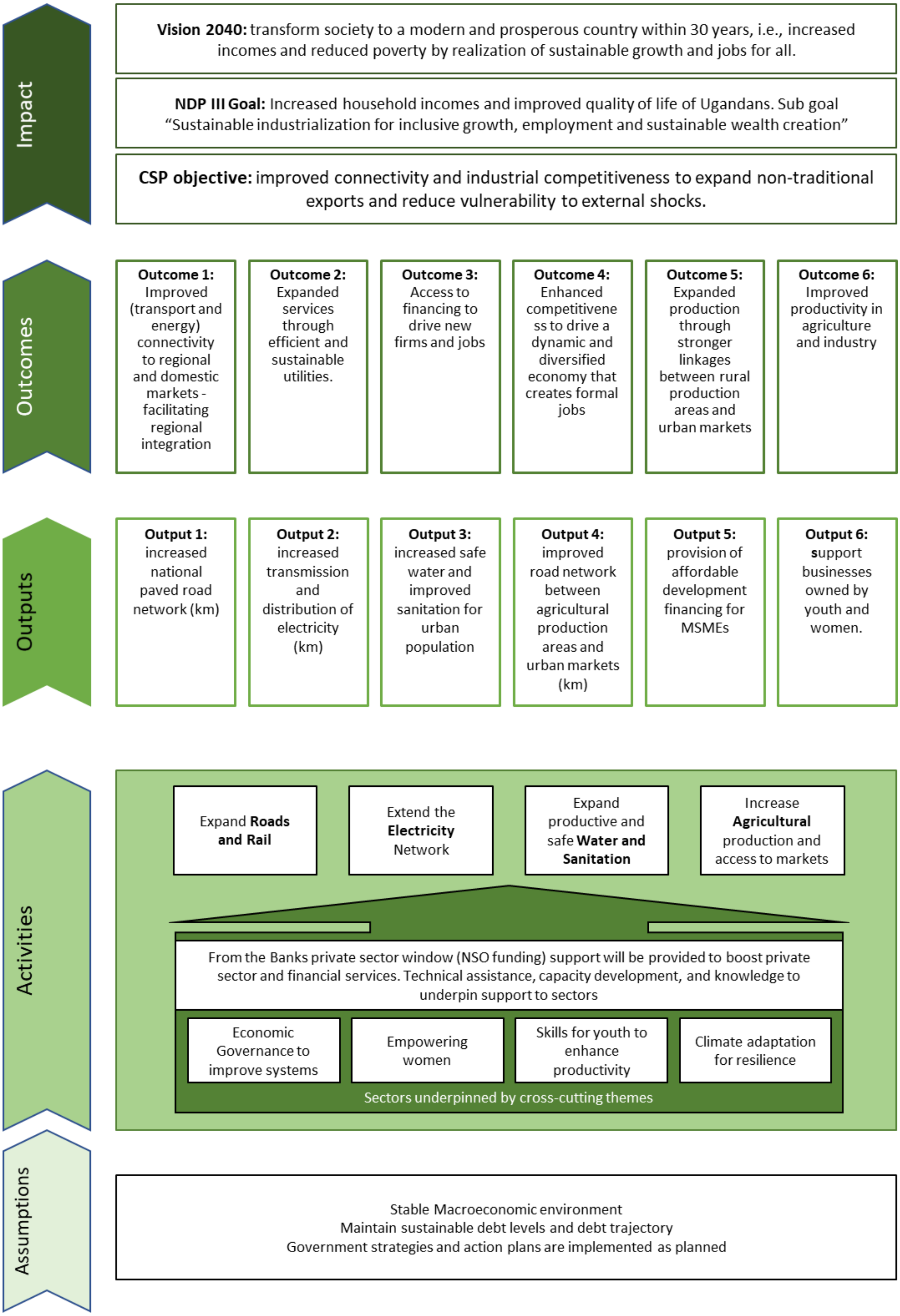
Interventions or instruments		UA million
Investments:		
… of which sovereign operations		923
… of which non-sovereign operations		290
… of which trust funds		20
… of which co-financing		200
Total		**1,433**
Capacity building and Technical Assistance:	2-3 projects	2.0
Knowledge work:	2-3 studies	0.5

A1.2 Performance Matrix

Performance areas	Monitoring indicators	Baseline (2020)	Target (2025)	Source of Verification
Operational results: Outcomes	**Priority Area**			
	Transport: Average road travel time (hours) Vehicle Operations Cost (USD/Km) Goli-Mahagi OSBP: – Border clearance time (trucks, hour/minutes) – Cross-border trade (USD millions) Freight using rail (% total freight on NSC) Railway safety (# derailments per year)	 >2.5 0.38 17h 30m USD 4.25 7 >100	 1.0-2.0 0.16 -10% +10% 20 <20	Primary source data for IPR/PCR/ URA/URC
	Energy: National access to electricity for lighting (%) Energy exports (GWh)	 56 222	 60 350	UBOS/house-hold survey ERA
	Water and Sanitation: People with access to improved water services (%) People with access to improved sanitation facilities (%)	 70 (68% rural, 71% urban) 31 (18% rural, 45% urban)	 85 60	Primary source data for IPR/PCR
	Agriculture and Agro-business: Boosting agricultural production (000'MT): – Rice – Cassava – Maize – Beans – Dairy Milk (million litres) Boosting Irrigation (Ha)	 279 5,449 5,465 1,442 2.8 19,776	 428 6,585 6,885 2,169 3.2 27,424	Primary source data for PCRs/ PSRs/ CSP Completion Reports
Operational results: Outputs	**Priority Area**			
	Transport: Constructed urban and rural roads (accumulated km) Constructed non-motorized transport lanes (acc. km) Railway track rehabilitated (km) Operationalization of Bank Supported OSBPs	 0 0 0 0	 250 50 250 1	Primary source data for IPR/PCR
	Energy: Built power transmission line built (accumulated km) Built power distribution medium voltage network (accumulated km) Built power distribution low voltage network street lighting (accumulated km) Number of grid connections (accumulated #)	 3,101 25,982 27,752 1,630,789	 +70 +1,940 +1,657 +127,000	MEMD/ERA
	Water and Sanitation: Constructed water systems (#) Constructed distribution networks (km) Provided sanitation facilities in schools/public places (#)	 1,250 8,100 1,958	 +38 +3,000 +100	Primary source data for IPR/PCR
	Agriculture: Constructed Irrigation Schemes (accumulated #) Constructed Markets (accumulated #) Constructed Community Access Roads (acc. km)	 8 17 10869	 +3 +8 +1,500	Primary source data for IPR/PCR
Cross-Cutting Issues				
Climate Change & Green Growth	Climate-proof projects (% of lending operations) Climate finance allocation (% Bank Portfolio)	93 32	100 40	IPR/PCR ADB Climate Finance Reports

Performance areas	Monitoring indicators	Baseline (2020)	Target (2025)	Source of Verification
Gender	National Gender Policy updated Uganda Gender Profile updated Key sectoral Gender studies/strategy developed through projects (Roads, Transport) Gender Action Plans (USD million) Social services infrastructures financed through projects (USD million) Gender Marked Projects (% of projects appraised from 2018) Average Gender Marker rating (score) Gender Based Violence sensitization and awareness integrated in construction projects (# sensitized).	No No No 0 0 80 2.25 200	Yes Yes Yes 9.3 2.7 100 2.5 800	Documents, GAPs and PCRs
Skills Integration	Youth trained in railway transport O&M (#) Training of women and youth under road projects (#) National Capacity for Testing and Certification (food safety) to enhance trade under the AfCFTA strengthened - UNBS staff trained (#) - UNBS labs upgraded/certified (e.g. ISO/IEC 17025) (#)	0 0 40 1	150 (40% women) 600 (67% women +20 (10m/10f) 2	IPR/PCR
Financial Leveraging	Amount of co-financing (UA million) PPP transactions (#)	0 0	200 1	IPR
Portfolio Performance	Projects flagged for implementation challenges (%) Overall portfolio performance rating (1 to 4) Timely PCRs posting (average % of projects) Time from approval to signature (months) Time from approval to first disbursement (months) Projects at risk (#)	26 3.13 100 18.2 19.9 1	<20 3.2-3.5 100 3 6 0	Portfolio Dashboard
Sustainability and Capacity Building	Budget allocated for infrastructure maintenance (% of project budget) Fiduciary clinics conducted (#)	2% 0	2.5% 5	Primary source data for IPR/PCR
Knowledge Work/Policy Advice	ESW produced (#) Policy Dialogue Notes prepared (#)	0 0	2-3 2-3	Country Economist
Development Harmonization	Working Groups in which AfDB participates (#) Joint Donor Missions (#)	4 0	4 5	Country Economist / Procurement Officer
Alignment to Government Systems	Projects using Country Procurement System (#)	4	14	IPR/PCR

A1.3 Theory of Change



A2 Policy Reform Dialogue Matrix

UGANDA (ADF only country)									
Reform/ Activity supported	**GCI-VII and/or ADF-15 high-level commitment (for ADF-15 commitments indicate pillars plus objective and objective code)**	**High-5(s) supported**	**Bank dept(s) in charge**	**Expected timeline for compl. of reform(s)**	**Key expected results and timelines**	**Support Instrument**	**ESW/TA required**	**Status/progress & Key Milestones achieved**	**Comments**
Industrial Policy									
Reforms to enhance industrial sector competitiveness to boost post-COVID-19 economic recovery.	**ADF: PILLAR 1 - Sustainable and quality infrastructures for economic transformation.** **Objective:** Value chain development: Create and connect markets, investing along the entire value chain form farmer to final consumer. **CROSS-CUTTING AREAS.** **Objective Private Sector Development**: increase the productivity and growth of women's SMEs. Increase access to finance and productive resources for women MSMEs. **GCI: INCREASE THE EFFECTIVENESS OF POLICY DIALOGUE**	**Industrialise Africa** Feed Africa	PITD	End 2022	(1) Analytical study on the impact of COVID-19 on Uganda's industrial sector (with policy recommendations to support recovery of the industry sector) completed by December 2020. (2) Industrial sector recovery plan adopted by the Cabinet, May 2021. (3) At least 30% of the manufacturing firms affected by the COVID-19 crisis obtain credit or more favorable financing terms on existing loans by 2021. (4) Share of manufacturing in GDP recovers to the 2018/19 pre-COVID-19 level of 15.4% by 2022/23. (5) Share of manufactured goods exports in total merchandize exports recovers to the 2018/19 pre-COVID-19 level of 15% by 2022/23.	ESW	ESW title: "Enhancing Industrial Sector Competitiveness to Boost Uganda's Post Covid-19 Economic recovery" Funding available: UA 116,648 Contract value: USD 112,142 (with EPRC - Ugandan Think Tank).	The assignment was completed in July 2021.	**COVID-19 policy reform** Purpose of ESW: to identify the impact of COVID-19 on the competitiveness of the industry sector and propose policy actions to accelerate recovery and enhance resilience to future shocks. The study was presented to the authorities in June and the plan is to make another presentation to a wider group. The policy matrix developed to support dialogue has also been presented. In preparation of the CSP 2022-26, dialogue is on-going with the Government in terms of how to enhance support to the Governments priority of industrialisation.

Energy									
Energy sector reform to sustain private sector participation and improve efficiency and delivery of energy services.	**ADF:** **PILLAR 1 - Sustainable and quality infrastructure for structural economic transformation.** **Objective 1:** Enhancing energy policy dialogue: Strengthen operations engaging in effective policy dialogue in the energy sector and strengthen RMC capacity *L3: At least 2 ADF countries supported on utility reform by MTR and 5 by end 2022 to address technical and commercial losses, financial performance, technical and operational performance and skills gap.* **GCI: INCREASE THE EFFECTIVENESS OF POLICY DIALOGUE**	**Light up and Power Africa** Industrialise Africa	ALSF /PESD	End 2023	(1) Electricity Distribution Company (UMEME) concession extended for an additional 20 years to maintain private sector participation in the distribution segment. (2) ESW on energy sector capacity, institutional and structural gaps disseminated to stakeholders by 2022. (3) Policy recommendations and energy sector improvement plan to strengthen the sector's institutions adopted by 2022. (4) Electricity connections rate increased from 120,000 households per year in 2018 to 164,100 households per year by 2023. (5) Transmission and distribution energy losses reduced from 20.9% in 2019 to 19% in 2023. (6) Electricity access increased from 29% in 2018 to 30% in 2023.	ESW / TA	Yes, TA and ESW. TA Title: "Energy Sector Reform TA". TA Cost: UA 45,000 already secured from ALSF. TA Timeline: 6 months. TA: Efficiency and Capacity Assessment of the Energy and Mineral Development Sector Study Project (ECAEMD) Cost: UA 1,808,725 Co-financed through SEFA (716,000 UA) grant and ongoing electrification ADB project (1,131 600 UA) Timeline: 12 - 18 months TA for implementation of recommendation of analytical study UA 1.4 million yet to be secured from other trust funds. Possible follow-up SEFA grant to be pursued. TA for implementation of recommendation of ESW Timeline: 1 to 2 years	TA: ALSF has recruited consultant for advisory service and is working with the Privatization Unit under the Ministry of Finance, Planning and Economic Development since last year (2020). Government has already started, in 2020, the renewal and re-negotiations of UMEME concession with the help of advisory service provided by ALSF. Whereas ALSF had commenced the review of the Umeme Limited concession (under the old scope), the re-negotiation has been on-hold on account of change of the scope and direction of the review. TA: NO has been provided for the appointment of the consulting firm. The Government is currently negotiating final contract agreement with the selected firm. SEFA grant PAR under development. Approval planned for early Oct 2021.	The TA will support Government to implement the policy recommendations from the ESW and help in the preparation of the energy sector improvement plan. Support Government to re-negotiate the UMEME concession and to renew the concession. However, in 2020, the Government changed its decision and is now considering non-renewal of the UMEME Limited at the expiry in March 2025. Following this change, Government is now considering the transitional issues under the UMEME Limited Privatization Agreements. This substantially changes the scope and direction of the review. Government still needs the support of the ALSF advisory service under the transition review and the same resources could be deployed. The TA will examine the present legal, regulatory, and institutional mandate and framework of the Ministry of Energy and Mineral Development (MEMD) and its Agencies and their efficiency and capacity to meet the required mandates. The study will come up with appropriate recommendations for sector reforms, performance improvement and capacity enhancement of the programs under the Ministry. This TA follows official request received from GOU for support towards improving efficiency and strengthening the capacity and performance of its three programs (i) Sustainable Energy Development, (ii) Sustainable Petroleum Resources Development and (iii) Mineral Development. The GoU further requested support towards this effort to be in the form of a grant. This was received in Feb 2020. For the implementation of the recommendations from the study, the Bank will provide UA 1.4 million (trust funds) which is already included in the 2021 IOP/lending program.

Debt Sustainability and African Financial Stability Mechanism									
Debt Sustain-ability	**ADF** **PILLAR 2: Governance, institutional and human capacity for inclusive growth** **Objective 2:** Debt transparency: Improving data collection, development, and publication on debt, including from non-Paris club members, with the World Bank and IMF. **GCI: INCREASE THE EFFECTIVENESS OF POLICY DIALOGUE** **Debt management**. Improve debt management by developing a Bank-wide approach to helping RMCs better manage and mitigate the risk of debt distress.	**Governance Capacity for Debt Sustain-ability, PFM and DRM**	COUG /ECCE	End 2026	Ensure Debt Sustainability and macroeconomic stability Key outcome: (1) Reclassification from moderate to low risk of debt distress (2026)	Policy Dialogue	Upon request	Upon Request	The Bank is currently discussing support for the African Financial Stability Mechanism with the authorities. The authorities have indicated a positive interest.

A3 Indicative Lending, Non-Lending Program and contribution to the High-5s

A3.1a Sovereign Indicative Lending Program, 2022-2024

Item	Secto r	Project Title	Govt Request	Request (UA m)	Ind. GMS[1] Cat.	Proposed allocations and source of funding (UA m)				IOP Year	Estimated UA m		
						ADB Public	**ADF (Nat. env.)**	**ADF (Reg. env.)**	**Total**		**Request per year (UA m)**	**Head-room avail-able per year**	**Financ-ing gap**
1	T	Refurbishment of Kampala Malaba Meter Gauge Railway (Phase 1)	Yes	229.6	GEN II	50.0	90.1	89.5	**229.6**	**2022**	279.6	279.6	-
2	T	Namagumba-Budadiri Road Upgrading Project	Yes	50.0	GEN II	50.0	-	-	**50.0**				
3	T	Laropi-Moyo / Katuna-Muko-Kamuganguzi Road (104.0 km) Road Upgrading Project	Yes	100.0	GEN II	50.0	50.0	-	**100.0**	**2023**	181.0	181.0	-
4	A	Community Agriculture Infrastructure Improvement Program (CAIIP-4)	Yes	40.0	GEN II	25.0	15.0	-	**40.0**				
5	WS	Water Supply and Sanitation Programme Phase III (WSSP III)	Yes	41.0	GEN II	25.0	16.0	-	**41.0**				
6	F	Access to Finance for SMEs via Uganda Development Bank	Yes	14.3	GEN I	Reserve							
7	E	Multi-national 400 Kv Olwiyo (Uganda) - Juba (South Sudan) Power Interconnection Project	Yes	40.0	GEN III	Reserve							
8	A	Lakes Edward & Albert Integrated Basin Management & Investment Project 3	Yes	50.0	GEN II	40.0	10.0	-	**50.0**	**2024**	154.0	154.0	-
9	WS	Lake Victoria Water and Sanitation - Phase III	Yes	24.0	GEN II	-	24.0	-	**24.0**				
10	E	Uganda Rural Electrification Access Project -Phase II	-	40.0	GEN II	30.0	10.0	-	**40.0**				
11	WS	Medium and Large-Scale Irrigation Schemes covering Central and South Western Uganda	-	40.0	GEN III	30.0	10.0	-	**40.0**				
		Subtotal		**668.9**		**300.0**	**225.1**	**89.5**	**614.6**		**614.6**	**614.6**	

[1] The corporate Gender Marker System target is of 5% GEN I (with Gender equality as the principal objective), 40% GEN II (gender outcomes), GEN III (gender outputs), GEN IV (marginal gender elements). With deliberative efforts to include a local content component creating jobs and training opportunities for women, accompanied with significant Gender Action Plans (min. > 1,5% of the total budget project) the Uganda portfolio can target and reach 10 GEN II projects (60%) and 6 GEN III projects (40%) in its new CSP lending program.

