LDPG/DPG strategic inputs and reflections on NDP3 (version 4)

Background: The development partners commend the Government on the development of the NDP3 version 4 and the LDPG/DPG partners are grateful for the opportunity to actively engage in the development and revision process. The below comments aim to further strengthen NDP3 content and to ensure development partners will be able to align with the plan and support Uganda in achieving its goal. This summary paper is a consolidation of strategic issues highlighted by DPG/LDPG members on the NDP 3 (version 4) and aims to feed into the discussion during the LDPG/NPA retreat on 11th February 2020. A separate document has been compiled and will be shared with NPA including specific and detailed inputs by DPG chairs/co-chairs.

Overall Observations:

- **Structure and methodology** – We would request that identified and prioritized problems are clearly linked with specific objectives, expected results and programmes in the NDP-3 Results Framework, and consequently the NDP-3 budget[1].
- **Programmatic Approach:** While it is commendable that the Government has moved towards a programmatic approach, it is important to provide a clear guidance as to how the interaction between Sectors and the need for a multi-sector response will going forward be ensured[2]. ***We therefore encourage the Government to consider a mechanism for ensuring Sectors are facilitated to collaborate for more effective results, for example strengthening and the alignment of the Sector Working Group.***
- **Population growth**: while the draft plan has recognized the population growth and its management, given its impact on wider development in the country, it requires significant enhancement. The current draft does not show how the population growth is going to be managed, nor does the draft commit the Government to any target on fertility/population reduction- though some reference to population growth is put at the result framework. ***We see the population challenge as one of the key issues facing Uganda*** – both as a challenge to economic and human development. We encourage the Government to reconsider their approach to this challenge.
- **Alignment with International and Regional Commitments**: ***We commend the Government's efforts to align plan objectives and programmes with the Sustainable Development Agenda 2030, Africa Agenda 2063, and East Africa Charter 2050***, which contain commitments on access to quality and affordable education, health, water & sanitation, transport, social development services and on addressing other challenges, such as ending violence. ***We believe more could be done in aligning and identification of critical accelerator goals such as SDG 5 on Gender Equality integrated across programmes.***

[1] To illustrate, the proposed reinforcement of compulsory 11 years of education (in other words, universal lower secondary education) will require changes in the equality assurance system and introduction of additional incentives for the schools to support students transition from P1 to S4. E.g. evolution from the PLE as a single high stakes quality indicator at the end of the primary cycle to a flexible system of continuous quality assessment which encourages and supports learning throughout primary and lower secondary school.

[2] By example in health - cross-cutting themes such as investment in the first 1,000 days, integrated service delivery strategies (targeting children, adolescent girls, women, etc.) which are still absent in the document. If not addressed, the existing siloed approach will maintain business as usual.

Sustainable and Inclusive Economic Development:

- **As we have highlighted, rapid growth in population** will remain a key challenge to Uganda, if adequate measures are not put in place. One of the most important issues in this respect is youth bulge and high unemployment. The targeted 2.6 million new jobs (averaging 520,000 new jobs per year) is close to the IMF 2019 Assessment for Uganda, which indicated that Uganda requires more than 600, 000 jobs annually. **However, these jobs will not be enough**[3]. ***The NDP III should increase the targeted share of high paying jobs, for example logistics and storage, ICT and work towards raising manufacturing share of jobs and return at the same time***. The inability to create adequate jobs to absorb the large number of labour market entries will hamper Uganda's efforts to achieve middle-income-country status by 2040.
- The current draft outlines massive skills gaps across the Sectors – while it is noted as a target under the HCD programme[4], however this should be **accompanied with strategies within the Sectors to fill skills gaps. This is also an opportunity to maximise the inclusion of women, youth and vulnerable groups**.
- **Job creation:** targeted numbers of 520,000 are not reflected on the sectors selected as main creators to job creation. Ambition is not matched with scale. Only 10% jobs in industrialization which is getting a lion's share of the budget, 60% expected in serviced and agriculture but these offer low paying jobs. Target to create jobs in high end sectors. consider sectors like Tourism with clear value chains. ICT, Transport and logistics, digitization, construction may offer better quality jobs. However, budget allocation is some of these sectors like ICT so ambition and scale do not match. Plan should cover: quality and decency of jobs (Green jobs), role of emerging cities in job creation, Reconfiguration of the TVET to be private-sector driven - 90% BOD representation in TVET institutions should be private sector to ensure that the skills produced match industry needs and that the curriculum is relevant and informed by private sector needs**.** Work out a strategy of developing Labor Market Information system. Strategies with Skills Development Fund and TVET council and Sector Skills Councils should be strengthened. Training in skills must be coupled with mindset change
- The **majority of the population works in the agriculture sector**[5] which is the backbone of Uganda's economy, and suffers from weak productivity, environmental degradation and climate change. ***With increased food insecurity and high potential of agriculture to reduce poverty[6], as well as drive industrialization, the focus and emphasis accorded to agriculture in NDPIII is inadequate***[7]. The proposal to only allocate 3.9% of finance to the agro-industrialisation programme is dismal. Significant share of the agro-industrialisation programme budget should be invested in enhancing production, productivity and resilience[8] in the agriculture Sector.

