

Uganda Economic Update  
13th Edition

# ECONOMIC DEVELOPMENT & HUMAN CAPITAL IN UGANDA: A CASE FOR INVESTING MORE IN EDUCATION

May 2019



**WORLD BANK GROUP**



Uganda Economic Update, 13th Edition

ECONOMIC DEVELOPMENT & HUMAN CAPITAL IN UGANDA:

# **A CASE FOR INVESTING MORE IN EDUCATION**

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# Foreword

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Human capital is essential for countries to grow their economies and improve the well-being of their citizens. Uganda cannot afford to fall behind other countries in developing this asset as it enters a new phase of economic development – one with greater economic diversification and urbanization, closer economic integration with regional and world markets, and larger potential for new, higher-productivity jobs. Youth are a sizable and growing share of the Ugandan population and are essential for realizing this transformation, provided they enter adulthood and the labor market well equipped to acquire, use and develop new knowledge and technologies. Equipped in this way, an educated population can help reduce income inequality, promote social mobility, and foster social cohesion.

Unfortunately, Uganda is already falling behind. A child born in Uganda today will only be 38 percent as productive when she grows up as she could be if she enjoyed complete education and full health. This is largely because of the poor quality of education, which is leading to learning outcomes that are below comparator countries. Something needs to be done fast to turn this dangerous trajectory around. Otherwise, Uganda will not benefit from its demographic dividend and will end up with a large and poorly educated population that impedes any hope of a more prosperous future.

Uganda needs to adopt a dual priority approach focusing on schooling, specifically on expanding access from pre-primary to lower secondary education, and learning, through improving quality at all levels. This will require internal efficiency gains, additional resources to be allocated to the education sector, and will also hinge on a closer and more collaborative engagement with private sector providers of education.

It is against this backdrop that I am pleased to introduce the Thirteenth Uganda Economic Update, which reviews economic development and human capital in Uganda, and makes a case for investing more in education. This report comes at a critical time to inform both budget decisions over the next few years, and the on-going development of Uganda's Third National Development Plan.

In line with the structure of earlier editions of the Uganda Economic Update series, this report reviews recent economic developments, provides an outlook for the macro-economy, and then delves into the special topic of Uganda's education sector.

**Carlos Felipe Jaramillo**  
Country Director  
Eritrea, Kenya, Rwanda and Uganda  
Africa Region

# Abbreviations

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bbl	Barrel	PIM	Public Investment Management
BoU	Bank of Uganda	PIP	Public Investment Plan
CCS	Commitment Control System	PLE	Primary Leavers Exam
DAS	Domestic Arrears Strategy	PPP	Public Private Partnerships
DSA	Debt Sustainability Analysis	PTA	Parents Teacher Associations
DRC	Democratic Republic of Congo	PMI	Purchasing Managers Index
DRM	Domestic Revenue Mobilization	PV	Present Value
EAC	East African Community	RTI/DFID	Research Triangle Institute International/ Department for International Development
ECD	Early Childhood Development	SACMEQ	Southern and Eastern Africa Consortium for Monitoring Education Quality
ECE	Early Childhood Education	SEEP	Secondary Education Expansion Project
EFU	Energy, Fuel, and Utilities	SOE	State-Owned Enterprise
EGRA	Early Grade Reading Assessment	SSA	Sub-Saharan Africa
ELP	Early Learning Partnership	TIMSS	Trends in International Mathematics and Science Study
EMDE	Emerging Market and Developing Economies	toz	troy ounce
EMIS	Education Management Information System	UBOS	Uganda Bureau of Statistics
EPG	Education Partnerships Group	UGX	Ugandan Shilling
ESSP	Education Sector Strategic Plan	UNESCO	United Nations Educational, Scientific and Cultural Organization
FDI	Foreign Direct Investment	UNICEF	United Nations International Children's Emergency Fund
FY	Financial Year	UPE	Universal Primary Education
GBV	Gender-Based Violence	URA	Uganda Revenue Authority
GDP	Gross Domestic Product	US	United States
GER	Gross Enrollment Rate	USAID	United States Agency for International Development
GPI	Gender Parity Index	USE	Universal Secondary Education
HCI	Human Capital Index	USEEP	Undergraduate Software Engineering Education Project
IC	Information and Communications	USE PPP	Universal Secondary Education Public-Private Partnership
ICT	Information Communication and Technology	USh	Uganda Shilling
IMF	International Monetary Fund	US\$	United States Dollars
LAYS	Learning-Adjusted Years of School	VAC	Violence Against Children
LIC	Low-Income Country	VAT	Value Added Tax
MoES	Ministry of Education and Sports	WDI	World Development Indicators
MoFPED	Ministry of Finance, Planning, and Economic Development		
NAPE	National Assessment of Progress in Education		
NEA	National Education Accounts		
NPL	Non-Performing Loans		
OPEC	Organization of the Petroleum Exporting Countries		
OTT	Over-the-top		
PAD	Project Appraisal Document		
PFM	Public Financial Management		