A3.1a Sovereign Indicative Lending Program, 2025-2026 (outer years)

Item	Sector	Project Title	Govt Request	Request (UA m)	Ind. GMS[2] Cat.	Proposed allocations and source of funding (UA m)				IOP Year	Estimated UA m		
						ADB Public	ADF (Nat. env.)	ADF (Reg. env.)	Total		Request per year (UA m)	Head-room avail-able per year	Financ-ing gap
12	T	Kampala – Kasese Railway	-	55.6	GEN III	55.6	-	-	**55.6**	**2025**	127.0	127.0	-
13	T	Kayunga - Bbaale - Galiraya Road project	-	71.4	GEN III	44.4	27.0	-	**71.4**				
14	T	Supplementary Loan tor Busega – Mpigi Expressway Project	-	50.0	GEN III	50.0	-	-	**50.0**	**2026**	181.0	181.0	-
15	F	Access to Finance for SMEs via Uganda Development Bank	-	81.0	GEN I	-	81.0	-	**81.0**				
16	T	Rehabilitation of Masaka-Mutukula Road	-	50.0	GEN III	50.0	-	-	**50.0**				
		Subtotal		**308.0**		**200.0**	**108.0**	**-**	**308.0**		**308.0**	**308.0**	
		GRAND TOTAL of requests/identified projects in UA million		**976.9**		**500.0**	**333.1**	**89.5**	**922.6**		**922.6**	**922.6**	**-**

Note: Some projects could be scaled up if additional funds are made available. The Country Office is engaging with EU, EIB, AGTF and other partners to seek co-financing arrangements to cover phase II. T = Transport, A = Agriculture, WS = Water and Sanitation, F = Finance, E = Energy.

[2] The corporate Gender Marker System target is of 5% GEN I (with Gender equality as the principal objective), 40% GEN II (gender outcomes), GEN III (gender outputs), GEN IV (marginal gender elements). With deliberative efforts to include a local content component creating jobs and training opportunities for women, accompanied with significant Gender Action Plans (min. > 1,5% of the total budget project) the Uganda portfolio can target and reach 10 GEN II projects (60%) and 6 GEN III projects (40%) in its new CSP lending program.

A3.1b Uganda Non-Sovereign Indicative Lending Program, 2022 - 2026

Item	Project Title	Amount (UA millions)	Funding Instrument	Year
1	Electricity Cooperatives Uganda	57.1	Trust Fund	2022
2	Stanbic Bank Uganda - Trade Finance Transaction Guarantee	20.0	ADB Private	2022
3	Support to Access to Finance for SMEs via Uganda Development Bank	50.0	ADB Private	2023
4	Kampala Jinja Expressway (PPP, Phase II)	150.0	ADB Private	2023
5	Support to Industrial Park	TBD	ADB Private	2024
6	Support to Uganda Investment Agency and Uganda Development Corporation	TBD	ADB Private	2025
7	Support to Access to Finance for SMEs via Uganda Development Bank	70.0	ADB Private	2026
	Total	**290.1**		

A3.2 Indicative Non-Lending Program

All projects will require funding in order to be implemented.

Analytic Work Title	**Sectoral scope**	**Alignment to Bank Corporate Strategies ("Flagships", "Enablers", etc.)**	**Requesting Ministry/ Agency**	**To be undertaken by COUG**	**Finance required**	**Status**
2022: Approach to labour market monitoring and conditions to support Labour Market Information System	Statistics	*Industrialising Africa*	Ministry of Finance Planning and Economic Development / Labour Market	COUG	USD 100,000-200,000	No funding (trust funds)
2023: Industrial Development - maximising establishment of industrial parks	Private Sector	*Industrialising Africa*	Ministry of Finance Planning and Economic Development	COUG	USD 100,000-200,000	No funding (trust funds)
2022: Gender Country Profile 2022-2026:	Cross-cutting	*Bank Group Gender Strategy* Update the existing Uganda Country Gender Profile (2016-2021). The update will emphasize CSP targeted areas.	Ministry of Gender and Social Development UBOS	AHGC1/ COUG	USD 25,000	Planned 2022
2022-2023: Gender, transport and climate resilience	Cross-cutting	*Bank Group Gender Strategy, Climate Change Action Plan* A granular analytical work with recommendations on the transport sector including railway, maritime, road, and non-motorized transport, urban mobility with gender assessment will enrich considerably the sector's understanding in allowing investment that develop a consistent local content answering the population needs as users and workers.	Ministry of Transport, Ministry of Gender and Social Development, Ministry of Environment, UBOS	AHGC1/PECG/COUG	USD 50,000-100,000	No funding available (climate funds envisioned)
2025: Policy Analysis on programs to support Industrialisation	Macroeconomics	*Industrialising Africa*	Ministry of Finance, Planning and Economic Development	COUG	USD 100,000-200,000	No funding (trust funds)

A3.3 Contribution of the Indicative Lending/Non-Lending Program to the High-5s

High 5 and Strategic Priority	Outputs targeted in 2025	Outcomes targeted in 2025
Light up and power Africa Strengthen transmission and distribution systems	70 km of transmission lines 1,940 km of power distribution network (medium voltage) 1,657 km of power distribution network (low voltage) 127,500 new grid connections	60% National Access Rate 350 GWh Energy Exports
Feed Africa Strengthen agricultural value chains	6 new irrigation schemes established and constructed 12 new markets constructed 3,000 km of Community Access Roads constructed	Boosting agricultural production to: - 428,000 MT Rice - 6,585,000 MT Cassava - 6,885,000 MT Maize - 2,169,000 MT Beans - 3,200,000,000 Dairy Milk (litres/year) - 27,000 new Irrigation (Ha)
Integrate Africa Strengthen regional infrastructure connectivity	250 km urban and rural roads 50 km constructed length of non-motorized transport lanes 250 km of Railway track rehabilitated 1 Bank supported One-Stop-Border Post Operationalized	1.0-2.0 average weighted travel time (hours) between major urban centres 0.16 USD/km reduction in vehicle operations cost 20% of total freight on the North South Corridor (NSC) moved on Rail Less than 20 derailments annually on NSC 10% reduction in time spent on Border clearance (trucks, cross border traders) at Goli-Mahagi OSBP 10% increase in Cross-border trade at Goli-Mahagi OSBP
Industrialise Africa Support enterprise development	Expand lending to SMEs and transformational private sector projects	Increase share of industry in GDP
Improve the quality of life for the people of Africa Support integrated water resource management and expand water supply, sanitation and hygiene services	38 new water systems constructed 3,000 km of distribution networks constructed 100 sanitation facilities in schools/public places provided	85% People with access to improved water services 60% People with access to improved sanitation facilities

A4 Lessons Learned

A4.1 Key findings of the CSP Completion Report

General lessons include: i) the need to strengthen consultation with Government, beneficiaries and other agencies to enhance ownership, coordination, avoidance of duplication of efforts and resources, while enhancing utilization efficiency; and ii) explore options for co-financing with other development partners, given limited public sector capacity to provide counterpart funding due to the limited fiscal space. The following section draws on the analysis from chapter 2, socio-economic achievements and challenges, and chapter 3, on the key findings of the Country Portfolio Performance Review.

Lessons	Recommendations	Response/Action Taken
For the Bank		
Strategic Lessons i) Infrastructure remains a critical area of Bank support. Need for attention to infrastructure services that meet development needs.	i) Higher value-added jobs are needed to accelerate structural transformation and increase income. Quality and competitive infrastructure can drive industrialisation. The new Strategy will focus on infrastructure and related services that support competitive industries.	This CSP continues to align with the NDP III, but with a greater focus on industrialising Uganda, providing the basic foundations for industrialisation, and strengthening support to skilling and capacity building.
ii) Despite clear needs to strengthen education and skilling, there is little demand from Cabinet and Government to finance these projects with non-concessional financing.	ii) Support Government's transition towards programme-based planning and implementation creating complementarity and synergy between projects and programmes.	The CSP supports Government's transition away from silo planning towards programme-based planning and implementation to create complementarities and synergies between projects and programmes. In this context, skills development will be integrated in the transport, water and sanitation, and energy to meet the skills demand in these sectors.
Operational Lessons i) Strengthen project quality control to reduce delays related to quality at entry and start-up delays. Alignment of Bank processes with the country's planning, budgeting and approval processes reduces delays in project processing, start-up and first disbursements.	i) The Bank should work closely with the Government to ensure feasibility studies and/or detailed design studies are ready for pipeline operations. The Bank should ensure that Grant/Loan Agreements for Government signature are submitted on time to ensure that conditions precedent to first disbursement are fulfilled within six months from the date of Board approval.	Improving portfolio performance is a priority for both the Ministry of Finance and the Bank and is a regular item for policy dialogue.
ii) Maintaining a robust up-to-date gender disaggregated database is critical for tracking and assessing Strategy implementation including MTR and CSP completion report.	ii) To achieve this at the beginning of every CSP, the identified outcomes and outputs need to be clearly defined, data sources established, and gender-disaggregated data updated regularly based on the periodicity of data source.	Output and outcome indicators have been established at the outset of the CSP and are integrated in A1.2
iii) Co-financing was limited during the previous CSP. Closer dialogue with DPs is essential for exploring opportunities for co-financing, reducing transaction costs and harmonizing strategies for effective collaboration with Government.	iii) The Country Office in cooperation with internal departments should at the preparation stage of the CSP explore co-financing opportunities.	The Country Office has already started discussions with the EIB, JICA and internally with FIRM and FIST to seek opportunities for co-financing.
For the Government		

i) Strengthen portfolio management and establish effective real-time monitoring and evaluation system to reduce start-up and implementation delays. Capacity in project management is weak in Bank supported projects.	i) Establish a simple monitoring system of Bank supported projects to ensure effective and efficient project planning and delivery. Strengthen project management training and enhance knowledge of the Bank's procedures and regulations.	i) The Bank will support the Government to establish a simple monitoring system.
ii) Ownership and oversight at senior level and strong capacities at operational level are critical for timely implementation.	ii) As Project Management Units are delinked from Ministries, Departments and Agencies (MDA), ensure that senior political and technical leadership is kept informed of project progress to support ownership, and help in timely resolution of critical portfolio issues.	ii) The Bank will support regular capacity building within operations. High level Policy dialogue on portfolio is carried out quarterly to ensure high level oversight and monitoring of progress.
iii) Bank supported projects have been delayed due to delays in land acquisition.	iii) Strengthen land acquisition by proceeding immediately to land acquisition once projects are approved.	iii) Land acquisition and right of way issues, are integrated as part of the Banks Policy Dialogue with the implementing authorities.
iv) Complexities associated with regional projects involving multiple governments and financing sources require enhanced harmonization and coordination.	iv) Close government to government coordination should begin at the outset during project identification and sourcing of funds. Actions should be prioritized in respective CSPs followed by dialogue with key stakeholders under the RISP framework.	iv) The CSP has taken note of the recommendation and will ensure dialogue is carried out at a high level before projects enter the IOP.
For Development Partners		
Closer dialogue with DPs is essential for exploring opportunities for co-financing, reducing transaction costs and harmonizing strategies for effective collaboration with Government.		The Bank was able to forge partnerships with development partners on projects in transport and energy. Securing such funds will enable the Bank to scale up project size and cost effectiveness. During preparation of this CSP the Country Office has held several meetings to identify opportunities for co-financing

A4.2 Key lessons and recommendations from BDEV evaluation

COMMENT	RESPONSE/ACTION TAKEN
Lessons Larger projects generate greater impacts for more communities. The projects and experiences of the past 10 years demonstrate the importance of deploying large-scale projects in the important sectors of transport, water and sanitation, energy, and agriculture. The Bank has a comparative advantage in designing and helping to deliver large infrastructure projects in Uganda.	The average project size has increased from UA 59 million to UA 66 million between 2016 and 2021. The Uganda Office aims to increase project size where relevant, e.g., in scaling up activities in water and agriculture, and to reduce transaction cost. However, some projects, such as a road transport lots cannot be scaled up and will have a specific cost.
Adequately assessing the government's borrowing policy when formulating the country strategy would avoid re-orientation away from important sectors. The Bank's support for building the skills base for a modern economy has made progress but conflicted with a government borrowing policy that prefers to draw on grants when investing in the social sector. This was reflected in the fact that there was no operation approved from the pipeline during the CSP 2017-2021 in the social sector. International experience suggests that investments in human resources produce returns in long-term.	The Bank agrees with this lesson. Under CSP 2022-2026, the Bank will integrate some skilling or training components under the infrastructure projects.
Close attention to quality at entry when planning and designing new operations would reduce implementation challenges and facilitate timely completion of projects. In all sectors, project implementation was subject to delays. These delays have been attributed to skills gaps, complex procurement processes, staff changes, and multi-level project approval procedures. Over time, infrastructure projects have become much more complex. Where projects were once delivered by a single government agency, they now consist of risk-sharing operations involving several government agencies, the private sector, local governments, parastatals, non-governmental organizations, and a wide range of financiers. These arrangements require a new set of project management skills and competencies.	The Bank agrees that projects are becoming more complex and require strong project management skills to implement projects on time and on scope. The Bank therefore prioritizes continuous capacity development to ensure that project implementing teams are kept abreast with developments and can handle the required tasks. Fiduciary clinics are for example carried out annually. The Bank will support the Ministry of Finance and executing agencies to establish a monitoring system to strengthen quality control.
Public-private partnerships in infrastructure development offer the opportunity to increase the share of private sector operations in the Bank's portfolio. The Government of Uganda supports public-private partnership projects. The Bank contributed to this partnership framework by financing projects in the energy sector. These projects helped the country to overcome shortage of power supply.	The Country Office is aware of these possibilities and considers PPPs where there is a clear benefit in terms of development outcomes. The IOP already has one PPP project planned in relation to the Jinja-Kampala expressway. But there remains a need for sensitization to the authorities to fully understand its implications to avoid delays as we have experienced under the Jinja-Kampala expressway project.
Recommendations Adapt the CSP priorities to the country context in the areas of skills development and private sector growth. The main focus of the Bank's second pillar was vocational education and training. However, given the government's preference not to borrow for human capital development operations, the Bank can consider supporting skills development and youth employment in other ways. The Bank might reorient as follows: i) Continue or expand training as a component of the Bank's conventional infrastructure operations, leaving more generic skills and vocational training to grant-based development partners. ii) Focus on supporting private sector development that creates jobs for youth.	This recommendation is acknowledged and was confirmed by the Government during the preparation of the CSP. As skilling remains a key element of industrialization and structural transformation the CSP considers integration of skilling in relevant projects, such as the rail and energy projects, agriculture, and private sector projects.
Refocus support for the energy sector. Uganda's power surplus threatens the financial viability of the energy sector. Going forward, the Bank may consider the following:	

i) Concentrate investments on two elements: (a) transmission and distribution, to expand the grid; and (b) the generation of off-grid renewable energy. ii) Support the development of a clear sector masterplan for balancing the supply of and demand for power; expand access to affordable power; and promote the supply of off-grid energy. iii) Provide strong support for capacity building in sector coordination, planning, and policy formulation in collaboration with other development partners. Sector policy coordination and coherence become more important when institutions are unbundled and public-private partnerships in the sector are growing.	The CSP 2022-2026 will focus on transmission and distribution and increasing connections. The planned support will also pave the way for exports of energy to neighboring countries. GoU has acknowledged the need for sector master plan and coordinated planning by all institutions within the sector. To address this, the Bank and other DPs are in discussion with the GoU to provide the required funding and technical assistance. GoU has already requested the Bank to provide support for energy sector capacity building and efficiency improvement. The Bank is mobilizing resources. Other DPs are also doing the same.
Make Bank-supported benefits more sustainable. i) Ensure that operations in all sectors reflect the demand for infrastructure services and contain measures to ensure financial and economic viability as well as institutional capacity and ownership by beneficiaries. ii) Develop asset management capabilities, including robust funding mechanisms for sector operations and maintenance, in key sector institutions. iii) Engage the government in policy dialogue on relevant sustainability issues.	Project appraisal will critically assess the prevailing Tariff policy and existing utility management structures with a view of supporting and strengthening the structures in place to strengthen asset management capacities and ensure sustainable operation and maintenance of the constructed infrastructure. Policy dialogue on sustainability of Bank support will also be scaled up.