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[3] See details in Annex: UN Paper, section 2

[4] "..to accelerate training for urgently needed skill in strategic growth areas" – pg 160

[5] The workforce is constituted by 77% women and 63% youth residing in rural areas – the majority of whom are in low-paid labour positions.

[6] The link between the (almost) 70% subsistence economy/farmers and the goal of poverty reduction in Uganda (and how this gap will be closed) is missing.

[7] Only a limited number of vague proposals are made showing how productivity is to be increased and value added to the marketed produce: (i) strengthening the agricultural extension system from the research stations to the farm; (ii) engaging "cooperative colleges and colleges of commerce... to inculcate entrepreneurial skills to the farmers and the communities at large" (123); and (iii) increased use of improved inputs, increased agricultural research and reduced postharvest losses. This argument should justify the need for a greater focus on trying to increase the productivity of crop husbandry, for example. Yields are abysmally low, as the most recent AGRIS survey results have revealed , and there is an urgent need to find out why and why they are so much lower than the yields being realized on the agricultural research stations in the same agro-ecological zones (and by other farmers in the same area).

[8] Farmers in Uganda cannot easily adapt to the effects of climate change; this is partly due to the low adoption rates of climate-smart land and water practices. Extension services can help transfer these practices and technologies to farmers, thereby improving the resilience of farmers

- **The overall inclusive growth strategy is not adequately articulated**. A focus on rapid industrialization is welcome but needs to be anchored on supporting local economic development as well as innovations that delivers increase in income of households at local level. ***We would urge the Government to consider adapting local economic development as an approach across programmes focusing on productive Sectors***.
- ***Environment, natural resources, climate and disaster risk reduction not well reflected, yet sustainable inclusive growth largely depends on the environmental resources and impacts on the environment. Biomass is still the preferred energy in the country***, ***fueling deforestation, pollution and the environmental impacts arising from other sectoral investments are not well managed.*** The plan did not provide significant high impact interventions in terms of investing in Environment and natural resources (e.g forests, wetland, protected areas) while managing Environmental risks and impacts from other sectoral interventions (e.g E-waste, air pollution, solid waste generation).
  The interventions contained in the plan are business as usual and do not reflect innovative approaches, for example off-grid renewable and affordable energy solutions. ***We encourage the Government to revisit Chapter 9 of the draft, as well as strengthen Chapter 13 on energy development to take into consideration these issues.***
- Infrastructure investments have overstressed access across sectors and largely avoided **usage capacity and maintenance of these assets**. Underdeveloped infrastructure hampers economic development, prevents businesses from connecting to markets and limits their willingness to invest. Failure to maintain assets will also undo the gains from Infrastructure investments and so clear asset management and maintenance strategies should be outlined . Infrastructure priorities should respond to user- and employment needs. Targets for infrastructure services should be examined.