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# Acknowledgements

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Finally, we would like to thank the Hon. Minister of Education and Sport and First Lady, Janet Museveni, and her staff for their continuous commitment and close collaboration.



## Key Messages

### State of the Economy:

#### **A positive growth outlook, with risks tilted to the downside**

Although real GDP growth remained strong at 6.4 percent during the first half of FY18/19, per capita growth is insufficient to propel Uganda to lower middle-income status. Growth has largely been driven by strong investment and consumption performance, favorable weather conditions and strengthened credit. The Information and Communications (IC) sector sustained double-digit growth levels, financial services continued to recover, and agriculture was boosted by another decent harvest. Given the very high population growth rate of over 3 percent per year, GDP growth will need to accelerate. Moreover, heavy reliance on rain-fed agriculture makes GDP and exports more volatile, with disproportionate costs for the poor. Therefore, an increase in agricultural productivity and absorption of excess rural labour into better and more productive employment is critical for making growth more inclusive.

Revenue performance has been strong in the first half of FY18/19 and can be further enhanced if government remains committed to implementing the new domestic revenue mobilization (DRM) strategy. Tax revenues have been on an upward trajectory, increasing to 14.5 percent of GDP in the first half of FY18/19. Strong coordination and effective implementation of government's five-year DRM strategy will be necessary for further revenue growth. This includes establishing a framework for managing tax exemptions, which continue to be a drain on public finances. Furthermore, ensuring a robust and diverse

revenue base is critical before any significant oil revenues start accumulating. This will help contain the rise in public debt, ensure a stronger social compact in the use of revenues and provision of services, and would later allow oil revenues to be invested for strategic, long-term needs.

**Capital spending continues to fall short of expectations, diminishing the expected return from public investments and committing resources away from other pressing needs.** Actual first half FY18/19 capital spending amounted to about 6.1 percent of GDP, which is well below the levels of spending in the first halves of FY's 14/15 and 15/16, of above 7 percent of GDP, and only about a quarter of the FY18/19 development budget. Compared to peers, capital spending in Uganda stood at 5.9 percent of GDP in FY17/18, which was substantially lower than Rwanda (10.3 percent of GDP) and Kenya (7 percent of GDP). Combined with deficiencies in the 'quality at entry' of projects, cost escalations, and poor quality of some projects, this under-spending is constraining Uganda's ambitions for rapid growth and socio-economic transformation. Therefore, concerted efforts are required to select projects more carefully (e.g. power generation investments have not been well sequenced with investments into transmission and distribution systems) and to improve public investment management (PIM).

**The projected widening of the fiscal deficit in FY18/19 and use of non-concessional financing will keep public debt on a steep upward trajectory.** Public debt is expected to hit 44 percent of GDP in FY18/19. The growth in budget deficits and the increasing use of non-concessional financing are creating pronounced vulnerabilities. Non-concessional borrowing results in larger principal and interest payments and makes debt more vulnerable to external shocks. Larger interest payments also consume fiscal space for spending on poverty reduction and public goods.