A5 Engagement with CODE/Board

A5.1 CODE comments on CSP Completion Report and guidance on new Country Strategy

The following points were raised by CODE:

Country Strategy Paper 2017-21 Completion Report CODE Comments, 6th July 2021	
COMMENT	**RESPONSE/ACTION TAKEN**
Portfolio performance: Committee members were surprised to note the mixed performance of the Bank's portfolio in Uganda. In their view, given the country's long history of working with the development community, the Bank should have had a more robust portfolio. In addition, they sought to understand why, with a disbursement rate of 27%, the overall portfolio performance rating was 3.1 out of 4.	Management indicated how the disbursement and performance rates were calculated. Regarding the portfolio rating, Management noted that the three approved projects could not be fully implemented during the CSP period due to administrative delays, approval delays, etc., but the objectives are expected to be met once the projects are completed.
Indicative operational program (IOP): Committee members expressed concern regarding the lack of private sector operations in the indicative operational program. Likewise, no operations are foreseen in the area of industrialization, although Management claims to be paying greater attention to this area in the next CSP. Committee members wondered how this focus will translate in practice.	Management explained that, in general, non-sovereign operations (NSOs) are not included in the indicative operational program until a firm commitment is obtained from the department in charge of NSOs. However, it acknowledged the need to do better regarding non-sovereign operations in the East Africa region. When the completion report was presented the IOP was at early stages. The IOP has now been updated to represent the key subsector with 14 projects endorsed by the Ministry of Finance, and an additional two in reserve. The IOP also contains 7 private sector operations.
Proposed pillars: Executive Directors took note of the proposed pillars for the next CSP for Uganda and expressed broad support for the first pillar. However, the Committee was critical of the second pillar (skills development), recalling that during the implementation of the previous strategy, the government had redefined the priority areas in its cooperation with the Bank by eliminating this pillar. While they recognized the importance of a skilled workforce, they noted that, in general, interventions in the area of skills development have limited impact, with a low cost-effectiveness ratio (reference to a study by the Department for International Development) and are not necessarily the best use of limited resources. In addition, this area should be demand-driven, not supply-driven. Therefore, the Committee urged Management to focus on the first priority area (developing quality infrastructure).	Management understood the reluctance of some Committee members considering the poor performance achieved in skills development within the framework of the current CSP. However, it reiterated its view that it is important to equip the younger generation with skills to improve productivity, achieve higher growth and, specifically, enable them to take advantage of opportunities. In this context, skills development will be integrated into the Bank's operations in infrastructure.
Guidelines for the next CSP: The Committee pointed out the multiple challenges facing Uganda (low productivity and slow and uneven growth, negative effects of the COVID-19 pandemic on the macroeconomic situation and debt sustainability, etc.) and recommended that Management adopt a selective approach, focusing its efforts on projects that have a high impact on growth. In addition, the Committee stressed the need to implement structural reforms to improve productivity. This will include reducing non-tariff barriers to facilitate trade, enabling Uganda to benefit from the AfCFTA, and enhancing regional integration and competitiveness. In addition, the Committee urged Management to place greater emphasis on the implementation of environmental and social safeguards and infrastructure maintenance in transport sector projects. All	Management took note of the Committee's comments. It reassured the Committee that East African governments, in conjunction with the Common Market for Eastern and Southern Africa (COMESA), are already making efforts to facilitate trade between countries in the sub-region, including through the Standard Gauge Railway project. Regarding environmental and social safeguards, Management explained that it ensures that all problems related to complaints from project-affected populations and compensation are resolved before starting work on the ground for a given project. Delays are due to the unavailability of funds for this purpose, but Management is having dialogue with Government on how best to address these challenges.

these aspects should be taken into account in the next CSP.	
Selectivity: Committee members called for greater selectivity and asked for more clarity on the selectivity criteria defined by Management and how they would be translated into practice. In the same vein, they questioned the appropriateness of a Bank intervention in the hydrocarbon sector and recommended that the Bank reserve this sector for other development partners already active in it.	Management indicated that it would like to continue to support the country's efforts, as the envelope allocated to Uganda is adequate to cover four infrastructure sectors. In addition, the developmental impact of the Bank's interventions is notable with a rating of 3 out of 4 for Uganda.
CODE requested Management to consider the following points in preparing the CSP: – Selectivity and what this means in practice (committee did not support the second pillar with a focus on skills development) – Why and to what extent (Bank) support to skills enhancement would be justified (and how the pitfall of being supply-driven will be avoided) – Expected results on gender – Importance of policy dialogue – How private sector support not only to Uganda, but also the wider region could be intensified	To cater for the concerns and comments raised by CODE the following actions have been implemented in the CSP: – The CSP focuses on 1 priority area, with four areas of focus (transport, energy, water, and agriculture) to ensure selectivity – Management has taken note of this concern and considered guidance from the Government and recommendations from BDEV evaluation. Skills will not have a separate priority area but will be integrated into relevant projects under the single priority area as guided by the Government. – Performance indicators for gender have been included in the performance matrix A1.2 – Policy dialogue is an integrated part of the Bank's cooperation with Government, Development Partners, Private Sector, and Civil Society. – The Country Team has increased efforts to identify private sector operations. Policy dialogue with the private sector and government indicated the need for providing long term financing through institutions such as the Uganda Development Bank, and supporting specific transformative projects that meet the Bank's eligibility criteria for NSO support..

A5.2 Findings of Executive Director's country visit (12-16 April 2021)

The ED's visit to Uganda was aimed at sustaining high level cooperation between the Bank and the Government of Uganda. Key items discussed included short and long-term measures adopted by the Bank to mitigate adverse effects of COVID-19. Topics included callable capital, GCI-6 and GCI-7, and ratification of the Rapid Response Facility Project. Furthermore, visits to several Bank supported projects highlighted the following:

COMMENT	RESPONSE/ACTION TAKEN
General Observations – Progress related to portfolio performance: Comforted by the measures taken by the Government, e.g., law amendment, to address slow land acquisition processes for projects; delays in parliamentary ratification; and lengthy procurement processes. – Social & environmental impacts, gender and human rights were highlighted as critical elements that are key in the mobilization of resources from the Bank & other Development Partners. This requires the necessary attention.	– The measure taken by the government will support better performance, although issues related to land acquisition and procurement remain a challenge. The Bank continues policy dialogue in these areas to continuously make steps forward. – These thematic areas are part of the new CSP and are integrated aspects in operations.
Transport – As the volume of the asset grows, Government needs to allocate additional resources for maintenance. Uganda National Roads Authority	– The UNRA paper is still awaited and remains a key concern for sustainability. This is part of the policy dialogue.

(UNRA) indicated that there is a paper addressed to the Ministry of Finance for re-balancing the needs between new investments and maintenance, which the Bank supports. – Hon. Edward Katumba WAMALA, Minister for Works and Transport further identified the Improvement of Mtukula-Masaka Road as key for regional interconnection that needs financing. – National Environmental Management Authority (NEMA) and the Ministry of Finance, Planning and Economic Development (MoFPED) to ensure that the right-of-way is acquired in a timely manner to avoid any further delays. – Mobilization of the supplementary financing for the redesigned scope (initial estimates at USD 45 Million) for the Busega-Mpigi Road Project. There is also the need to plan for the missing link/interchange connecting the road to the highway, whose financing is not yet secured.	– Mtukula-Masaka Road prioritized for 2024. – NEMA does not have a mandate other than clearing the procedure for undertaking the ESIA and RAP implementation. MoFPED is instrumental in timely releasing funds to UNRA and ensuring that amounts needed to effect the clearance of RoW for each project. – The IOP includes supplementary financing for the Busega-Mpigi Road Project scheduled for 2024.
Energy – Access to electricity remains very low (26% on grid and 14% off-grid) and government needs to prioritize more resources, notably for transmission and distribution infrastructure and renewable off-grid solutions. – The lack of integrated planning remains a challenge, which needs to be quickly addressed (power without infrastructures for evacuation and distribution). – Priority area is the lack of transmission lines to evacuate excess power for export markets in South Sudan, Democratic Republic of Congo and Kenya; and – Outstanding arrears for ACHWA project (US$ 24 Million) which remains the biggest challenge, with the power being produced without infrastructure for evacuation. The Ministry is waiting for a solution from the Ministry of Finance.	– Transmission and distribution is a priority for the Government and has been included in this CSP with planned support to rural electrification, and also to electricity cooperatives under the NSO window. Agreed with the Government, the CSP includes one transmission line project. Due to funding limitations, this project is on reserve. As we are discussing co-financing for other project, we expect that some of the allocations can be moved to this project.
Water and Sanitation – Water and sanitation, the access target set by the Government is to reach 50% in the next 20 years and this calls for more support.	– Govt is prioritizing water and sanitation among the focus sector for Bank support and the bank is committed to continuing support to the proposed projects as well as seeking for possible additional co-financing to achieve the set Govt targets
Private Sector Development – Visit to AFROPLAST Enterprises, an MSE funded by Uganda Development Bank with AfDB's line of Credit, witnessed clear development outcomes including youth and women employment, as well as export to regional markets. – The Government is urged to continue supporting such initiatives under the Private Sector Window at the Bank.	– The Bank has had several conversations with the private sector and government on support to private sector development. Long-term finance is planned as part of the CSP through the private sector (NSO) window.

A5.3 CODE comments on new proposed CSP 2022-2026 (9th February 2022)

COMMENTS FROM CODE MEMBERS	ACTION TAKEN/ TO BE TAKEN
13. The Committee thanked BDEV and Management for their presentations. The Committee noted with satisfaction that Management agreed with all the recommendations made by BDEV in its evaluation of the Bank's 2011-2021 Strategy for Uganda. The deliberations were structured around the following themes.	
a) Support for the single priority area of the 2022-2026 CSP: The Committee noted with satisfaction that Management had taken into account CODE's recommendations, including the need to be selective, given the country's limited resources. The Committee therefore welcomed Management's adoption of a single priority area for Uganda's new CSP, focused on agriculture, transport, energy, and water and sanitation - areas in which the Bank has a comparative advantage over other Development Finance Institutions (DFIs). Some Executive Directors were of the view that the project pipeline should be focused (fewer projects) and that emphasis should be placed on governance reforms, to improve project identification and implementation.	Management has taken note of the comments. Whereas the number of projects may seem high, 9 projects are identified between 2022-2024, while 6 projects were identified in the outer years 2025-2026. It can be noted that two of the projects are on reserve, pending any additional ADB sovereign funding. The list of non-sovereign operations (NSOs) includes 7 identified projects. Processing of NSOs is contingent on due diligence assessments and thus, these projects carry a much higher uncertainty of reaching fruition with some projects expected to drop off the list. The higher number of private sector projects in the IOP are a result of the recommendation to increase efforts in this area, raised by CODE during the presentation of the Uganda CSP completion report. Governance is included as a cross-cutting theme (section 5.2, paragraph 70), and reforms will be implemented through operations where these are relevant and needed. Furthermore, through regular policy dialogue with the authorities (section 5.4), reforms will be discussed and supported including through technical assistance and advisory services.
b) Ensuring the sustainability of the Bank's interventions in Uganda: In general, the Committee urged Management to ensure the sustainability of the Bank's interventions through policy dialogue. Infrastructure projects should be systematically accompanied by a maintenance plan for the works carried out. In this regard, the Committee questioned Management on the concrete measures adopted by the Ugandan authorities to transform the Uganda National Roads Authority into a second generation road maintenance fund (timeline, target date for implementing the objective). The Committee also sought to know whether other development partners have been involved in the process.	As discussed in the meeting, Management indicated that it held discussions with the Ugandan authorities at the highest level on the issue of infrastructure maintenance. The Uganda National Roads Fund (UNRF) authority was established in 2008 based on the 2nd generation model. However, full implementation of the model is yet to commence. As part of Bank's negotiations with the Government of Uganda (GoU) under the Kampala City Roads Rehabilitation Project, GoU undertook to regularly update the Bank over the project duration (2020-2024) on actions taken to strengthen UNRF to assure regular flow of funds for maintenance of the road network. The Bank is following up as works increase in pace. Additionally, the Transport Sector Working Group in Uganda is following developments. As part of recent loan agreements, funding for maintenance of Bank supported road transport projects, the sector has implemented a condition to sign maintenance contracts with service providers upon completion of the roads. In addition to the roads sector, the National Water Policy (NWP) advocates for an integrated approach to

	the sustainable management of the water resources with participation of all stakeholders. The policy defines sustainability strategies to ensure that no new installations or schemes are established without, establishing ownership of the facility and the system for operation and maintenance, including methods of recovering recurrent costs to ensure sustainability. Consequently, the sustainability of project facilities will be in line with the national policy.
c) Enhance efforts to implement environmental and social safeguards: The Committee urged Management to redouble its efforts in implementing environmental and social safeguards (including the timely payment of financial compensation to project affected persons).	Management will intensify follow-up with government authorities. Management also indicated that it has held discussions with the Uganda Civil Society Forum, and now plans to hold quarterly meetings with the Forum to gather civil society views on the implementation of the Bank's projects on the ground. Management also intends to raise awareness among beneficiary populations about the grievance mechanisms they can use when they feel aggrieved during the implementation of a project. Furthermore, the handling of the two complaints that have been filed with the Independent Review Mechanism for Bank projects in Uganda will allow Management to learn lessons and thus improve the application of environmental and social safeguards.
d) Scale up efforts to promote gender equality: The Committee called on Management to scale up efforts to promote gender equality and women's economic empowerment. In this regard, the Committee noted that the performance matrix in the draft 2022-2026 CSP does not contain sex-disaggregated data. The Committee also noted that the 2022-2024 Sovereign Indicative Lending Program contains only GEN II and III projects (referring to the Bank's Gender Marker System).	The performance matrix (Annex A1.2) has been updated to account for relevant disaggregated gender data under training in rail and in roads. Additional disaggregated data will be reported through the midterm update once identified through the planned 2022 Gender Profile Update (3rd update). GoU is not likely to borrow for GEN I rated infrastructure projects. However, the Gender team as part of the Gender Profile will seek opportunities to obtain funds from special funds and bilateral trust funds to support GEN I rated projects. Furthermore, the identified projects related to the expansion of private sector and SME finance (Annex A3.1a) will be targeted to bolster gender equality and women's economic empowerment. The IOP (Annex A3.1a) has been updated accordingly.
e) Manage the excess energy generation capacity: The Committee questioned Management on the measures adopted to address excess power generation, which threatens the viability of investments in Uganda's power sector. In addition, the Committee sought to know whether the private sector has been involved in the development of the power transmission and distribution components. An Executive Director raised the question on the Bank's potential leading role in supporting the development of a masterplan for the power sector, as recommended by BDEV.	In addition to information provided during the CODE meeting, the Private sector is active in distribution and access for both off-grid and on-grid energy services. On off-grid: there are three Service Providers that distribute electricity in areas, which are not currently connected to the grid. These include the West Nile Rural Electrification Company, Kalangala Infrastructure Services Limited and Kisiizi Hospital Power Limited. For on-grid: in addition to UMEME (the main distribution company), there are four Service Providers, Bundibugyo Energy Co-Operative Society, Kilembe Investment Limited, Kyegegewa Rural Electricity Cooperative Society and Pader Abim Community Multipurpose Electric Cooperative Society Limited, which operate smaller distribution networks connected

	to the national grid. In Uganda, there are currently no private sector operators in the transmission lines. Regarding the Electricity Master Plan the Bank is coordinating with other development partners on supporting the Plan. The Energy Sector Working Group is in discussion with the authorities to fund the plan. Furthermore, the Bank is willing to allocate funds for the Plan's development.
f) Poverty in northern Uganda: The Committee noted that poverty is most acute in northern Uganda. The Committee therefore questioned Management on the measures it is taking to address this challenge.	The Bank is already supporting districts in the Northern and Eastern region through the water sector and agriculture. Furthermore, a road project is planned for Eastern Region that will strengthen connectivity to the rest of the country. The planned Water and Sanitation Programme (WSSP III), will be installing rural facilities in several northern and north-eastern districts (Enyau Water Supply System in Arua), Solar powered water supply systems in Acholi and Lango Sub Regions (Cwero – Gulu, Coodong North – Agago, Omoro, Pader,Got Anaka- Nwoya, Amwona & Okwalongen– Dokolo, Aromo- Lira, Atipe – Oyam,); Solar powered water supply systems in Teso and Bukedi Sub Regions (Acedayapo – Amuria, Atira – Serere, Ogerai _Kaberamaido, Anyara – Kalaki, Acoa – Kapebyong, Adamasiko – Soroti, Ongongoja – Katakwi, Katajula-Tororo, Namwanga – Tororo, Soni - Tororo, Kaleko/Katakwi – Butebo, Kagumu – Kibuku). The ongoing Agriculture Markets Project (MATIP-2) has covered Arua in West Nile, Kitgum in Acholi Moroto in Karamoja, and Soroti in Teso. Previously, MATIP-1 covered Gulu in Acholi, Lira in Lango. Ongoing Farm Income Enhancement and Forest Conservation has big irrigation activities covering Pakwach in West Nile, Tochi in Lango and other irrigation activities bordering Karamoja and Elgon region. The ongoing Value Chains Development Programme is also covering many districts in Acholi, Lango, Teso and Karamoja and promoting value addition action to Maize and Rice in those areas.
g) Supplement annexes 10 and 11: The Committee noted that Annex 10 on Selected Macroeconomic Indicators, does not contain projections covering the 2022-2026 period. It also noted that Annex 11, on the country's arrangement with the IMF, does not provide sufficient information on the commitments under the Extended Credit Facility. The Committee therefore suggested that the Annexes be further developed.	Table 1 (section 2.2) presents the 2020/21 – 2025/26 medium term fiscal projections. The table in A10 has been updated with latest data from the Bank's Statistics Department. Additionally, paragraph 10 provides the medium-term growth projections for Uganda. A11 has also been updated to provide information on benchmarks and triggers and recent information on the IMF's Extended Credit Facility since initial drafting of the CSP.
h) Improving the conditions of access to credit: The Committee noted that access to affordable financing remains limited in Uganda due to high real interest rates. This situation hinders the development of the private sector, especially SMEs. The Committee therefore called on Management	The issue of high interest rates is part of the regular policy dialogue on financial sector developments and the debt dynamics of Uganda. The point made by CODE has been strengthened under policy dialogue in paragraph 73 (section 5.4) in the CSP.