Human Capital Development and Population Social Wellbeing:

- The current draft lacks ***a human-centered approach to the industrialization goals – the advancement of the population's well-being should be well-articulated in the National Development Plan***. ***While we welcome commitments made under the human capital development programme, we caution that Human Capital Development cannot be a substitute for population well-being – which is not measured nor articulated well.***
- More than 3/4 of Uganda's population are either moderately or highly vulnerable (as of 2019), the poverty rate has increased (from 19.7% in 2012/13 to 21.4% in 2016/17), and Government investment has continued to decrease in key social sectors[9] including education, health and social development. While some progress has been made towards Uganda Vision 2040 indicators - such as reductions in maternal and under-5's mortality rate[10] - this progress has been slow. ***Population growth will remain a key challenge and the youth bulge will only accentuate human development challenges and result in regressions in progress made unless investment is matched to reflect the reality.*** In ***education***, for

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and the production/productivity of Uganda agriculture rather than focusing on inputs' distribution (NAADS Secretariat/Operation Wealth Creation) or investments in productive/processing facilities. See more in footnote 18.

[9] *Uganda has been lagging behind with expenditure in Education dropping from 15 percent in FY12/13 to 10.4 percent in FY19/20 - Uganda's spending as a share of its GDP is one of the lowest in the region. Uganda is spending only $51 per capita on health as opposed to the $86 per capita required to deliver universal primary healthcare. Only 15% of these funds come from government while 42% and 41% respectively come from development partners and out of pocket thereby exposing the population to catastrophic expenditures. It is more worrying that government contribution to total health expenditure drastically reduced from a high of 30% in 2006 to 15% as of 2016For FY 2019/2020 budgets were approx. - Water & Environment (3%), Social Development (0.6%) and Lands, Housing & Urban Development (0.4%)*

[10] *NDP-III Draft version 4, pg 37 – MM Ratio/100,000 baseline 336, NDPIII target 299 and Vision 2040 target 15; u-5's Ratio/1000 baseline 64, NDPIII target 52, Vision 2040 target 8*

example, with the current low level of financing paired with population projections even maintaining key education parameters at the same rate (e.g. enrollment, completion, transition) would not be possible. While we welcome some of the commitments made to education, we express some concerns on low level focus accorded to the human capital (e.g., lower allocation of resources compared to NDP II) as well as the approach taken towards technical vocational education[11].

- The implications of the population growth will also be felt on Health and crosscutting issues such as HIV/AIDS[12], which is also not articulated well in the draft.
- Concrete actions to address cross-cutting issues such as gender-based violence and violence against children are absent from the plan, which shows lack of continuity from NDPII and is alarming given the scale of the challenge[13]. ***In this regard including more concrete commitments across the programmes, in particular under the governance & security and HCD programmes, would be welcome.***
- ***Uganda has significantly heightened Vulnerability Profile[14]. Hence, a very clear strategy to not leave any one behind is needed. Yet, the NDP III is muted in appreciating the vulnerabilities and the vulnerable groups as well as the strategies to combat these vulnerabilities.*** Social protection is important to foster economic growth as well as addressing poverty, inequality and vulnerability. ***The scope of Social Protection should be expanded to fit the vulnerability profiles of households and communities, while the scale needs to be increased as proposed in the Plan. We welcome the regional development progroamme proposed to address inequality, however it is largely focused on improving income, whereas the population suffer multiple depravations that hinder their well-being. We suggest that programme incorporates human-capital development as a fundamental investment to address emerging and widening inequalities.***

<u>**Refugees:**</u> We recognise and applaud efforts on the inclusion of refugee issues into the draft NDP III in line with Uganda's global leadership in this area. This inclusion demonstrates a shift to a development-oriented model to forced displacement in line with the Comprehensive Refugee Response Framework (CRRF). ***We recommend strengthening the inclusion and integration of refugees into planning specifically Sector Strategic Plans, District Development Plans and national statistical systems. We would also like to recommend that the NDPIII's language is cautious in categorising the refugee population as "threats" and would encourage the Government to frame refugee populations as "opportunities and challenges".***

<u>**Implementation/delivery of the Plan/Sustainability:**</u> **Cost and Financing of the plan is not based on realistic assumptions, reflecting continued challenges in linking development planning with financing as well as maintaining macroeconomic stability**.