**While the growth outlook for Uganda is positive, risks are tilted to the downside.** The economy is expected to grow by 6 percent in FY18/19 and FY19/20, driven by intensified

public and private investments, especially to support developments in the energy and oil sectors. However, as the 2021 elections draw closer, heightened political activity and uncertainty could lead to a drop in investment and economic activity. Reliance on rain-fed and subsistence agriculture continues to expose the economy to risks from adverse weather. Prioritizing spending more effectively, improving spending execution rates, and increasing revenue mobilization would maintain Uganda's macroeconomic stability and reduce debt vulnerabilities. Tensions with Rwanda and volatility in the Democratic Republic of Congo (DRC), South Sudan, and other export markets present risks to external stability and export performance.



# Economic development and human capital in Uganda:

## A case for investing more in education

The World Bank's analysis of cross-country data on human capital indicates that Uganda is underinvesting in the future productivity of its citizens. A child born in Uganda today will only be 38 percent as productive when she grows up as she could be if she enjoyed complete education and full health. Uganda is ranked among the countries in the lowest quartile of the Human Capital Index (HCI)<sup>1</sup> distribution, with an index slightly lower than the average for the Sub-Saharan Africa (SSA) region, and below what would be predicted by its income level.

Uganda's low ranking in the HCI is mainly due to the country's low education outcomes. A child born today in Uganda is expected to complete only 7 years of education by age 18, compared to a regional average of 8.1. Because of the low levels of learning achievement in Uganda, this is only equivalent to 4.5 years of learning, with 2.5 years considered as "lost" due to poor quality of education (as shown by the quality-adjusted years of schooling component of the HCI). Uganda's score on this component is the lowest amongst the comparator countries and below the SSA average.



1 The World Bank's Human Capital Index (HCI) measures the impact of underinvesting in human capital on the productivity of the next generation of workers. It is defined as the amount of human capital that a child born today can expect to achieve in view of the risks of poor health and poor education currently prevailing in the country where that child lives.



**To improve its ranking in the HCI, Uganda needs to adopt a dual priority approach focusing on schooling, specifically on expanding access to pre-primary and secondary education, and learning, through improving quality at all levels.**

The country currently shows extremely low gross enrollment rates (GER) at pre-primary and secondary levels. In primary education, the near-universal access veils very modest completion rates and alarmingly low learning outcomes. With the system's current quality, efficiency, financing characteristics and trends, it is expected that enrollment rates in primary and secondary education will stagnate and decline by 2025. This would be a major setback, rarely seen in any country in a time of peace.

**An alternative scenario is proposed that could reverse this trend, through improving the quality-adjusted years of schooling component of the HCI, which will need to grow from 4.5 currently to at least 5.5 by 2025 (i.e. a 20 percent increase).** To achieve this ambitious goal, Uganda needs a three-pronged strategy that aims at (i) improving the quality and the completion rate of primary education, (ii) expanding access to secondary education while improving its quality, equity and efficiency, and (iii) devising ways to finance such efforts in a sustainable manner given that absorbing the enrollment increases will cost an additional US\$ 330 million on average per year from 2019–25. This would leave a major budget gap.

**To bridge the budget gap, in addition to raising efficiency, the government needs to mobilize extra public resources.** The government should gradually increase its levels of spending on education with a view to allocate 16 percent of the budget by 2025, which is the average for countries in SSA. This could generate up to US\$1.6 billion in additional resources between 2019 and 2025. Also, the private sector needs

to be utilized better, as it often delivers similar results at a lower cost compared to the public sector. This can be achieved through introducing subsidies to support vulnerable children and using the non-state sector to manage schools<sup>2</sup>. Efficient engagement of non-state providers should generate significant savings, as compared to the heavy fiscal burden the government would incur because of the current withdrawal of the PPP scheme.



<sup>2</sup> Various options of providing subsidies are suggested in the main body of the report.

A photograph of a classroom filled with students wearing white hijabs and uniforms, sitting at wooden desks and working. The focus is on a student in the foreground who is looking down at her work. The background shows other students, slightly out of focus, also working. The overall atmosphere is one of quiet concentration.