to propose relevant reforms to the government as part of the policy dialogue undertaken.	
i) Preventing Dutch disease: An Executive Director enquired about Management's efforts to help Uganda - which is poised to become a hydrocarbon producer - avoid the Dutch disease.	Management explained that the Bank has already provided support to the Government in the area of governance of hydrocarbon resources, including technical assistance, with the assistance of the African Legal Support Facility. The aim was to support the country in the implementation of appropriate policies and strategies, so that the arrival of these resources does not create macroeconomic disturbances and other so-called resource curse difficulties but serves the structural transformation of the economy. Further to the above, the risk of Dutch disease caused by hydrocarbons is limited for Uganda given the relatively low size of revenues that are anticipated from hydrocarbons. The Bank will monitor developments and offer support to the Government to better prepare themselves for increased foreign capital inflows.
j) Uganda's debt sustainability: The Committee questioned Management on the characteristics of Uganda's debt and its potential impact on Uganda's access to the ADB window.	During the CODE meeting, Management explained that Uganda's risk of over-indebtedness increased from low to moderate by the end of 2021, according to the IMF. Management informed that if Government implements the IMF reforms, including those under the Extended Credit Facility (i.e., fiscal consolidation, prioritization of concessional debt, improving public investment management, infrastructure governance, etc.) Uganda's debt will remain sustainable and will be contained at around 53% of GDP in the medium term. In the short term, the rising debt led to a reduction of ADB sovereign funding in 2021, and there is heightened risk that ADB sovereign funding could be reduced in 2022 and 2023. Any funding from ADB sovereign resources will have to be approved by the Credit Risk Committee.
Conclusion and recommendations 14. At the end of the deliberations, the Committee took note of the Evaluation of the African Development Bank's Country Strategy and Program for Uganda (2011-2021), as well as Management's response, and the draft 2022-2026 Uganda CSP. The Committee noted with satisfaction the convergence of views between BDEV and Management on the findings and recommendations that have been taken into account in the development of the draft 2022-2026 CSP.	Noted
15. The Committee endorsed the draft 2022-2026 CSP. It recommended that Management take into account its observations, suggestions and requests in the next iteration of the document, which will be submitted to the Board for consideration and approval.	As noted above in the comments, CODE’s input has been addressed in the updated CSP document.

16. The Committee also requested that BDEV's findings and recommendations be taken into account in the implementation of the 2022-2026 CSP to achieve better results. Committee members emphasized the need to be selective, to focus on the issue of sustainability of the Bank's interventions (namely through infrastructure maintenance), and to ensure the effective application of environmental and social safeguards, and better consideration of gender issues.	The issues raised by BDEV, which included selectivity, sustainability, maintenance, and focus on transmission and distribution have been adopted and taken on board in the Uganda CSP 2022-2026. Additionally, the points raised on gender and environmental and social safeguards have been addressed in the new CSP, as illustrated above.

A6 Findings of stakeholder consultations

In the process of preparing the Uganda Country Strategy, the Bank met with Development Partners, Civil Society, and the Private Sector: Development Partners supported the Banks proposed framework for supporting Uganda's industrialisation for the period 2022-26. Partners were aligned to the infrastructure areas, but also expressed the importance of skilling given the gaps in many sectors. Several DPs welcomed a closer partnership with the Bank in infrastructure but also as complementary support to skilling, industrialisation, gender, climate change and governance issues. Civil Society highlighted several key areas that were important to convey. They noted that although they were sometimes critical towards the Government, they are in fact partners in development. They want the same improvements in service delivery and wellbeing as the Government. In the development process, Civil Society sees itself as a monitor of checks and balances of government implementation. This requires being self-critical and improving on its own processes to achieve legitimacy. Civil society is not looking for funding from the Bank but being a partner in Policy Dialogue in Development. The Private Sector stressed the importance of supporting SMEs with affordable funding. The high cost of credit was slowing business expansion.

A6.1 Government

The following actions were agreed with Government during the wrap-up meeting:

Issue	Action
Agree how to support human capital development and skills in the context of the new Country Strategy	The Bank will maintain priority area 1 as presented in the CSP completion report and integrate skills aspects as a cross-cutting into new projects and programs
SME financing and potential to support Industrial Parks	The Bank will assess these aspects to identify potential synergies to leverage increased private sector funding to Uganda
Dialogue with DPs to identify project opportunities for co-financing to leverage on limited Bank funding.	Bank will initiate dialogue on co-financing with DPs and hold internal discussions with external financing dept. (FIRM).
Quality infrastructure, standards development, and compliance for both Uganda National Bureau of Standards (UNBS) and private sector require support	Emphasize swift implementation of the Agricultural Value Chain Development Programme (AVCP) component providing support to UNBS (laboratories and equipment, training for staff) and expansion of this support in cooperation with partners like TMEA under the MOU to improve QI in Uganda.
Prepare for implementation of the AfCFTA and other regional trade agreements to reduce trade facilitation bottlenecks	Support improved trade infrastructure through operationalisation of proposed logistics hubs (addressing gaps) e.g. Gulu Logistics Hub and Busia Logistics Centre. Operationalize the MoU and cooperation with TMEA to address gaps in OSBPs e.g. Swamp Road OSBP
Lack of regular data on labour market dynamics makes it difficult to adjust employment related policies and other critical labour market data.	– Government request needed: – Identify funding source for the Labour Market Information System
Update the 2008 Road & Gender Strategy	Update the strategy and broaden to other transport modes.

Several ministries and authorities emphasized the need to incorporate climate adaptation and resilience measures to projects to address climate change impacts which are increasing in frequency and intensity.

The Indicative Operational Program for the period was discussed and agreed during the CSP mission. It was agreed that any final adjustments could take place during the preparation of the CSP. The priority list of projects considers the reduction in ADB funding for 2021 and a likely reduction of funding in 2022. The Muko-Katuna Road Project has therefore been put on reserve pending available funding. To accommodate any reductions in financing, the rehabilitation of the metre gauge railway project has been split in a phase 1 for 2022 and a phase 2 for 2023. During the coming months the Bank will continue to engage with co-financing partners to explore possibilities of funding phase 2 via other development partners. Finally, the Laropi-Moyo / Namagumba-Budadiri Road Upgrading Project planned for 2021 has also been put on reserve for 2022, pending available funding.

A6.2 Private Sector

Discussions were held with the Private Sector Foundation of Uganda, The Uganda Investment Authority, Uganda Development Bank, Uganda Development Corporation and The Housing Finance Bank. Uganda has pursued a Private Sector-led approach to its economic policy and management over the last three decades. This has put the Private Sector at the forefront of the growth and development process of the Country. The role of the Public Sector in this context is to provide an enabling environment through policy, continuous regulatory reforms, and good infrastructure. Private sector development constraints and gaps include inadequate infrastructure, limited access to affordable finance (high interest rates) and the limited financing for SME activities. Businesses are operating in a new reality in the wake of C19. Possible key priority investment areas were discussed including: i) The Bank to target SMEs (the missing middle) in accessing long term finance by establishing/supporting an SME Fund or support local efforts to develop a framework on mandatory long-term savings to build long-term finance in Uganda, ii) Support the increase in national savings/financial literacy to improve domestic lending, iii) Support UDB to deliver more development funding, iv) Support the development of Industrial Parks as a way of building infrastructure for industrialization, v) Provide Project Finance to support value chain suppliers and climate abatement actions in the emerging oil & gas sector.

A6.3 Civil Society

Discussions were held with civil society during the CSO-Bank Open day. The consultations discussed the context of Civil Society Engagement in Uganda. Key issues highlighted by the CSOs included i) the Bank to prioritise financing off-grid solutions and clean cooking solutions as part of the Uganda CSP 2022-26; ii) need to create a legal framework to effectively safeguard the borrower; iii) the Bank to support CSOs to set up entrepreneurial structures to raise own resources and become less dependent on partner funds. CSOs engage with government and to some extent support the implementation of government projects in Uganda. However, CSOs still seek Bank support to build a stronger relationship between CSOs and the government, built on partnership and to allow CSOs broaden the space within which they operate. CSOs would like a practical partnership with the Bank to ensure that citizens voices are represented in the Bank's projects and policies.

A6.4 Gender

The gender related capacities and knowledge gaps identified during the CSP mission:

Ministry	Year	Subject title	Type	Scope
Water & Sanitation	2022	Gender mainstreaming guidelines for assessment, planning, specific Gender Analysis, a gender compact for planning and budgeting	Study	External consultant
	2023	Affirmative actions, women mentorship in the Ministry	TA	Short term consultancy
Gender, Labour, Social Development	2022-2024	Action plan to support the 2017 Procurement Act reserving 30% of public services operations to women, youth and disabled	study / TA	External consultant
		Guidelines on Gender budgeting and workshops (update and refresher course)	Study	External consultant
Energy	2022	Guidance on conducting gender analysis and collecting sex-disaggregated data for the Ministry of Energy	TA	Training
	2022	A sector-specific gender policy or strategy to guide gender actions, including Gender audit in Energy (flexible hours, measurement of unpaid care work, etc.)	Study	External consultant

Ministry	Year	Subject title	Type	Scope
		Gender assessment tools and guidelines to supplement the current Environment and Social Framework, notably on resettlement related to energy infrastructure projects[3].	Study	External consultant
Land	2024	Land tenure authority: actions for women titles deeds working with traditional leaders. (IGAD) - possibly implementing the strategy through its national action plan.	TA	Policy dialogue
Transport		Update the 2008 Road & Gender Strategy - to be broadened other transport modes (cycling, lake transport…) and with climate resilience scope – highlighting and implementing concrete recommendations: i.e training of women bus drivers	Study / TA	External consultant
Education		Vocational studies - TVET non-conventional areas with a quota on girls/women (min. > 30%)		
Skills		Digital services for the most vulnerable groups - leasing solutions	PPP	
Oil/Gas sectors		A talent portal and women-led MSMEs mapping to strengthen the companies involved in these sectors and make synergies	Study / TA (training)	External Consultant Policy dialogue
		Uganda energy credit capitalization company support	TA / AFAWA	
		How to work with NGOs and women-led MSMEs	TA	Policy dialogue

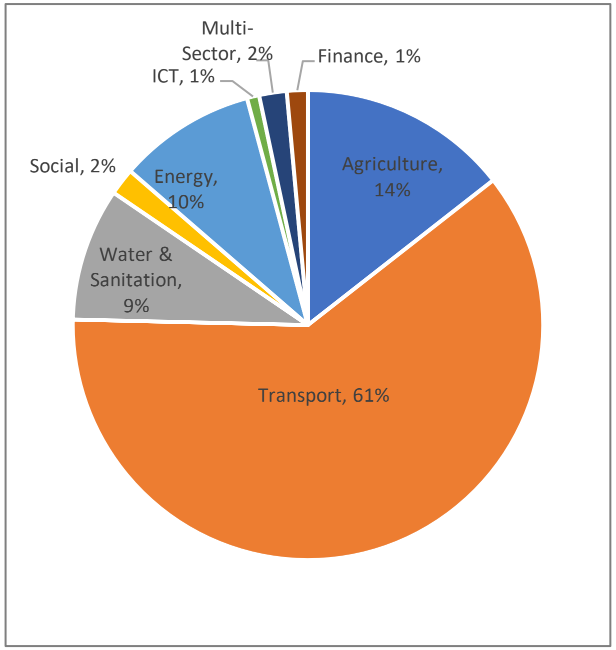
[3] A key commitment to gender and equity that needs *guidelines* to be Gender-responsive as it is often linked to gender-based violence. This issue is recognized as ‘chronic’ and ‘critical’ by MEMD and the DFI partners met with no partner addressing it in projects through supporting guidelines.

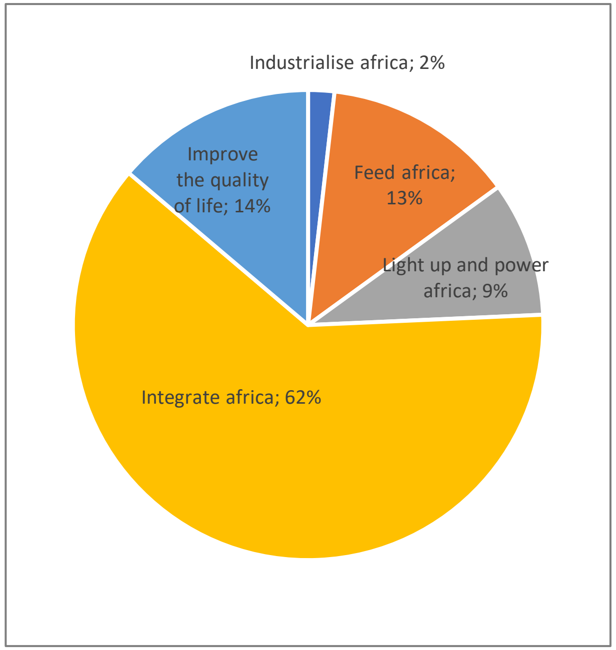
A7 Portfolio Performance Review

A7.1 Ongoing Portfolio, September 30, 2021

No	Project	Approval Date	Signature Date	Disbursement Effectiveness Date	Amount (UA, mn)	Funding Instrument	Disbursement		IP	DO	Age	Closing Date	Task Manager
							UA mn	%			Years		
PUBLIC SECTOR OPERATIONS													
AGRICULTURE SECTOR													
1	Markets and Agricultural Trade Improvement II (MATIIPII)	12/10/2014	28/07/2015	28/07/2015	57.8	ADB Loan	43.8	75.8%	4	4	6.8	30/06/2022	Asaph Nuwagira
2	Preparation for Strategic Plan for Climate Resilience	17/03/2016	14/07/2016		1.1	Strategic Climate Fund	1.0	92.8%	3	3	5.6	29/10/2021	Chantal Umuhire
3	Farm Income Enhancement and Forestry Conservation Project II	20/01/2016	17/02/2016	04/12/2016	54.4	ADB Loan	40.3	74.0%	3.5	4	5.7	31/12/2022	Mekonnen Loulseged
4	Lake Edward Integrated Fisheries & Water Resources Management Project	20/05/2015	27/01/2016	05/11/2016	5.0	ADF Loan	4.8	95.4%	3.5	3.5	6.4	31/12/2021	Mekonnen Loulseged
5	Agriculture Value Chain Development Program	12/11/2017	25/10/2018	12/07/2018	57.0	ADF Loan	6.6	11.5%	3	3	3.8	30/06/2023	Asaph Nuwagira
	Agriculture Sub-total				**175.3**		**96.5**						
TRANSPORT SECTOR													
6	Road Sector Project 4 (Kigumbba Masindi Rd) 135 KM	13/03/2013	12/11/2013	08/08/2014	72.9	ADF Loan	38.7	53.1%	4	4	8.6	30/06/2022	George Makajuma
7	Road Sector Project V	28/05/2014	02/03/2015	02/03/2015	70.0	ADF Loan	36.5	52.2%	3	4	7.4	31/12/2022	George Makajuma
8	Busega -Mpigi Express Highway	22/06/2016	29/12/2016	03/06/2017	106.9	ADF/ADB Loans	18.3	17.1%	2	4	5.3	31/12/2022	George Makajuma
9	Kapchorwa-Suam-Eldoret Bypass	29/03/2017	19/01/2018	24/10/2018	68.8	ADF/ADB Loans	19.6	28.5%	3	4	4.5	31/12/2022	George Makajuma
10	Kampala-Jinja Express Way	31/10/2018	16/03/2021	13/09/2021	160.6	ADB Loan	-	0.0%	3	3	2.9	31/12/2027	George Makajuma
11	Kampala City Roads Rehabilitation Project	13/11/2019	11/05/2021	4/8/2021	211.0	ADF/ADB Loans	-	0.0%	3	3	1.9	30/11/2024	George Makajuma
12	Kabale-Lake Bunyonyi/Kisoro-Mgahinga Roads Upgrading Project	12/02/2020	11/05/2021	Pending	50.0	ADF Loan	-	0.0%	2	3	0.8	31/12/2024	George Makajuma
	Transport Sub-total				**740.3**		**113.1**						
WATER SECTOR													
13	Water Supply and Sanitation Program Phase 2	02/03/2016	03/03/2016	05/11/2016	65.8	ADF Loan	65.8	100.0%	3	3	5.7	31/12/2021	Andrew Mbiro
14	Strategic Towns Water Supply & Sanitation Project	20/6/2018	02/04/2019	13/05/2019	44.0	ADF Loan	11.2	25.5%	3	3	3.3	30/06/2024	Andrew Mbiro
15	Study on Sludge Management in Unsewered Urban Centres	18/12/2018	14/05/2019	23/07/2019	1.3	AWF Grant	0.6	50.8%	3	3	2.8	31/12/2022	Maureen Ntege-Wasswa
	Water Sub-total				**111.1**		**77.7**						
SOCIAL SECTOR													
16	East Africa's Centre of Excellence for Skills*	10/03/2014	10/06/2015	02/01/2016	22.5	ADF Loan	18.2	80.9%	3	3	7.0	31/12/2021	Peter Ogwang
	Social Sub-Total				**22.5**		**18.2**						
ENERGY SECTOR													
17	Rural Electricity Access	16/09/2015	11/04/2015	02/12/2016	81.1	ADB Loan/EU Infrastructure TF	35.7	44.0%	3	3	6.1	31/12/2022	Alemayehu Wubeshet
	Energy Sub-total				**81.1**		**35.7**						
ICT SECTOR													
18	Lake Victoria Maritime Project*	24/10/2016	19/01/2018	20/04/2018	10.2	ADF Loan	1.0	9.4%			4.9	30/04/2023	Thierno Diarra
	ICT Sub-total				**10.2**		**1.0**						
MULTI - SECTOR													
19	Covid 19 Crisis Response Support Program	24/07/2020	10/06/2021	12/07/2021	23.0	ADF Loan	23.0	100.0%	NR	NR	1.2	31/12/2021	Mosllem Ahmed
	Multi-sector Sub-Total				**23.0**		**23.0**						
PUBLIC SECTOR TOTAL					**1,163.5**		**365.1**	**31.4%**					
PRIVATE SECTOR OPERATIONS													
20	Uganda Development Bank	20/07/2018	06/07/2019		14.1	ADB Public /ADB Private loans	14.1	100.0%			3.2	30/04/2025	Juliet Byaruhanga
21	Bujagali Hydropower Project	11/04/2015	14/10/2016		19.6	ADB Private	-	0.0%			5.9	31/12/2023	Tarek Ammar
22	ACHWA II Hydropower Plant	14/12/2016	25/08/2017		14.1	ADB Private	14.1	100.0%			4.8	15/06/2031	Tarek Ammar
23	Housing Finance Bank of Uganda	11/04/2015	14/10/2016		3.4	ADB Private	-	0.0%			5.9	19/07/2022	Juliet Byaruhanga
24	FAPA - Uganda MSME Business Linkages on East African Crude Oil	11/02/2020	17/09/2020		0.4	FAPA Grant	-	0.0%			1.6	31/12/2022	Juliet Byaruhanga
PRIVATE SECTOR TOTAL					**51.6**		**28.2**						
TOTAL PORTFOLIO					**1,215.1**		**393.3**	**32.4%**	**3.1**	**3.4**			