- Proposed cost of the plan is **ambitious**. Overall cost for 5 years is **significantly increased compared to NDPII**: suggested cost is UGX 342.6 Tn, which is **74% increase** from NDPII costing (196.7 Tn). 213.9 Tn (62.4%) is public; vs NDPII 113.7 Tn (61%); and UGX 128.6 Tn (38.6%) is private vs NDPII 83 Tn (42%).

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[11] Two- year compulsory TVET proposed after O levels

[12] Although the overall number of new HIV infections has reduced, Uganda still registers more than 100 new HIV infections daily. Young women 15-24 years account for most of these new infections estimated at 56%. Contraceptive use in Uganda is lowest in the region (EASSI 2017 Gender Barometer)

[13] Domestic Violence and Defilement constitute 20% of all crimes reported in Uganda (UPF, 2017). UDHS 2016 shows 56% of women have experiences spousal violence and 22% sexual violence. Uganda Violence against Children Survey – physical violence has been experienced by female children (59%) and male children (68%), in addition to prevalence of other issues - child labour (27%) and harmful practices such as FGM and early/child marriage.

[14] See detail in Annex: UN Paper

It is to be recalled that budgeted in total for NDPII period was around UGX 152.7 Tn, indicating that resources were allocated over and above the planned in NDP II (over by 34%). Yet, we also know that budget was only aligned to plan by an average 58%. This means although significantly higher level of resources was mobilized, the interventions financed by budget were not contained in the plan. **Thus, we suggest that the cost of the plan needs to be revisited to reflect true costs of delivering development results – which should be defined and agreed upon. The mechanism to align private resources to the plan be defined and articulated.**

- **The assumptions behind the Plan targets are not clear**. The Plan should reflect them so that there is a shared understanding on where some targets as the 74% budget increase from NDPII are drawn from
- **The Plan proposes increase in domestic tax mobilization** - Tax-to-GDP ratio to grow **by 0.5 percentage points per annum** (**which is much higher than the 0.33 percentage points suggested in the DFA 2019 report but possible according to IMF estimations if adequate commitment for reform is secured**), resulting into **a tax-to-GDP ratio of 16.5% in 2024**. It is also notable that the NDP III envisages major provisions by way of incentives across various programmes to facilitate investment which will add to the loss of tax revenue (already Uganda losses close to 4% of GDP by way of incentives according to world bank economic update). ***We suggest significant commitments be made for tax-reform measures and incentives are stream-lined.***
- **Overestimation of domestic savings**: the plan envisages private sector domestic savings to be doubled in the NDP III period compared to NDP II [15]. The plan however does not contain clear strategy how to enhance private savings.
- **Alternative sources of financing**: Plan should mention alternative sources of financing including PPPs, private sector Financing through FDI and other sources like innovative financing. Plan needs to lay out proper strategies of attracting private sector financing. 32.2% contribution from private sector could be possible with clear strategies: risk management strategies, show clear Return on Investment
- NPA to work on a project idea database which will be developed for sourcing financing about equity participation/financing by Government.
- **Rising debt and its sustainability** – In contrast to its past financing strategy that enabled Uganda to remain at a low risk of debt distress, by prioritizing concessional borrowing in financing its development projects, the NDP III financing strategy suggests a preference for non-concessional borrowing. This could have severe implications for debt and cannot be justified in an environment of increased resources from non-concessional lenders such as IDA, as well as eligibility of Uganda's access to IBRD resources, if interested. **Government, and the President himself, has consistently said that Uganda will not exceed a threshold of 50% of debt/GDP in nominal terms. This is also the level that the IMF maintains in their dialogue with government. However, the draft NDPIII refers to "a prudent fiscal policy that includes a ceiling on debt to GDP of 50% in present value terms", which is about 65-70% of GDP in nominal terms.** Given public debt was about 36 percent of GDP at the end June 2019, in nominal terms, such a ceiling of 50% in present value terms suggests a huge scope for potential borrowing during NDPIII. We need to better understand why this shift from a ceiling in