PART 1:  
**STATE OF THE  
ECONOMY**

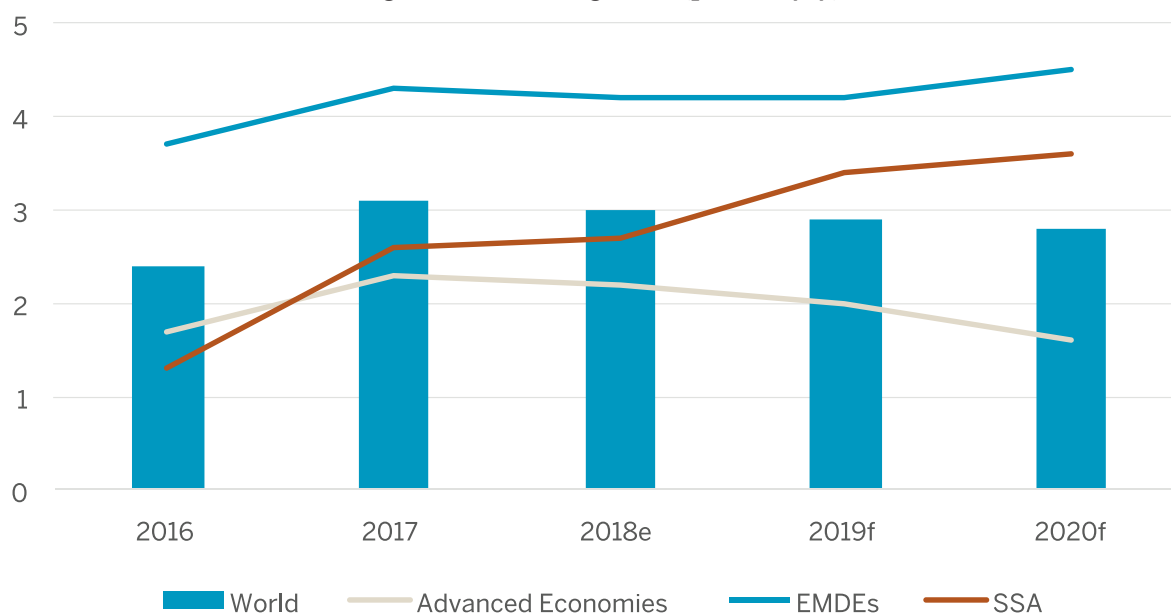
## 1. RECENT ECONOMIC DEVELOPMENTS

### 1.1 Global growth is moderating<sup>3</sup>

Global growth is expected to stagnate at around 3.0 percent in 2019 as the recovery in trade and manufacturing activity slackens (Figure 1). After slightly decelerating from 2.3 percent in 2017 to an estimated 2.2 percent last year, advanced-economy growth is expected to continue slowing, as capacity constraints become more binding and policy accommodation is withdrawn. In contrast to developments in other advanced economies, the United States (U.S.) economy grew by about 2.9 percent in 2018, exceeding expectations. This acceleration largely reflects stronger domestic demand and the procyclical fiscal stimulus. Consumption spending has been supported by an unemployment rate that is at a

50-year low, increased household wealth from a booming stock market for most of 2018, and a reduction in savings. However, U.S. growth is expected to slow in 2019, as monetary policy accommodation is removed and the fiscal stimulus fades. Higher trade tariffs – stemming from the on-going tariff war between the U.S. and China – are expected to weigh further on economic activity. In the Euro Area, the modest growth of 1.9 percent in 2018 is projected to decelerate further to 1.6 percent in 2019, as monetary stimulus is withdrawn and global trade growth moderates. Exports have already softened, reflecting the slowing external demand and appreciation of the euro.

**Figure 1: Real GDP growth (percent y/y)**



Source: World Bank, 2019

Note: e = estimate; f = forecast; Aggregate growth rates calculated using constant 2010 US\$ GDP weights.