Figure A7.1 Uganda Portfolio, sector distribution and distribution of High-5 priorities.





A7.2 Portfolio Performance

Table 9: Key Performance Indicators Performance (2016 to September 2021)

Key performance Indicators	***2016***	***2018***	***2019***	***2020***	***Sept 2021***	**Bank Target**
Average Overall Portfolio Rating (on a scale of 0-4):	2.75	3.19	3.05	3.13	3.22	
- Average Implementation Progress Rating	2.70	3.17	3.17	3.06	3.10	
- Average Development Objective Rating	2.80	3.20	2.92	3.20	3.40	
Problem Projects (PPs)	0	0	0	1	1	0
Potentially Problematic Projects (PPPs)	0	0	0	0	0	0
Projects at Risk (%)	0	0	0	0	4.2	0
Commitments at Risk (%)	0	0	0	0	8.80	0
Av. time elapsed - approval to signature (months)	5.9	13.8	18.2	n/a	8	3
Av. Time elapsed - approval to 1st disbursement (months)	9.7	19.5	19.9	n/a	12.3	6
Cumulative Disbursement Ratio (%) - Public Sector	26	24.7	26.8	27	31.4	> 50
Percentage of SO Projects Task Managed at COUG	58	96	96	100	95	
Average public sector project size (million UA)	58.8	46.6	49.2	55.7	61	N/A
Proportion of flagged projects in the portfolio (%)				26	27	<20

A7.3 Portfolio Improvement Plan

Issue	Required Actions	Implementing Authority	Monitoring Indicator	Baseline	Time frame	Target	Update – September 2021
1. Start-up delays							
1.1 Slow implementation of Resettlement Action Plan (RAP)	GoU to provide adequate budget to the relevant implementing agencies to pay for compensation on time. Follow the agreed monitoring and evaluation system to supervise and assess progress of implementation of the RAP and update the monitoring system where relevant. Report on E&S issues in the quarterly and Annual Reports Report on Environmental and Health Safety Issues.	MOFPED/ EA's	Effective implementation of the RAP as soon as the Reports are cleared by the Bank. Government to provide adequate budget to ensure compensation is made on time.		continuous	All ongoing and new approved Transport Projects	**Work in progress** Some progress has been achieved on projects that had issues such as the Busega-Mpigi Roads Project and Kampala-Jinja-Expressway (which is expected to be fully paid by government by Dec 2022). The Bank continues to dialogue with the government to resolve compensation issues on projects and to ensure that compensation is made on time for new projects.
1.2 Slow Signing of Projects already ratified by Parliament	Bank has delayed signing of the Kampala Jinja Expressway Project and Kampala City Roads Authority	Bank	Signing of the two loans	2	January 2021	2	**Achieved** Kampala Jinja Expressway was signed on 16 March 2021 while Kampala City Roads rehabilitation Project and Kabale-Lake Bunyonyi/Kisoro-Mgahinga Roads Upgrading Project were signed on 11 May 2021. COVID PBO was also signed on 10 June 2021.
2. Procurement Delays							
2.1 Delays in contract implementation resulting in cost overruns	Closer monitoring of the procurement activities and level of compliance with targets set in the procurement plans and regular update of those plans.	EA	% of activities completed on schedule		continuous	19 projects	**Work in Progress** Procurement delays are still a key concern for most projects. There are structural approval issues and delays from all the Executing Agencies. The COVID-19 lockdown and restrictions have also worsened the situation with some entities working at below 50% capacity; causing further delays at all fronts. The Bank has persistently followed up including at high level but with little success.
2.2 Delays in submitting Bid Evaluations from the EA's	EA to reduce the turnaround in processing the BER to fast track implementation	EA	Reduce the time between bid opening and submission of bid evaluation report to AfDB to a maximum of 30	0	continuous	All ongoing projects	**Work in Progress** Delays in submission of bid evaluation reports is still a key concern for most projects. There are structural approval issues and delays from all the Executing Agencies. The COVID-19 lockdown and restrictions have

Issue	Required Actions	Implementing Authority	Monitoring Indicator	Baseline	Time frame	Target	Update – September 2021
			calendar days.				also worsened the situation with some entities working at below 50% capacity; causing further delays at all fronts. The Bank has persistently followed up including at high level but with little success.
3. Delays in processing disbursement applications							
3.1 Long hold-up of disbursement applications with the EA's due to lengthy process in the approval of the invoices at the sector ministries	EA's speed up the processing of invoices to avoid delays	EA	Reduce the time between receipt of invoices and submitting disbursement request to the Bank to maximum of 21 working days	0	continuous	All Ongoing Projects	**Work in Progress** This is still a concern for some projects especially in the transport and energy sector. The Bank is working closely with EAs on this matter and some progress is observed under Road Sector Support Project IV.
3.3 Delays in justification of the advances made on the Special Account	Statement of expenditure to be sent to the Bank periodically and should not exceed 6 months.	EA	No. of projects with justified special accounts		Immediate	All projects	**Work in progress** The Bank is closely following up the justification of Special Accounts and following submission by some projects, the balances are progressively reducing. The Bank is also taking measures to limit the amounts disbursed to Special Accounts.
3.4 Delays in the recruitment of auditors and delays in the implementation of the audit recommendations	All projects to report on the implementation status of audit recommendations in QPRs and updated every quarter and during supervision missions.	EA	No of projects with timely audit reports % of project implementing the audit recommendations		31 December 2020	All Projects	**Partially achieved** Most audit reports were received on time in January 2021 but few were late including LV Maritime and Kampala Sanitation Programme. There is an improvement in audit recommendations across the board although new recommendations keep on being included every year. The Bank is following up to ensure that audit reports due in Jan 2022 are submitted on time.
4. Project Management							
4.1 EA's not conversant with the Bank's new procurement toolkits	Provision of regular training to the EA on the Bank procurement and disbursement rules and procedures	Bank	Bank to conduct at least one major fiduciary clinic per year and regular trainings by the country office	0	2021	1	**Not yet achieved** The fiduciary clinic is planned for the November 2021.

Issue	Required Actions	Implementing Authority	Monitoring Indicator	Baseline	Time frame	Target	Update – September 2021
4.2 Hold Quarterly Portfolio Review Meetings with the Executing Agency	Quarterly Portfolio Review Meetings held	MOFPED/ Bank/ EA's/ Sector Ministries	4 meetings held by the year with the EA's and Ministry of Finance	4	2021	4	**Work in progress** Several high level meetings have been held including with Ministry of Finance, Line Ministers and the Country Manager to discuss implementation issues facing various projects. Progress in resolving bottlenecks e.g for the transport projects (Busega-Mpigi, RSSP IV etc) and signature of agreements has been observed.
5. Delays in Implementation							
5.1 Delays in physical implementation of key projects which resulted to numerous extension	The projects (i) REA; (ii) Kapchorwa Suam; (iii) Busega Mpigi; (iv) Lake Victoria Maritime to provide clear action plans for each project to fast track implementation	REA/ UNRA/ MOWT	Action Plan with clear deliverable timelines submitted		Q1 2021	4	**Work in progress** The Bank has had in-depth discussions with the EAs for Rural Electricity Access, Busega Mpigi and Lake Victoria Maritime Project on how to turn around the projects and action plans prepared and under implementation. Progress has been observed on all 3 projects.

A8 Donor Mapping

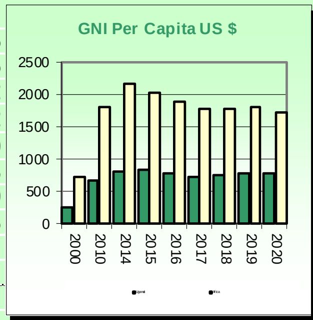
Note: The members of the LDPG do not guarantee the accuracy and completeness of the information included in this document. The information is for internal use and should not be referenced in official documents or statements.

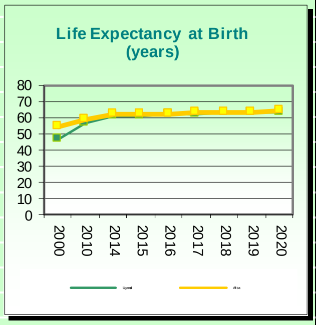
Active in sector during FY19-FY20
Planning new engagement during FY19-FY20
Leaving sector during FY19-FY20
Following sector, but not actively supporting

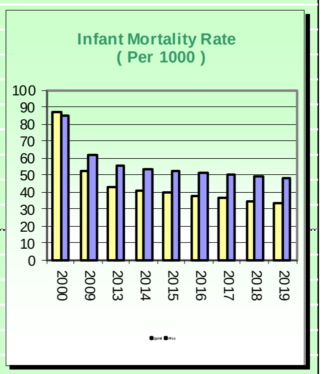
#	Sectors (Budget/MTEF)	Sectors (NDPII)	African Development Bank	Austria	Belgium	Denmark	European Union	Food and Agriculture Organization (FAO)	France	Germany	Iceland	International Monetary Fund (IMF)	International Fund for Agricultural Developmen	International Organization for Migration (IOM)	Ireland	Italy	Japan	Korea	Netherlands	Norway	Office of the United Nations High Commissione	Sweden	United Nations Industrial Development Organiz	United Nations Programme on HIV/AIDS (UNAID	United Nations Development Programme (UND	United Nations Environment Programme (UNEP	United Nations Population Fund (UNFPA)	United Nations High Commissioner for Refugee	United Nations Children's Fund (UNICEF)	UN Women	United Kingdom	Unied States of America	World Bank	World Food Programme (WFP)	World Helath Organization (WHO)	DPs planning new engagement (FY19-FY20)	DPs leaving sector (FY19-FY20)	Following sector, but not actively supporting	DPs active in sector (FY19-FY20)	DP active/planning engagement in FY08 (MTEF	Change from FY08-FY18 (active and planned)
1	Agriculture																																			2	-	2	17	13	+6
2	Lands, Housing & Urban Development	Lands & Housing																																		2	-	2	4		
		Physical Planning & Urban Development																																		2	-	1	4	4	+10
		Greater Kampala Metropolitan Area																																		3	-	1	6		
3	Energy & Mineral Developme	Energy																																		-	-	2	15	9	+6
		Minerals, Oil & Gas																																		-	-	6	4		
4	Works & Transport																																			1	1	1	8	8	+1
5	Information & Communication Technology																																			-	-	-	3	4	-1
6	Tourism, Trade & Industry	Tourism																																		1	-	3	4	12	+1
		Trade, Industry & Cooperatives																																		3	-	4	8		
7	Education and Sports	Education & Sports																																		-	-	1	16	12	+12
		Skills Development																																		2	-	1	15		
		Science, Technology, Engineering & Innovation																																		-	-	7	5		
8	Health (incl. HIV/AIDS)																																			-	-	2	20	22	-2
9	Water & Environment	Environment & Natural Resources																																		-	-	3	16	16	+6
		Water & Sanitation																																		-	1	1	15		
		Water for Production																																		2	-	2	8		
10	Social Development (incl. Employment and Gender)																																			-	-	3	19	15	+4
11	Defence & Security																																			2	-	1	3	3	+2
12	Justice, Law & Order																																			1	-	1	11	12	0
13	Public Sector Management																																			1	1	2	5	8	-2
14	Legislature	Legislature																																		1	1	3	7	6	+2
15	& Accountability	Anti-Corruption																																		1	-	1	10	13	+3
		Economic and Financial Management Services																																		-	-	4	13		
16	Public Administration																																			-	-	2	1	2	-1
	TOTAL FY19-20 (MTEF sectors)		8	2	3	6	12	8	9	6	2	1	5	8	4	1	9	6	11	3	4	7	2	1	11	2	5	6	6	8	10	13	12	5	10						
	Total FY09 (MTEF sectors)		8	2	3	6	8	5	4	3	4	1	3	-	6	7	7	-	2	6	5	7	6	1	11	1	5	5	5	1	8	9	12	5	2						
	Change from FY09-FY19 (active and planned engagements)		0	0	0	0	+4	+3	+5	+3	-2	0	+2	+8	-2	-6	+2	+6	+9	-3	-1	0	-4	0	0	+1	0	+1	+1	+7	+2	+4	0	0	+8						

A9 Comparative Socio-Economic Indicators

	Year	Uganda	East Africa	Africa	Develo-ping Countries
Basic Indicators					
Area ('000 Km²)	2020	201	6,232	30,067	96,535
Total Population (millions)	2020	45.7	375.5	1,338.8	6,509.5
Urban Population (% of Total)	2020	25.7	28.3	43.8	51.2
Population Density (per Km²)	2020	228.1	64.4	45.6	69.2
GNI per Capita (US $)	2020	800	956	1 736	4 849
Labor Force Participation *- Total (%)	2020	66.9	70.9	61.3	58.3
Labor Force Participation **- Female (%)	2019	66.9	61.3	55.8	45.9
Sex Ratio (per 100 female)	2020	97.2	99.3	99.9	106.8
Human Develop. Index (Rank among 189 countries)	2019	159	...	...	...
Popul. Living Below $ 1.90 a Day (% of Population)	2007-19	41.3	34.2	34.1	...
Demographic Indicators					
Population Growth Rate - Total (%)	2020	3.3	2.6	2.5	1.2
Population Growth Rate - Urban (%)	2020	5.7	4.5	3.6	2.2
Population < 15 years (%)	2020	46.0	41.5	40.4	27.2
Population 15-24 years (%)	2020	21.0	20.7	19.3	16.3
Population >= 65 years (%)	2020	2.0	3.0	3.5	7.6
Dependency Ratio (%)	2020	92.3	80.1	78.1	54.6
Female Population 15-49 years (% of total population)	2020	23.9	24.5	24.2	25.1
Life Expectancy at Birth - Total (years)	2020	63.7	65.5	63.8	71.2
Life Expectancy at Birth - Female (years)	2020	66.0	67.5	65.6	73.4
Crude Birth Rate (per 1,000)	2020	36.7	32.9	32.6	19.4
Crude Death Rate (per 1,000)	2020	6.2	6.5	7.8	7.3
Infant Mortality Rate (per 1,000)	2019	33.4	38.4	47.9	30.6
Child Mortality Rate (per 1,000)	2019	45.8	54.3	69.5	41.0
Total Fertility Rate (per woman)	2020	4.7	4.3	4.3	2.5
Maternal Mortality Rate (per 100,000)	2017	375.0	433.9	432.3	231.0
Women Using Contraception (%)	2020	41.8	35.3	39.1	58.9
Health & Nutrition Indicators					
Physicians (per 100,000 people)	2010-19	16.8	12.0	33.8	128.5
Nurses and midwives (per 100,000 people)	2010-19	123.8	86.8	114.6	249.9
Births attended by Trained Health Personnel (%)	2010-20	74.2	55.4	64.4	79.3
Peop. Using at least basic drinking water services (% of Po	2020	56.0	56.2	69.4	88.2
Peop. Using at least basic sanitation services (% of Populat	2020	20.0	25.8	41.9	74.0
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2020	5.4	2.5	3.0	...
Incidence of Tuberculosis (per 100,000)	2019	200.0	175.5	198.2	152.0
Child Immunization Against Tuberculosis (%)	2019	88.0	81.1	81.0	88.0
Child Immunization Against Measles (%)	2019	87.0	76.5	71.9	84.9
Underweight Children (% of children under 5 years)	2010-20	10.4	14.0	16.8	13.8
Prevalence of stunding	2010-20	28.9	29.5	31.9	...
Prevalence of undernourishment (% of pop.)	2019	...	22.01	17.7	10.4
Current health expenditure (% of GDP)	2018	6.5	4.6	5.2	5.4
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2010-20	102.7	104.4	103.0	101.6
Primary School - Female	2010-20	104.1	102.2	101.1	100.5
Secondary School - Total	2010-20	...	36.2	53.0	72.4
Secondary School - Female	2010-20	...	36.4	51.1	72.1
Primary School Female Teaching Staff (% of Total)	2010-20	43.1	44.4	49.2	63.7
Adult literacy Rate - Total (%)	2010-20	76.5	65.7	68.2	84.3
Adult literacy Rate - Male (%)	2010-20	82.7	74.8	72.4	88.4
Adult literacy Rate - Female (%)	2010-20	70.8	61.2	50.1	80.2
Gouvernment expenditure on Education (% of GDP)	2010-20	3.0	4.2	4.8	4.1
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2018	34.4	13.5	8.2	11.3
Agricultural Land (as % of land area)	2018	71.9	51.2	37.8	37.8
Forest (As % of Land Area)	2020	11.7	22.1	22.6	31.7
Per Capita CO2 Emissions (metric tons)	2018	0.1	0.2	1.1	3.4