[15] Domestic savings to increase from 13.25 in 18/19 to 26.73% GDP in 19/20) as well as investment to GDP to improve from 26.46 to 39.22 largely on account of private sector investment.

nominal terms to one in present value terms, that effectively sets the debt ceiling far higher and potentially in unsustainable territory.(this was clarified that its nominal terms and if NDPII is talking about present value terms, it will be corrected. There is need to find the right balance between planned investments with financing to be stay within the borrowing ceiling

Alignment of plan, Public Investment Plan (PFM) and capacity to implement core projects:

- **Greater alignment**: A greater alignment of planning and budgeting tools is required between sectors, institutions and procedural arrangements for delivering NDP III to improve the functionality within and between the central and local governments policy planning and implementation.
- **Plan is not clear on the "how" of implementation and how to deliver the ambitious programmatic Plan**
- **Public Investment Management.** Reference is made to a PIM strategy which does not yet exist, however a policy is being developed and government should be strongly encouraged to strengthen the legal framework for PIMS. In addition, there is little or no mention of how to improve both the allocation and the efficiency of resources (both domestic and external).
- ***Allocation of resources - both public and private - need to be revisited in NDPIII***, for example HCD receives only 12.4%, Agro-Industrialisation 3.9% - whereas Interest Repayment takes close to 14.2%, Transport Infrastructure 16.8% and Community Mobilization and Mindset change taking close to 8.6%[16].
- **Inconsistency between NDPIII, Sector policies and strategies:** NDPIII draft has several inconsistencies related in the use of data[17] as well as policy statements. For instance, the priority commodities for value chain development are different in every strategic document we've seen - NDP3, ASSP, various MAAIF docs, etc. ***The Government should greater align policy documents and address data inconsistencies[18]. NDPIII draft also has unrealistic targets that need to be revised.***
- **Build in delivery flexibility mechanism:** For NDP III in its current form to be delivered, NPA should build in flexibility and adaptation mechanisms in its implementation. This means it should continually examine major context constraints such as the politics, managerial capacity as well as corruption and address them. For example, field M&E data shows that some districts still operate at below 50% of their approved staff establishments. With regard to ***Government capacity to deliver the Plan - Regional approach to planning and implementation is commendable but relying on only Local***

[16] Public spending on education. The HCD Plan demands for efficiency gains in the education sector. However, together with improved efficiency, the level public spending on education needs to be increased in order to support the targets set in the Plan. The rationale for the increase is compelling. Over the past decade, SSA countries have increased their public expenditure on education, as a share of their total public expenditures, from an average of 14.8 percent in 1998-2001 to 16.1 percent in 2014-17. At the same time, Uganda has been lagging behind with expenditure dropping from 15 percent in FY12/13 to 10.4 percent in FY19/20. In addition, Uganda's spending as a share of its GDP is one of the lowest in the region. Current levels of Government spending on the education sector remain low by regional standards and not sufficient to achieve the ambitious target of attaining a low middle-income country status by 2040: the level of spending in 2014 was at 2.2 % of GDP, compared to Tanzania at 3.5%, Rwanda at 5%, and Ethiopia at 4.5%. In per capita terms, Government expenditure per pupil is very low and, again, well below regional average. In relatively well budgeted year (2014) it was $104 for primary and $318 for secondary, compared to $366 and $817 respectively as an average for comparator countries.

[17] Related to this is the fact that further data disaggregation (specifically for women and children) can be included throughout the report. For relevant and updated situation analysis of children, please see UNICEF's 2019 SitAn here and if helpful, also the Demographic Dividend report.