<sup>3</sup> This section is based on the World Bank, *Global Economic Prospects*, January 2019



The recovery in emerging market and developing economies (EMDEs) has lost momentum and is expected to grow at a rate of just above 4 percent. External financing pressures, slowing external demand, policy uncertainty, and commodity price declines are weighing on EMDE growth. Activity remains robust in China, but headwinds are increasing in the context of heightened trade tensions with the United States. Growth in China is projected to decelerate from 6.5 percent in 2018 to 6.2 percent in 2019 on account of weaker exports. Domestic demand is, however, projected to remain robust, aided by policies to boost consumption. In low-income countries (LICs), growth is still predicted to firm as infrastructure investment continues and easing drought conditions support a rebound in agricultural output. However, LIC metal exporters will struggle, as metal prices are expected to soften. Overall, growth in EMDEs is predicted to remain at 4.2 percent in 2019, with a weaker pickup in commodity exporters accompanied by a sharper deceleration in commodity importers.

**Prices of commodities are expected to generally stabilize in 2019.** Energy prices fluctuated markedly in the second half of 2018, mainly reflecting supply factors, with sharp falls toward the end of the year. Prices of most metals and, to a lesser extent, agricultural commodities also weakened, largely due to concerns about the effects of tariffs on global growth and trade. Oil prices are projected to average around US\$70 per barrel (bbl) in 2019 and 2020, slightly up from the average price of US\$68/bbl in 2018, but there is high uncertainty around these forecasts. While growth in oil demand is expected to remain robust in 2019, the expected loss in momentum across EMDEs could have a greater impact on oil demand than expected. The outlook for supply is uncertain and depends largely on production decisions by OPEC and its non-OPEC partners, which may prove insufficient to reduce the oversupply of oil. Heightened trade tensions have clouded the outlook for commodities demand, and so agricultural and metals prices are projected to remain broadly stable in 2019 and 2020.

## 1.2 Growth in Sub-Saharan Africa continues to recover<sup>4</sup>

**Growth in Sub-Saharan Africa is expected to increase to 2.8 percent in 2019 from 2.3 percent in 2018.** This is a slower growth trajectory than the World Bank's October 2018 forecast. Growth in 2019 is predicated on diminished policy uncertainty and improved investment in large economies, together with continued robust growth in non-resource intensive countries. Growth in the region's three largest economies – Angola, Nigeria, and South Africa – is expected to improve, driven by a recovery in oil production (Angola and Nigeria), and a

structural reform agenda gradually gathering speed and helping boost investment growth as investor sentiment improves (South Africa). However, growth in the largest economies will lag the rest of the continent. Both metal exporters (supported in part by stronger mining activity) and non-resource intensive countries (boosted by public investment and strong agricultural production) are expected to grow on average at about 4.5 percent in 2019.<sup>5</sup> Inflation is expected to pick up across the region in 2019, reflecting the pass-through of currency

<sup>4</sup> This section is based on the World Bank, *Africa's Pulse*, April 2019