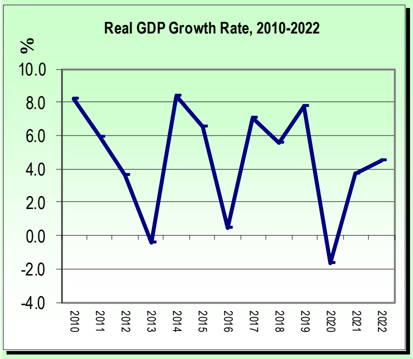


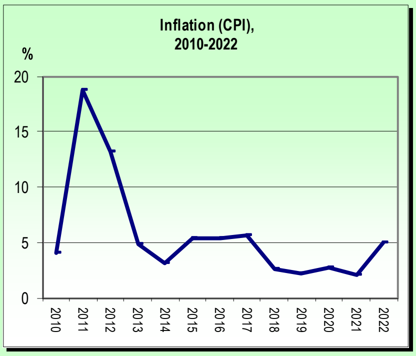


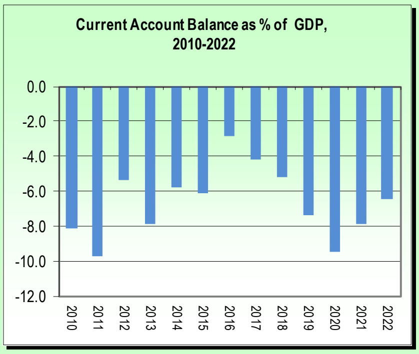
Sources : AfDB Statistics Department Databases; World Bank: World Development Indicators; *last update :* *November 2021*
UNAIDS; UNSD; WHO, UNICEF, UNDP; Country Reports.
*Note : n.a. : Not Applicable ; ... : Data Not Available. * Labor force participation rate, total (% of total population ages 15+)*
*** Labor force participation rate, female (% of female population ages 15+)*

A10 Selected Macroeconomic Indicators

Indicators	Unit	2010	2017	2018	2019	2020	2021 (e)	2022 (p)
National Accounts								
GNI at Current Prices	Million US $	22,051	30,463	32,047	34,530	36,593	...	...
GNI per Capita	US$	680	740	750	780	800	...	...
GDP at Current Prices	Million US $	19,683	31,387	34,184	38,001	38,142	34,643	37,685
GDP at 2010 Constant prices	Million US $	19,683	26,755	28,247	30,448	29,948	31,049	32,452
Real GDP Growth Rate	%	8.2	7.1	5.6	7.8	-1.6	3.7	4.5
Real per Capita GDP Growth Rate	%	4.8	3.3	1.7	4.0	-5.2	0.4	1.5
Gross Domestic Investment	% GDP	25.5	24.5	25.0	24.9	24.0	23.9	23.8
Public Investment	% GDP	20.6	5.0	5.6	5.7	6.4	6.4	6.0
Private Investment	% GDP	4.9	19.5	19.3	19.2	17.6	17.5	17.8
Gross National Savings	% GDP	15.4	17.2	17.0	17.3	18.8	...	...
Prices and Money								
Inflation (CPI)	%	4.0	5.6	2.6	2.1	2.8	2.1	5.0
Exchange Rate (Annual Average)	local currency/US$	2,177.6	3,633.3	3,714.1	3,676.5	3,772.9	3,630.5	3,675.6
Monetary Growth (M2)	%	42.2	12.6	8.2	15.3	16.5	13.1	...
Money and Quasi Money as % of GDP	%	30.3	26.5	25.8	27.1	27.8	28.9	...
Government Finance								
Total Revenue and Grants	% GDP	11.9	12.6	13.1	12.9	14.4	14.0	14.1
Total Expenditure and Net Lending	% GDP	10.3	16.7	18.3	20.3	23.9	21.9	20.6
Overall Deficit (-) / Surplus (+)	% GDP	1.6	-4.2	-5.2	-7.4	-9.5	-7.9	-6.5
External Sector								
Exports Volume Growth (Goods)	%	-19.4	10.4	7.5	20.8	7.3	17.6	0.4
Imports Volume Growth (Goods)	%	-13.1	7.3	18.0	17.6	2.9	17.4	0.5
Terms of Trade Growth	%	-12.2	0.4	-2.0	-2.4	0.7	3.2	2.7
Current Account Balance	Million US $	-1,610	-1,502	-1,936	-2,418	-3,164	-3,204	-3,591
Current Account Balance	% GDP	-8.2	-4.8	-5.7	-6.4	-8.3	-9.2	-9.5
External Reserves	months of imports	4.7	6.0	4.4	3.9	4.5	4.5	...
Debt and Financial Flows								
Debt Service	% exports	3.8	6.8	7.7	6.9	9.6	11.7	13.4
External Debt	% GDP	20.7	35.9	37.8	40.8	45.5	48.7	50.0
Net Total Financial Flows	Million US $	1,858	2,137	2,704	2,432	...	...	...
Net Official Development Assistance	Million US $	1,690	2,012	1,945	2,100	...	...	...
Net Foreign Direct Investment	Million US $	544	803	1,055	1,259	823	...	...







Source : AfDB Statistics Department: African; IMF: World Economic Outlook,October 2021 and International Financial Statistics, November 2021;
AfDB Statistics Department: Development Data Portal Database, December 2020. United Nations: OECD, Reporting System Division.

Notes: ... Data Not Available (e) Estimations (p) Projections Last Update: February 2022

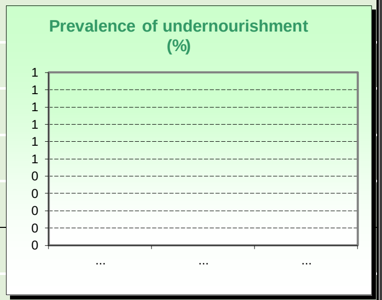
A11 Arrangement with the IMF

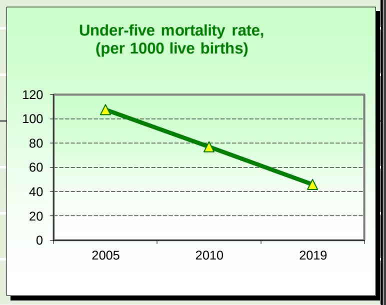
Issues	Status
IMF ECF Program	The IMF and Uganda authorities have agreed in June 2021 on a 36-month program, financed through the Extended Credit Facility (ECF). The program supports the short-term response to COVID-19 and helps sustain a post-crisis inclusive recovery. As part of the package, reforms focus on creating fiscal space for priority social spending, preserving debt sustainability, strengthening governance, and enhancing the monetary and financial sector framework. The amount of available financing under the ECF is USD 1 billion and the first tranche of USD 258 million was disbursed immediately after approval. The next tranche of USD 125 million is planned for March 2022, pending progress on quantitative and structural benchmarks. Quantitative benchmarks include: fiscal target, ceiling on new contracted debt, foreign reserve target, and core inflation target. Structural benchmarks include establishment of unified registry of all social assistance programs, enhanced due diligence measures for domestic politically-exposed persons, adoption of tax expenditure framework, and publishing a strict sanction regime for officers responsible for unauthorized spending commitments, with clear personal penalties. Additional information can be found on page 80-81 in the IMF ECF program document, https://www.imf.org/-/media/Files/Publications/CR/2021/English/1UGAEA2021001.ashx
Rapid Credit Facility	Financing under the Rapid Credit Facility of USD 490 million was provided in May 2020 in the immediate wake of the COVID-19 impact. The RCF aimed to mitigate the impact of the pandemic, while preserving macroeconomic stability. As part of the funding the authorities committed to: preparing a comprehensive report of COVID-19 spending; publishing beneficial ownership of companies that were awarded COVID-19 related contracts; and publishing an audit of COVID-19 expenditures.
Capacity Development and Technical Assistance	
Financial Supervision and Regulation	Supports the implementation of the 2018 Financial Sector Stability Review recommendations to reduce regulatory forbearance, close gaps in bank supervision, strengthen corporate governance and internal controls.
PFM	Improves the efficiency of public spending, in particular capital spending. Strengthen the budget process and institutions to ensure budget targets are realistic and in line with policy priorities, avoiding arrears and supplementary budgets. Improve cash and debt management, and management of fiscal risks. Complete arrangements to prepare for oil production.
Tax policy and revenue administration	Assists the authorities with finalizing and implementing their DRMS so they can achieve their target of ½ percent increase in the tax-to-GDP ratio per year over the next five years to create space for investment and social spending.

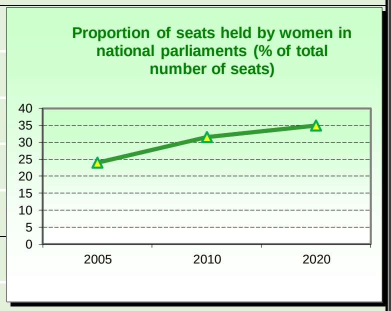
Strengthen macroeconomic and financial statistics compilation and dissemination for decision making	Strengthens the accuracy of national accounts and GFS; improves data collection for extra budgetary units and local governments. Disseminate GFS for nonfinancial and financial public corporations and compile quarterly GFS for central government.

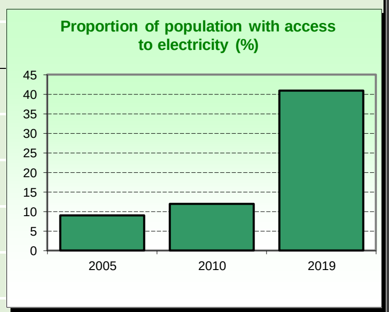
A12 Progress towards SDGs

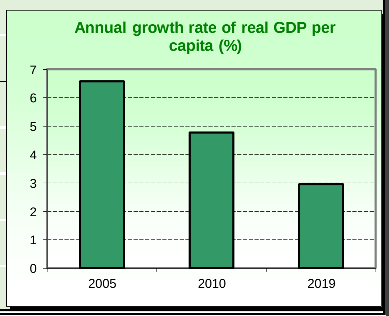
Goal 1: End poverty in all its forms everywhere	2000[1]	2010[2]	2020[3]
Proportion of population living below the international poverty line of US$ 1.90 (PPP) per day	57.0	45.3	41.3
Proportion of population living below the national poverty line (%)	31.1	24.5	21.4
Employed population below the international poverty line of US$1.90 per day, aged 15-24 (%)	53.6	39.7	36.7
Employed population below the international poverty line of US$1.90 per day, aged 25 and over (%)	54.6	39.3	35.9
Goal 2: End hunger, achieve food security and improved nutrition and promote sustainable agriculture			
Prevalence of undernourishment (%)	...	...	...
Proportion of children moderately or severely stunted (%)	44.9	38.2	28.9
Agriculture orientation index for government expenditures	0.1	0.2	0.2
Total official flows for agriculture (Millions of Constant 2018 US$)	112	84	212
Goal 3: Ensure healthy lives and promote well-being for all at all ages			
Maternal mortality ratio	491	430	375
Proportion of births attended by skilled health personnel (%)	39.0	41.9	74.2
Under-five mortality rate (deaths per 1,000 live births)	107.4	77.0	45.8
Malaria incidence (per 1,000 population)	433.6	409.4	262.7
Goal 4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all			
Proportion of children and young people at the end of primary achieving a minimum proficiency level in: Reading (%)	...	...	51.9
Proportion of children and young people at the end of primary achieving a minimum proficiency level in: Maths (%)	...	...	52.6
Gender parity index of trained teachers, primary (ratio)	...	...	1.0
Total official flows for scholarships (Millions of Constant 2018 US$)	...	2	6
Goal 5: Achieve gender equality and empower all women and girls			
Proportion of seats held by women in national parliaments (% of total number of seats)	23.9	31.5	34.9
Proportion of women who make their own informed decisions regarding contraceptive use (% of women aged 15-49 years)	...	90.0	92.6
Proportion of women who make their own informed decisions regarding reproductive health care (% of women aged 15-49 years)	...	62.8	75.4
Goal 6. Ensure availability and sustainable management of water and sanitation for all			
Proportion of population using safely managed drinking water services, (%)	5.0	8.0	17.0
Level of water stress: freshwater withdrawal as a proportion of available freshwater resources (%)	4.60	5.80	5.83
Total official development assistance for water supply and sanitation (Millions of Constant 2018 US$)	93.4	149.7	127.5
Goal 7: Ensure access to affordable, reliable, sustainable and modern energy for all			
Proportion of population with access to electricity (%)	9.0	12.0	41.0
Proportion of population with primary reliance on clean fuels and technology (%)	5.0	5.0	5.0
Renewable energy share in the total final energy consumption (%)	94.1	93.2	90.3
Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all			
Annual growth rate of real GDP per capita (%)	6.6	4.8	3.0
Unemployment rate, (aged 15-24) (%)	...	...	15.3
Unemployment rate, (aged 25 & over) (%)	...	...	7.7
Proportion of youth not in education, employment or training (%)	8	7	30











Sources : ADB Statistics Department Database; *last update : October 2021*

United Nations Statistical Division, Online Database on Sustainable Development Goals (https://unstats.un.org/sdgs/).

Note : n,a, : Not Applicable ; ... : Data Not Available,

[1] *Latest year available in the period 2000-2005;* [2] *Latest year available in the period 2006-2010;* [3] *Latest year available in the period 2011-2020*

A13 Fragility and Resilience Note

Less than a decade ago, Uganda was regarded as an African economic success story as GDP grew threefold and poverty was reduced to one third of the population.

Structural transformation has contributed to the increase in the labour force employed in the agro-processing sector during a couple of years before the Covid-19 pandemic. Nevertheless, growth has been slow in the recent years and poverty remains pervasive.

However, because of the pandemic, unemployment has gone up and labour has moved back to subsistence farming. Agriculture employs 70% of the population, contributes 25% to the GDP and accounts for 50% of total exports.

As the pandemic threatens to reverse economic and social gains made in the last decade, regional instability spills over into the country worsening the situation. Uganda is the largest host of refugees in Africa which puts a strain on already difficult public services delivery.

While regular elections ensure political inclusiveness, cyclical episodes of political violence and intolerance, raises concerns about political the future of political inclusiveness in the country. Security concerns, mostly created by the threat of ISIL, threatens to reduce investors' confidence and raise the country premium risk if not adequately taken care of.

Overview of resilience

A look into pressures and capacities in Uganda, along the seven dimensions of the 2020 Country Resilience and Fragility Assessment (CRFA) demonstrates great country resilience, however, vulnerabilities remain especially in terms of exposure to international terrorism, legal treatment of corruption, high immigration and malnutrition levels, social and economic infrastructure shortcomings, and regional integration challenges.

Inclusive Politics: Even though elections are regularly held and universal suffrage is guaranteed, confidence in the electoral process is declining over political intimidation and violence during elections and questioning of electoral commission's credibility. Despite the good anti-corruption regulatory framework, bribery and corruption in Uganda remain a concern due to limited law enforcement and impunity of senior officials. Even though there is room for improvement, political representation of women, youth, people with disabilities are among the highest in Africa.

Security: The perception of security among the population has significantly declined in the recent past. As violent crime increases, trust in the state security institutions declines. Allegations of criminal activity within the police and their cooperation with informal security groups affect the legitimacy of the police. Episodes of mob justice challenges the state's monopoly on the use of force. While internal armed conflicts have long been contained, Uganda remains vulnerable to conflicts in the region and to international terrorism, such as the recent bombings in Kampala, given Uganda's active role in AMISOM.

Justice: Independence of the judiciary is guaranteed by the constitution and the structure of the judicial system is well defined, however, separation of powers has been largely undermined by major political actors over the years. Corruption undermines particularly the performance of the lower courts that are believed to be disposed to bribe-taking as inadequately placed judges are easily politicized and yielding to political influence. In rural areas, citizens often perceive judicial institutions as treating people according to their social status or political affiliations.