[18] Examples: In page xiv the poverty target at the end of the plan is given as 15.4% and that for inequality is0.39%, but in page xviii, the same targets are given as 14.2% and 0.38% respectively; Paragraph 214 states that 77 percent of formal jobs are provided by the private sector, yet 219 says the private sector is dominated by 1.1 million firms employing approx. 2.5 million people in total; Poverty rates in Bukedi, Busoga, Bugisu, and Teso in 2016/17 have different figures in paragraph 8 (iv) page 6, paragraph 397 page 189 and table 21.1 page 190; Numbering of paragraphs goes up to 316 in page 149, then suddenly drops back to 295 in page 150!

Governments to do this is very challenging – given their current capacities and attitudes to deliver. Other players like the private sector and CSO should participate in this process.

- **Lack on inadequate and accurate data is a key challenge that the Plan should highlight and also lay strategies on building management information systems through digitilisation.** There is no Labor Market Information system which is reason for unclear employment strategies across sectors. Some key sectors where the LMIS can be piloted can be in the Tourism and manufacturing sector.

Role of the State not clear/ New development approach/philosophy points to increasing state intervention. Role of the State needs to be reframed: The way in which public sector programme is articulated suggest that key results are framed as enabling role, but interventions involve direct involvement of the government in the business which may distort effective market functioning and/or development of new market[19]. Increasing role of Government in development should be aligned with the AfCFTA Protocol on Competition. The quasi-market approach needs to be balanced not to promote protectionism and undermine private sector development and regional integration. ***Uganda is the only country in the East African Community without a competition policy - in line with this, Uganda needs to put in place a competition policy.***

Development cooperation/partnerships: Development effectiveness: partnerships remain an important vehicle to deliver the NDP III. In acknowledgement to this, NDP III should propose policy coherence and strengthening of development cooperation. For example, ***revision of partnership policy and or alignment of the development cooperation policy or merging of the two policies to provide coherent direction and guidance for effective development cooperation in Uganda***. This will bring Uganda development cooperation frameworks in line with the Addis Ababa Action Agenda (AAAA) and Nairobi Outcome Document for Development Cooperation. This should be accompanied with the reforms of the Sector Working Groups (SWGs) and the national dialogues.

Finance sector:

- **Capitalization:** the draft NDP III suggests capitalizing UDB and other government owned commercial banks for MSME financing, Housing Finance Bank for mortgages, and reviving Uganda Commercial Bank (page 47, table 4.5; page 110, table 10.1; page 153, table 5.1). ***The Government may wish to be more strategic: for example, instead of capitalizing both UDB and a government owned commercial bank, limit UDB as a development finance institution. For the government owned commercial bank, the Government instead could focus on scaling up a whole-sale on-lending*** (with some necessary reforms), setting up a new window for MSMEs, housing finance facility[20], and/or a guarantee scheme to mobilize private finance by providing incentives for commercial banks and investors and to allow healthy competition.

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[19] In the agriculture sector there seems to be an overemphasis on infrastructure and direct involvement of the State in productive enterprise building rather than focusing on the provision of 'public' goods such as strengthening the extension outreach; research/research application; agricultural data/statistics; planning, monitoring and evaluation; quality assurance (including regulatory and quality control, and pest/disease control); and standardization (including sanitary/phytosanitary standards) which should be core functions of MAAIF/GoU that (a) incentivize and stimulate farmers/private sector to improve production and productivity and (b) create an enabling environment for them to develop and invest..

[20] Such facility has been set up in the neighboring countries with Tanzania being the oldest (2011) and proven to have a catalytic market impact by increasing the number of financial institutions offering mortgages and other housing finance products, lowering the interest rate through competition, and offering a longer tenor for the mortgage.

- **Long-term finance**: several interventions are suggested towards increasing access to long term finance. What is missing is the role of the capital market as acknowledged in the plan. It should be emphasized that the private sector should be the source of capital.
- **Reforms in the financial sector**: we commend the proposal under NDP III to continue reforms in the financial sector. ***However, the proposals should be aligned with Uganda Financial Sector Development Strategy 2019/2020-2024/25 (draft) which is led by MoFPED, to ensure consistency and harmonization.***