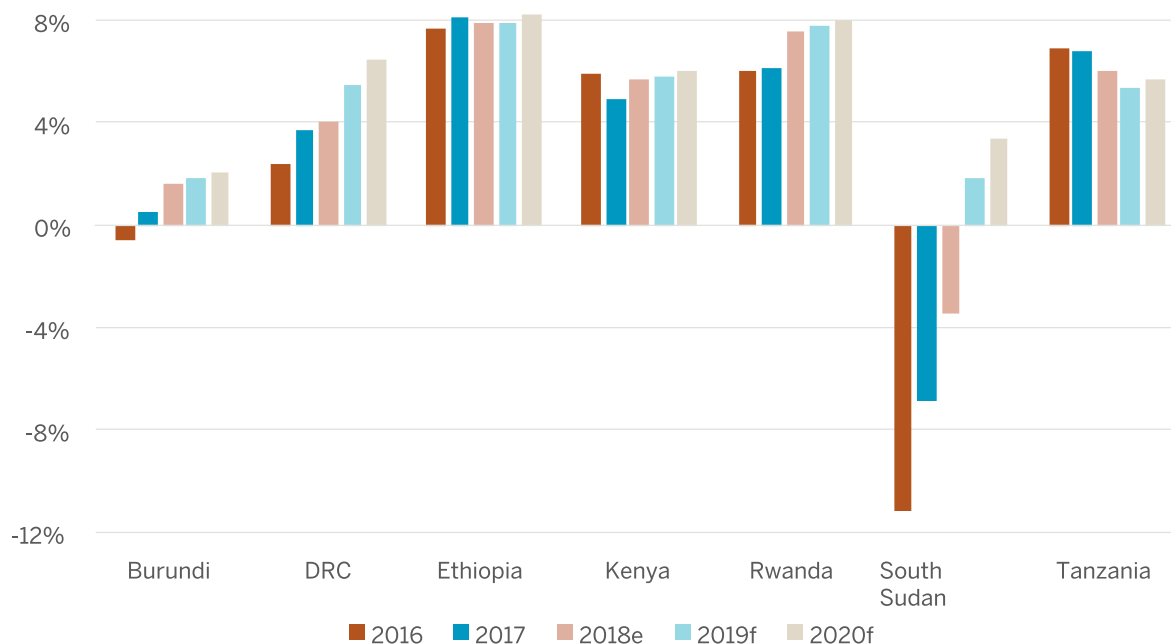
<sup>5</sup> Non-resource intensive countries exclude South Africa

depreciations during 2018 and domestic price pressures among metals exporters and non-resource intensive countries. Fiscal balances are expected to improve further, reflecting fiscal consolidation efforts as public investment spending slows to stabilize public debt.

**Economic activity is expected to largely remain strong in East Africa (Figure 2).** Good weather, sustained infrastructure spending, and increased foreign direct investment (FDI) have broadly underpinned the pickup in activity in East Africa over the last year. Among Uganda’s main trading partners, the rebound in Kenya’s economy is expected to continue in 2019, supported by favorable agricultural output, a pick-up in industrial activity,

strong performance in the services sector, and strengthening aggregate demand from pending investments and improved business sentiment. Rwanda’s growth is expected to approach 8 percent over the medium term driven by improved agriculture performance, large infrastructure projects, and strong exports. The medium-term outlook for the DRC is favorable, with growth expected to increase to above 6 percent in 2020 from 5.5 percent in 2019. Following the peace agreement, signed in September 2018, South Sudan’s economy is starting to recover, with growth of about 1.8 percent projected in FY18/19. However, this assumes that the peace agreement remains in place and security starts to improve.

**Figure 2: Real GDP growth (percent y/y)**



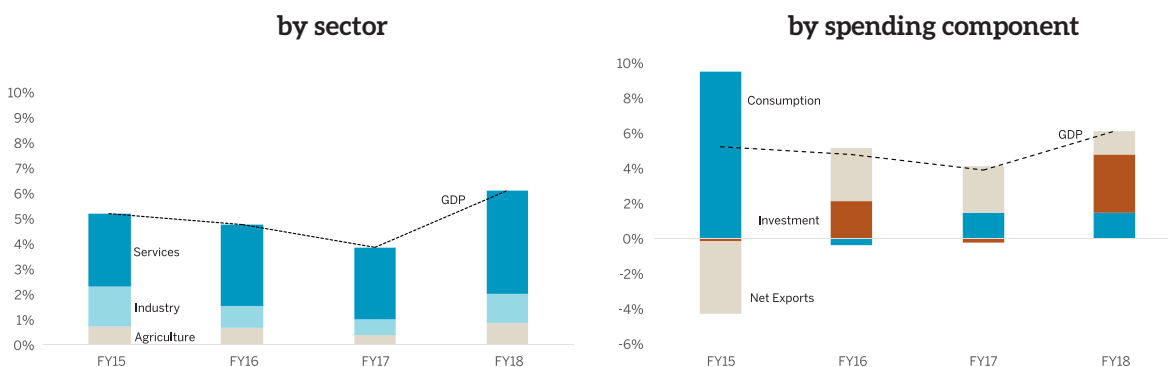
Source: World Bank, 2019  
 Note: e = estimate; f = forecast; Ethiopia is based on fiscal-year numbers