Economic and social inclusion: Despite improvements, poverty levels in the country increased recently (21% in 2017) on account of higher population growth compared to that of the economy. Poverty disproportionally affects the northern and eastern Uganda and especially in the marginalized region of Karamoja. Income inequality has been rising in the recent past (Gini of 42.8). Poor public provision of education and other services hinder the economic opportunities for the youth which is among the youngest in Africa. The formal labour market and related social security mechanisms exclude most of the population.

Social cohesion: While the constitution guarantees freedom of association, speech and movement, the increased interference by government with media outlets undermines this freedom in practice. Diversity of languages, ethnic groups, traditional socio-political organization and religious affiliation is a marked characteristic of Uganda, but these features are often exploited for political gains and group-based exclusion which poses challenges to national cohesion. Gender equality is guaranteed in the constitution affirmative action to guarantee balance in politics exists, gender-based violence, however, remains an issue and is rarely prosecuted.

Externalities/Regional spill-over effects: Uganda has a fairly diversified production and exports base. As a landlocked country, its trade mostly with COMESA and UE countries depends on transit routes through Kenya and Tanzania and that renders some degree of vulnerability in relations to its neighbours' political and economic stability. In fact, political instability in the neighbourhood has caused Uganda to become the largest refugee host country in Africa and third largest in the world and target of international terrorism.

Climate/Environment Impacts: Uganda has fertile soils and a favourable tropical climate, which is moderated by high altitude and large water bodies, but it also highly vulnerable to the effects of climate change. Unpredictable weather phenomena in the form of irregular rainfall, results either in drought or in flooding accompanied by landslides. As economic needs are perceived to top environmental concerns, future oil exploration in the Albertine Graben region raises environmental concerns. Uganda is among the 20 countries worldwide with the highest prevalence of malnutrition.

Other secondary pressures include

Poor infrastructure slows down growth. Uganda's infrastructure deficits, especially in transportation and electricity, inhibit market and economic linkages, which in turn reduce investments and, in the end, slow down the pace of economic transformation.

Limited financial inclusion threatens social cohesion. Uganda has made progress in promoting financial inclusion, especially in expanding mobile banking. Nevertheless, there is more room left to promoting equitable access between men and women as well as in relation to its peer regional countries.

The current status of economic governance lives room for improvement. Uganda's current tax system and investments management frameworks, especially in relation to the oil sector, leave room for transparency and accountability concerns.

Opportunities to reinforce resilience

Building on the array of capacities of the country along the dimensions of the CRFA, there are some levers that the country can rely upon to address the pressures it is faced with and further strengthen resilience throughout the lifespan of the CSP, namely:

Expansion of socio-economic infrastructure such as roads, energy and telecommunications to improve interconnection between urban and rural areas, between agro-production and consumptions centers and boost regional integration.

Skills development geared towards the youth to promote and take advantage of economic transformation efforts and the advent of economic opportunities with the exploitation of oil. Skills development can also strengthen institutional capacity and improve public services delivery.

Optimization of natural and mineral resources such as gold and the so far unexploited oil, to increase fiscal revenues and social spending in rural and marginalized areas of the country (especially the north and the east), and to advance economic transformation.

Conclusion

This note presented the main pressures and capacities in Uganda. It showed that Uganda has considerable resilience, nevertheless, there are some of vulnerabilities facing the country, that can be addressed by the 2022-2026 CSP. If successful, the CSP can further foster domestic and regional integration; improve social and economic inclusiveness and ameliorate the state-society relationship.

A14 Country Fiduciary Risk Assessment 2021

Executive Summary

The results of the PEFA 2017 shows that public financial management systems in Uganda are strong and reforms have improved systems as the RFM reform action plan has been operationalized. However, there are notable weaknesses in aspects of risk management and sectors strategies linked to multi-year budgeting. The budget process, which has evolved with macro-economic and fiscal forecasting and strategy and strong budget preparation processes are a positive start.

The Government has made efforts to clear expenditure arrears such as use or prepayments for for utilities, a commitment control now embedded on IFMIS as well as additional budget provisions to clear the stock of arrears in government. Information on budget execution is available to decision makers.

External audit is an area of significant growth with the Office of the Auditor General active in carrying out financial and compliance audits. Audit standards have been adopted well with string staff development programs. However, the external scrutiny of audit reports by the Public Accounts Committee is not up to date implying that the accountability cycle remains incomplete.

The overall risk assessment of the Uganda PFM system is substantial.

Dimension	2021
Budgeting	Substantial
Treasury	Medium
Accounting, recording, and reporting	Substantial
External scrutiny and audit	Substantial
Internal Controls	Substantial
Overall fiduciary risk	Substantial

Performance of the PFM systems

In recent years, there has been significant progress in the areas of PFM systems as a result of wide-ranging PFM reforms. The legal framework for PFM was strengthened with the passage of the Public Financial Management Act 2015. The Country's PEFA 2017 results show that the PFM systems in Uganda are strong and reforms have improved systems as the PFM reform action plan has been operationalized although there are notable weaknesses in risk management and sectors strategies linked to multiyear budgeting.

Budget reliability is good at aggregate level with budget transparency strong on public access to budget information and comprehensiveness of financial reports although its weak on fiscal transfers and performance information on results and impacts. There is an orderly budget process although this lacks a medium-term perspective.

Accounting and reporting are comprehensive, timely and relatively accurate but with some gaps due to lack of integration of systems.

External scrutiny is of good quality and its independent. It has improved over the years with the Office of the Auditor General (OAG) carrying out financial and compliance audits. External audit scrutiny by the Public Accounts Committee is not up to date although there is an improvement compared to previous years. Delays in legislative scrutiny cause a weak link in the accountability for allocating resources in accordance with budget and service delivery standards.

Budget

Planning and budgeting

The PFM Act 2015 defines budgeting as process by which Government sets levels to efficiently collect revenue and allocate the spending of resources among all sectors to meet national objectives. The Act further defines the budget calendar, its contents and the role of the legislature and the executive in the process.

The GoU budget emphasis over the last few years has been on infrastructure development. Recent reforms including the introduction of the Programme based budgeting has strengthened the budgeting process because this has provided a robust and automated platform, which has been able to integrate the budget numbers, revenues with agreed outputs and outcomes.

The Decentralization of salaries, wages and pension payments has also reduced payment arears and backlogs and strengthened the budgeting process has all civil servants now are being paid on time and without delays.

The GoU budget Transparency initiative strategy initiative has been implemented with budget information now readily available through the internet.

Budget execution

The credibility of the budget as a planning and control mechanism is determined by the extent to which actual expenditures and revenues are consistent with the approved budget.

In year budget execution reports are made available to the public in the Quarterly Budget Performance reports.

The deviation between actual aggregate expenditure and original budget has improved over the years and the deviation has improved from 11.9% in 2013/2014 financial year to under 5% in the last financial years up to 2020.

This improvement has been attributed to high accountability levels, cleanup of the payroll and the introduction of the Treasury Single Account.

Policy-based budgeting

The budget process is orderly and transparent and the GoU is now using a form of performance and based budgeting. However, the Medium-Term Fiscal Framework remains a poor indicator of future funding levels. The National and Sector Budget and Work Plan are largely aligned with Government policies as a result of Output-Based Budgeting Tool (OBT). The OBT enables clear allocation of resources within sector ceilings. Efforts are being made to improve the OBT functionality and automation to bring about data integrity, timely and reliable budget information for both the central and local government institutions (PFM strategy paper). Other reforms include establishing programme-based planning approach to anchor program-based budgeting in development planning.

Predictability and control in budget execution

Revenue administration has undergone significant organizational and technological modernization of systems and management structure that promote efficiency (PFM strategy paper). An integrated Tax Administration System is in place for online registration, filing, payments and account balances. Tax laws are regularly reviewed.

However, revenue mobilization remains inadequate to finance the National Budget and Local Governments' own revenue are significantly constrained. Significant challenges requiring attention include building a strong compliance culture across all segments of the taxpayer population.

Information on in-year budget adjustments is not communicated in time for spending institutions to respond appropriately and there is a weak communication flow between the Sector MDAs and LGs. There is a need to strengthen the capacity of the Budget Monitoring and Accountability Unit (BMAU) to cover other key areas of the budget so as to provide more comprehensive budget performance data for decision making. In addition, the concepts and benefits of budget monitoring and evaluation concepts are not well understood or appreciated by implementing agencies which makes data collection difficult due to lack of both capacity and commitment (PFM Strategy Paper).

Transparency and comprehensiveness

Budget transparency is strong on public access to budget information and comprehensiveness of financial reports but weak on inter-governmental fiscal transfers and performance information on results and impacts.

According to the Open Budget Index (OBI) and the latest PEFA assessment, there is a fair degree of comprehensiveness and transparency in terms of budget documentation and public access to financial information. A clear budget calendar is issued to Ministries, Departments and Agencies with initial ceilings communicated. The timetable is adhered, and the Budget Circular is comprehensive and clear. Budget classification is in line with international standards, such as Government Financial Statistics (GFS) and Classification of the Function of Government (COFOG).

The budget process is participatory, and a mechanism is in place to facilitate intersectoral coordination. The budget process includes consultative workshops with different stakeholders, including civil society.

Overall fiduciary risk rating for the budget component is Substantial.

Treasury

The introduction of Treasury Single Account (TSA) has improved the predictability of funds to Ministries, Agencies and Local Government. All of central government now operates on the TSA and this has involved the closing of individual Ministry accounts.

Improvements to cash management have been achieved through quarterly cash flow forecasts and the issuance of quarterly ceilings to MDAs.

The TSA is on IFMIS, which improves cash management and consolidates government bank accounts. Domestic and external debt records are substantially complete and reconciled.

There is limited reliance on quarterly work plans and cash need projections by Ministries, Departments, Agencies and Local Governments due to lack of credibility of cash forecast and plan. The cash flow committee produces quarterly an annual cash flow forecast which is updated quarterly as part of the exercise to determine releases to be done to budgetary units. However, cash forecasting at the MDA's and MoFED continues to be weak rendering the forecasts to be weak (PEFA 2017).

Overall fiduciary risk rating for the Treasury component is Medium.

Internal controls

The Internal control environment is generally sound with well-functioning controls. The controls associated with day-to-day transaction of the budgetary central government are functioning and result in good data integrity regarding the activities of these entities (PEFA 2017).

There is a risk-based approach supported by a string internal t, external audit and oversight function.

Control activities are generally strong in particular segregation of duties though the decentralized payroll is still working on improvements and reconciliation of advances is still a weakness. Budget rules for supplementary estimates are always not met.

There is an internal audit function at every Central Government vote which focuses on the effectiveness of internal controls, adheres to professional standards but appears to lack quality assurance. Annual audit programmes exist and majority of the programmed audits are completed and evidenced by the distribution of reports to the appropriate parties, although there is partial responses provided to the recommendations by management although over 80% of the recommendations are followed up.

Overall fiduciary risk rating for the internal control component is Substantial.

Accounting and Financial Reporting

Accounting and reporting are timely and relatively accurate but with some gaps and errors due to lack of integration of systems. Treasury operations, comprehensive financial reports and regular in year reporting ensure budgets are executed broadly as intended. Gaps in IFMIS coverage mean that the financial reports from the system are not comprehensive and stand-alone systems can cause errors or misreporting.

Bank reconciliations for all active Central government accounts take place at least weekly at aggregate and detailed levels with suspense accounts having been reconciled and closed. Advances are managed manually and outside IFMIS which makes tracking and reconciliation difficult.

Financial reports for budgetary central government are prepared annually and are comparable with the approved budget and these reports contain information on revenue, expenditure, financial assets, financial liabilities, guarantees and long-term financial obligations.

Accounting standards applied to all financial reports are consistent with the Country's legal framework with the GoU preparing its financial statements using the modified cash basis of accounting in conformity with the International Public Sector Accounting Standards (IPSAS). The completion of the Government financial statements has improved over the years and its production is now within the three months deadline and thereafter submitted to the Office of the Auditor General (OAG).

Overall fiduciary risk rating for the accounting and financial reporting component is Substantial.

External audit

The Office of the Auditor-General (OAG) is responsible for auditing all public funds and is a member of INTOSAI, AFROSAI and AFROSAI-E. It conducts its audits in adherence to international auditing standards. The OAG mandate under Article 163 (3) of the Constitution of the Republic of Uganda and as amplified by Sections 13 (1) and 18 of the National Audit Act, 2008, is to audit and report to Parliament on the Public Accounts of Uganda and of all Public Offices including the courts, the central and local government administrations, universities and public institutions of like nature, and any public corporations or other bodies established by an Act of Parliament. Article 163 (3) (b) requires the Auditor General to conduct Financial and Value for Money audits in respect of any project involving public funds.

According to the Extracts of the summary of Key Findings of the Annual Report of the OAG For the financial year ended 30 June 2020, the OAG had planned to conduct 2,724 audits but ended up doing 1,204 leaving a balance of 1,520 audits not conducted due to effects of the COVID-19 pandemic which affected his work.

The OAG listed key findings which ranged from infrastructure development delays, to payroll management to lack of medical equipment in hospitals and slow implementation of the approved GoU budget among others.

Audit coverage has included the Central government, local government and statutory corporations with a steady improvement in the number of unqualified opinions over the years.

The Public Accounts Committee (PAC) scrutinizes and presents the audited financial statements to Parliament for approval and adoption. The Auditor General presented to parliament the audited financial statements of the GoU for the year ended 30 June 2020 in February 2021.

The Accountability cycle remains incomplete due to delays in the finalization of PAC reports, their subsequent dissemination and the issuance of corresponding treasury memorandum.

Overall fiduciary risk rating for the external audit component is Substantial.

PFM reforms

In recent years, there has been significant progress in the areas of PFM systems as a result of wide-ranging PFM reforms. The Financial Management and Accountability Program (FINMAP) is the driving force for the improvement of the public finance management system. The current program has ten components, including macro-economic management, budget, payroll and pension management, public procurement, internal and external oversight, legislative review, and PFM in local governments. To continue with ongoing reforms and further strengthen governance systems, the government has prepared a PFM Reform Strategy for 2018-2022. The proposed reforms will seek to leverage the established policy frameworks to deepen accountability stipulations and guidelines.

Procurement

Procurement Legal and Regulatory Framework: The Public Procurement and Disposal of Public Assets Act, 2003, and the Public Procurement and Disposal of Public Assets Regulations, 2014 have been reviewed and the risk for its use in Bank-financed projects is rated at “low” as there no major discrepancies that have been identified between Uganda’s public procurement legislative and regulatory framework and the agreed standards. The only shortfall is that the Legal and Regulatory Framework do not have specific provisions for participation of government owned enterprises to promote fair competition. However, the bidding documents for procurement of goods, works and consulting services requires that for state-owned enterprises to be eligible to participate in public procurement, they should show that they are legally and financially autonomous and operate under commercial law. None of the government owned enterprises meets the eligibility requirements and are, therefore, effectively restrained from participation in public procurement.

Institutional Framework and Management Capacity: Section 5 of the Act establishes the Public Procurement and Disposal of Public Assets Authority (PPDA). The objectives of PPDA are derived from section 6 of the PPDA Act, 2003 and they are to ensure the application of fair, competitive, transparent, non-discriminatory and value for money procurement and disposal standards and practices; harmonize the procurement and disposal policies, systems and practices of the central government, local governments and statutory bodies; set standards for the public procurement and disposal system in Uganda; monitor compliance of procuring and disposing entities; and build procurement and disposal capacity in the country. The institutional framework oversees the integration and mainstreaming of public systems into the broader public sector governance system and whether managerial and technical capacity exist and are adequate to handle procurement without unnecessary cost and/or delay. The framework also examines the existence of a regulatory and discharge of its core mandate. The PPDA Act clearly separates policy from transactions thereby avoiding conflict of interest. Part II and Part III of the PPDA Act outline the functions and responsibilities of the authority and the Procuring and Disposing Entities, respectively. The Regulatory body is not responsible for direct procurement operations and is free from other possible conflicts of interest in procurement, and the risk for its use in Bank-financed projects is rated at “low”.

Procurement Operations and Market Practices: Open competitive bidding is the default procurement method for all government procurements using Standard National Bidding Documents. In all sectors, the private sector response to solicitation is good however, public procurement remains a challenge for the local services providers where they compete directly with large foreign firms who already enjoy economies of scale. Bidding procedures continue to be unclear to local service providers and in sectors relating to infrastructure awarding of contracts is constrained because of lack of capacity due to insufficient working capital, equipment and manpower. In terms of contract administration, PPDA Contract audits reveal that approximately 50% of contracts are successfully implemented on time and the 50% not delivered on time are due to bureaucratic delays in Government (mainly delays in payment, evaluation of progress reports etc.) which impacts significantly and negatively on the delivery of successful contracts. Delays in payment also lead to delayed contractor performance as contractors end up with insufficient funds to implement contracts. The delayed payments also increase the costs of future contracts when contractors edge against delayed payments as a way of managing risks. The risks in procurement operations and market practice is substantial.

Integrity and Transparency: The legal framework, organization, policy, and procedures providing for internal and external control and audit of public procurement which enforces the proper application of laws, regulations and procedures are in place and the risk for its use is "moderate", because the Authority does not have enough budget provision to undertake regular audits. The existing complaints system set out clear specific conditions that provide for fairness, independent and due process, and the risk for its use in Bank-financed projects is rated at "substantial". While decisions of the review mechanism are usually rendered in a timely manner, enforcement of the decisions remain a challenge and thus undermine the effectiveness of the procurement system. The PPDA Act has legal provisions on corruption, fraud, conflict of interest, and unethical behaviour and the definition of the responsibilities, accountabilities, and penalties for fraudulent or corrupt practices. The legal provisions include institutions in charge of fighting against prohibited practices and the risk for its use in Bank-financed operations is rated as "low".

Dimension	**Risk (2022)**
Procurement Legal and Regulatory Framework	Low
Institutional Framework and Management Capacity	Low
Procurement Operations and Market Practices	Substantial
Integrity and Transparency	Low
Overall fiduciary risk	**Moderate**

In conclusion, the risk of using the Country Procurement Systems on Bank-financed projects is globally rated as moderate.

Main Laws, Proclamations & Regulations issued to improve Public Financial Management

- Constitution 1995, as amended in 2000 and 2005
- Public Finance Management Act 2015
- Judicature Act 1996, Local Governments Act 1997,
- Inspectorate of Government Act 2002
- Local Government Finance Commission Act 2003,
- Public Procurement and Disposal of Public Assets Act 2003 and Amendment Act 2021,
- Access to Information Act 2005,
- The Anti-Corruption Act 2009,
- Local Government Financial and Accounting Regulations 2007 and the National Audit Act 2008.

A15 Risk Assessment

RISK CATEGORY	RISK DESCRIPTION	RATING	MITIGATION MEASURE	RISK OWNER
Country's political and governance context	CSP operations can be **delayed due to political and governance considerations** that go beyond operation specific issues	**Moderate**	- The Bank can engage in higher level dialogue with relevant authorities, and escalate to higher levels if needed.	District, Municipal and City Authorities
Regional and Domestic Insecurity	**Intensification of regional (eastern Africa) and domestic security risks** Deterioration of the security situation in Ethiopia, South Sudan, Somalia and DRC, trading partners, would directly affect exports and bank supported projects. Regional insecurity could spill-over to Uganda, with risk of localized civil strife, sanctions, bombings and terrorist attacks. Spreading of instability to Uganda would have severe effects on the economy and Bank ability to operate in Uganda.	**Substantial**	- Maintain exchange rate flexibility - Promote diversification of trading markets - The Bank can engage in higher level dialogue and engage regional institutions - The Bank can encourage Uganda to continue to play a key role as a regional peace mediator	National level
Macroeconomic Stability and Fiscal	Uganda maintains a robust stance on macroeconomic stability with stable internal and external prices, though **lower than expected tax revenue combined with slow fiscal adjustment on spending pose a risk to debt accumulation**	**Moderate**	- Uganda is implementing a 3-year Enhanced Credit Facility under supervision of the IMF, which sets guidance and specific program targets. - Bank can engage in dialogue around operational debt ceilings with annual budget deficit and a binding expenditure envelope.	Ministry of Finance, Planning and Economic Development
Sector strategies and policies	**Policy or strategy has become outdated**	**Low**	- The Bank can consider support to review and support the process of updating policies and strategies through operations or through other funding means.	Ministries and Agencies
Fiduciary and value for money	Risk of **extended project implementation delays** that will lower project efficiency and reduce value for money, **slowing the development process**	**Substantial**	- The Bank engages in regular portfolio dialogue with relevant implementing agencies to identify, discuss and address issues. - Issues can be brought forth to higher levels of authority. - The Bank can provide additional implementation support	Executing and Implementing
Environmental (including climate change) and social	**Climate change impacts may affect sustainability** of planned CSP interventions. Extreme weather events such as floods, erratic rainfall patterns, drought could hamper agricultural production and productivity and exacerbate food insecurity.	**Moderate**	- Bank will make efforts to ensure that projects are climate-proofed through the adoption of climate smart practices and technologies and appropriate infrastructure design, as well as monitor implementation of climate resilient measures and report on their outcomes.	Implementing Agencies
Capacity of implementing entities	**Weak implementation of public investment** (absorption capacity). Would lower growth dividend and increase risk of debt distress, and affect implementation progress of Bank supported projects.	**High**	- Improve the quality of public spending - Phase projects according to a realistic time frame - Bank can support implementing agencies when necessary	Implementing Agencies
Operational and Financing Risk	Due to rising debt levels for Uganda, **non-concessional headroom could be reduced** affecting number of and scale of operations.	**Moderate**	- Efforts to seek out co-financing with other development partners, especially those providing concessional terms, will be done on a regular basis and when opportunities arise.	Bank
Surplus power generation capacity	**Surplus power generation capacity** threatens the energy sector's financial viability and forces the government (the off-taker) to pay for deemed energy and capacity usage, putting upward pressure on electricity end-user tariffs and negatively affecting ability to service loans.	**Moderate**	- Engagement with energy planning authorities to ensure that network transmission and distribution projects are prioritized before new generation. - Invest distribution network and transmission system to increase the national power demand. 2 transmission projects and expansion of distribution system for electricity access in IOP.	Ministry of Energy/ power off-taker, MOFPED, The Bank

RISK CATEGORY	RISK DESCRIPTION	RATING	MITIGATION MEASURE	RISK OWNER
			- Complete and start operationalizing the regional interconnection lines with neighboring countries to export part of the excess power	

Risk Category

RISK CATEGORY	DEFINITION
COUNTRY'S POLITICAL AND GOVERNANCE CONTEXT	This category assesses the risks to the development objective stemming from the country's political situation and governance context. It is important to note that it does not assess the overall riskiness of a country. Political and governance risks should be assessed against the development results associated with the operation. For instance, it is conceivable that an operation in a country that is perceived to be highly risky in terms of its overall political and governance context could nevertheless have a low or moderate risk rating in this category. For example, if the project's objectives have been widely publicized and discussed with key stakeholders and the project is clearly a high priority for all political parties, the risk may be relatively low. The staff of the Business Delivery Units, Country Offices or governance specialists for the respective country (where applicable) are resources that the operations staff may draw upon to determine the level of political and governance risk in the context of their operation.
MACROECONOMIC	These risks include external and domestic economic risks that may derail proper preparation, implementation and achievement of results of the proposed operation or otherwise affect the development results associated with the operation. Operations staff should carefully consider, in consultation with the country economist for the relevant country, any macroeconomic risks that could affect their operation.
SECTOR STRATEGIES AND POLICIES	These risks are specific to the sector(s) which are at the core of the operation. Key considerations for the assessment of these risks include the adequacy of the sector-level organizations' strategies, policies and governance arrangements relevant to the operation; their stability and predictability; their alignment with the country's development strategy and objectives; and their financial and fiscal sustainability. Information related to risks associated with sector strategies and policies may be found in sector-specific ESW or other sector-specific policies and analysis if they exist.
TECHNICAL DESIGN OF THE OPERATION	These risks include those related to technical aspects of the operation's design related to the operation's economic rationale, technical soundness and complexity, number of components and design flexibility (time and costs) that could impact the achievement of the development objective.
FIDUCIARY AND VALUE FOR MONEY	This category includes risk related to fiduciary aspects that could affect the development results associated with the operation. It assesses the risks that the project funds will not be used to achieve optimal value for money based on mutually supporting and reinforcing principles of Economy, Efficiency, Effectiveness & Equity. The assessment should take into account the risk associated with the use of the Borrower procurement system at the country, sector and project level, institutional capacity of the implementing agencies to manage budgeting, procurement, accounting, funds flow, internal controls, and financial reporting; prior implementation experience in managing these functions for similar projects/programs; existence and robustness of oversight arrangements including external audits and scrutiny; the level of transparency in disclosing procurement/contract, financial reporting and audit related information; and the design and complexity of the project. The overall fiduciary risk assessment should draw upon the experience (including fraud and corruption related) from the existing portfolio.
ENVIRONMENTAL AND SOCIAL	Environmental (including climate change and natural disasters) and social risks are determined by a combination of design and operational characteristics, together with exogenous factors, which: (i) may adversely affect the ability of an operation to achieve and sustain its development objective(s); and (ii) define the nature, scale and significance of direct and indirect environmental and social impacts.
CAPACITY OF IMPLEMENTING ENTITY	This risk relates to the entity's capacity and performance track record in the implementation of ongoing and/or previous Bank-financed project or project

RISK CATEGORY	DEFINITION
	financed by other development partners. This includes an assessment of: (i) the entity's record of good governance and internal control, and (ii) the entity's capacity to handle the size and scale of the project, and its experience with similar activities.
OTHER	This category would capture any other risks relevant in the context of the specific operation that are not covered in any of the above. Risks that might be captured in this category include international political risks, specific risks related to regional operations, security risk, climate risk etc. If all relevant risks are captured in one of the above-mentioned categories, this category can be left blank. If a rating is entered for this category, it should be explained in the risk section of the PAR.

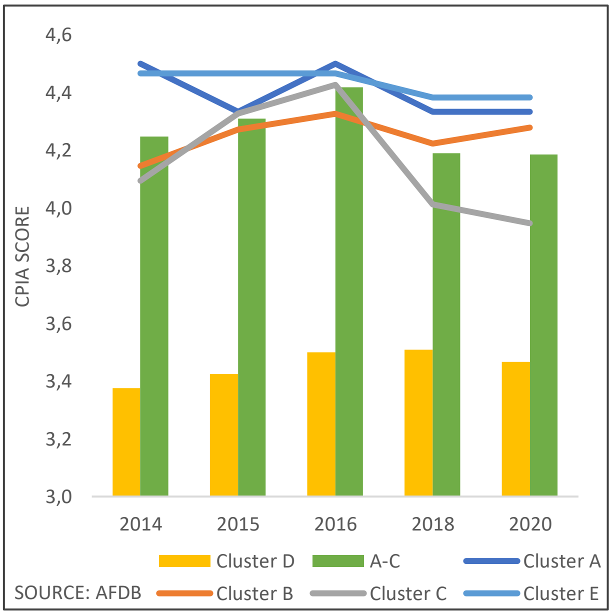
Risk Rating

High	☐	The risk is almost certain to occur during the life of the project, and if it occurs it could have a very severe adverse impact on the achievement of the project's development objective. *(Additional considerations: If the risk occurs it could have significant reputational impact; the Bank or the client may have limited ability to manage the risk, i.e. to reduce likelihood or impact)*
Substantial	☐	The risk is likely to occur during the life of the project, and if it occurs it could have a severe adverse impact on the achievement of the project's development objective. *(Additional considerations: If the risk occurs it could have some negative reputational impact; the Bank or the client have some influence in managing the risk but cannot control it completely)*
Moderate	☐	The risk may possibly occur during the life of the project, and if it occurs it could moderately impact the achievement of the project's development objective. *(Additional considerations: The Bank or the client can manage the risk to an adequate degree)*
Low	☐	Irrespective of the likelihood of occurrence, if the risk occurs it is expected to have relatively minor adverse impact on the achievement of the project's development objective.

A16 CPIA Assessment

Uganda's Country Performance and Institutional Assessments declined (if slightly) between 2014 and 2020 in three out of five clusters: economic management, social inclusion and equity, and infrastructure development and regional integration (Figure). Structural policies and public sector management clusters have shown small increases. The overall score declined from 4.12 to 4.08 from 6th position in 2014 to 13th position (of 54 countries) in 2018.

Country Performance and Institutional Assessment 2014-2020



Note: Cluster A = Economic Management; Cluster B = Structural Polices; Cluster C = Policies for Social Inclusion; Cluster D = Public Sector Management and Institutions; Cluster E = Infrastructure Development and Regional Integration. Scores Range from 1 (lowest) to 6 (highest).

Uganda has demonstrated strong performance in the Economic Management cluster. It has diligently managed its monetary policy, i.e. medium-term inflation targeting and stable exchange rate during the past few years. Fiscal policy has been expansive driving recent rapid debt accumulation. At the continental level Uganda ranks 10 on economic management.

Structural Policies have improved slightly, notably Financial Sector Development and Business Regulatory Environment clusters. The financial sector continues to expand, as financial inclusion increased from 57% to 78% between 2006 to 2018. There is scope to boost the business environment by improving the *protection of minority investors*, securing *property rights*, and *resolving insolvency*. On the other hand, trade policy has deteriorated due to lack of progress on the regional integration agenda.

Social Inclusion is still work in progress. Uganda has shown positive trends with respect to access to education, while health sector indicators are showing improvement in the prevention and treatment of HIV/AIDS and malaria, and with respect to several mortality indicators. However, gender inequalities have persisted, especially with respect to property ownership, income and economic decision making, and political participation and influence. Social protection systems are still weak in Uganda, and business compliance with labour market regulations has deteriorated in recent years.

Public Sector Administration and Institutions have improved overall. PEFA indicators have improved in budget credibility, financial management and revenue administration. Commitment control remains a weak area, however, leading to build-ups of arrears. Uganda's tax base remains narrow, affecting the ability to generate sufficient funds for development expenditures in critical areas such as education and health. However, corruption and graft continue to be a hindrance to the development and promotion of staff at the workplace.

Uganda has increased its investments in road and rail transport to improve connectivity and to facilitate regional trade, reduce trade costs, and improve cross border movement of goods. The country is a signatory to several regional trade protocols, which has helped strengthen trade within the region. However non-tariff barriers, including high transport costs, bureaucratic border control procedures, and long distances to markets continue to restrict trade.

The Financial Management and Accountability Program (FINMAP) has become the pillar of the public finance management system in Uganda. The current program is the third phase of that effort and has ten components, including macro-economic management, budget, payroll and pension management, public procurement, internal and external oversight, legislative review, and PFM in local governments. The PFM reform programs have produced tangible results both at the central and local government levels.

A17 Uganda Country Financing Parameters

Items	Parameters	Remarks
Counterpart funding and Cost Sharing: Limit on the proportion of individual project cost that the Bank may finance.	Up to 100%	Funding up to 90% for both ADF and ADB will not require any additional information or justifications in the appraisal documents. Beyond 90% and consistent with the Policy, the Bank may consider financing up to a limit of 100%, assessed and justified on a case-by-case basis, according to the following three criteria: i) the country's commitment to implement its overall development program; ii) the financing allocated by the country to sectors targeted by Bank assistance; and iii) the country's budget situation and debt level. The Bank will consider costs of individual operations and the context of these operations and portfolio implications within the Bank resource envelope. In practice, the Bank's financing share will be determined by project and sector-specific considerations (and performance) and will be less than 100% in most cases. The Bank will continue to place an emphasis on cost sharing, including through counterpart funding contributions and co-financing of individual projects, in order to encourage Government ownership and achieve the desired development impacts of the projects. For studies, the cost-sharing principle will remain at 95%, but on a case-by-case basis funding can be up to 100%.
Taxes and duties: Are there any taxes and duties that the Bank would not finance?	None	The current tax policy, the tax rates, and trade tariffs are in line with other countries in the region that Uganda can be compared against. Income tax rates range from 0-40% for PIT, and up to 30% for CIT, while Value Added Tax is 18%. Most import duties are in the range of 0-25%, with raw materials entering at 0%, intermediate products at 10% and finished products at 25%. These tax rates are assessed to be "reasonable" levels of tax and duty rates; and as long as the taxes and duties do not constitute a significant proportion of project costs or are not specifically directed at Bank-financed projects, activities or expenses, the Bank Group can waive the principle of exempting Bank-financed projects from taxes and customs duties, on a case-by-case basis.
Recurrent Costs: The limit that would apply to the overall amount of recurrent expenditures that the Bank may finance.	Up to 100%, but special attention must be paid to the government policy to ensure fiscal sustainability.	Recurrent cost financing will be determined by project-specific considerations. Generally, only short-term recurrent expenditures necessary for project implementation have been financed, and hence the level of recurrent cost financing in Bank projects is not expected to be significant. Special consideration must be given to fiscal sustainability issues in assessing Bank Group financing of recurrent costs and the Government's ability to ensure that maintenance costs can be covered in individual projects, in order to prolong the usage life of the asset. Accordingly, Bank staff will continue to calculate the estimated recurrent costs and clearly indicate ways and means of ensuring sustainable financing.
Local Cost Financing: Are the requirements of local	Yes	The Bank Group will continue to finance expenditures in local currency (UGX) up to a proportion deemed necessary for achieving the project objectives, as long as: i) the financing requirements for the country's program exceed the public sector resources (that is, proceeds from taxes and other revenues) and the expected domestic

expenditures met?		borrowing level; and (ii) the financing of foreign exchange costs alone are not enough to ensure effective implementation of the project under consideration.
Provisional expenditures of infrastructure projects	On the Government's request	At the Government's request, the Bank could consider the possibility of financing the provisional expenditures of income generating socio-economic infrastructure projects that have been completed and handed over to the borrower. The general underlying principle is that the Bank may finance costs up to 100%, on a case -by-case basis, for a period of up to 3 years. Such expenditures will be eligible if the Bank is satisfied that they: i) constitute an integral part of the project at appraisal; ii) represent a small percentage of project costs, which cannot be financed by the project entity; iii) contribute to the achievement of the project's development objectives; and iv) can be supported on a sustainable basis by the public or semipublic entity beyond the transitional period.

Note: The Bank Policy, *Policy on Expenditure Eligible for Bank Group Financing*, contains additional eligible costs such as project vehicle purchase, severance payment, leased costs, food, bank charges, and late payment penalties. For these costs, staff are referred to the Policy or Management guidance.

Source: RDVP/MULT/SKF/MULT/04-06-20