### 1.3 Uganda’s growth momentum is sustained

After rebounding to about 6 percent in FY17/18 (Figure 3), real GDP growth remained strong at 6.4 percent during the first half of FY18/19 (Table 1). This is in line with the forecast in the November 2018 Uganda Economic Update. This sustained growth has largely been driven by robust investment performance (building on the performance in FY17/18 – Figure 3), stronger consumption, favorable weather conditions and strengthened credit to the private sector – which grew by over 11 percent in the first half of FY18/19, compared to 5.5 percent in the first half of FY17/18. The IC sector continued to experience double-digit growth levels, agriculture was boosted

by another decent harvest and a recovery in fisheries, and the strong recovery in financial/ insurance services was maintained. The first half growth of 8.2 percent in the services sector was also supported by a rebound in trade (5.3 percent growth compared to only 2.2 percent growth in the whole of FY17/18), and the sustained strong performance of the education sector, which has been growing at or above 7 percent for the past few years and is now one of the top five sectors contributing to Uganda’s overall growth (Figure 4). The industrial sector expanded by 5 percent in the first half of FY18/19, which was a deceleration compared to growth of 6.1 percent in FY17/18.

**Figure 3: Sources of real GDP growth in Uganda (percent y/y)**



Source: UBOS

**Public and private investment and stronger levels of private consumption seem to have driven growth in the first half of FY18/19.** Net FDI inflows more than doubled to over 5 percent of GDP, compared to the first half of FY17/18 (see Table 3), while public investment increased by 0.3 percent of GDP in the first half of FY18/19 compared to the same period in the

previous year (see Table 2). At the same time, the Purchasing Managers Index (PMI) rose noticeably through the first half of FY18/19 (compared to more constant levels in the second half of FY17/18), which reflects stronger levels of customer demand as both output and new orders continued to rise.<sup>6</sup> These investments and stronger levels of consumption have

6 The PMI is compiled monthly by IHS Markit and is sponsored by Stanbic Bank Uganda. It is a composite index, calculated as a weighted average of five individual sub-components: new orders (30%), output (25%), employment (20%), suppliers delivery times (15%), and stocks of purchases (10%). It gives an indication of business operating conditions in the Ugandan economy.



been particularly beneficial to the services and construction sectors (as discussed further on). Following the positive contribution of net exports to GDP over the last three fiscal years (Figure 3), this is likely to have reversed with imports growing much stronger than exports in the first half of FY18/19, leading to a significant widening of the current account deficit to 11.4 percent of GDP (see Section 1.7).

**The services sector continues to drive growth in Uganda, expanding by 8.2 percent (Table 1) in the first half of FY18/19.** This is largely due to sustained double-digit IC growth, resulting from the persistent growth in data usage, FinTech, and investments to upgrade infrastructure to support both 3G connectivity country-wide and the roll-out of 4G services<sup>7</sup>. However, there was a dip in IC growth to 10.5 percent in the first half of FY18/19, compared to 14.6 percent in the same period the year

before, and is likely attributed to the roll out of the over-the-top (OTT) tax in July 2018.<sup>8</sup>

**Although mining and quarrying contracted, strong growth in construction activities and a rebound in manufacturing supported moderate industrial sector growth of 5 percent (Table 1) in the first half of FY18/19.** The construction sub-sector sustained its upward growth trajectory, growing at 6.7 percent, well above the average growth level of 3.9 percent in the same period of the two previous fiscal years. This sub-sector has benefited from intensified public and private investments in energy and oil projects, real estate activities, and the growth in industrial zones. Following the last three fiscal years where manufacturing growth averaged about 1.5 percent, the rebound to 4.1 percent in the first half of FY18/19 is encouraging.



<sup>7</sup> FinTech refers to new technology that is used to support or enable banking and financial services.

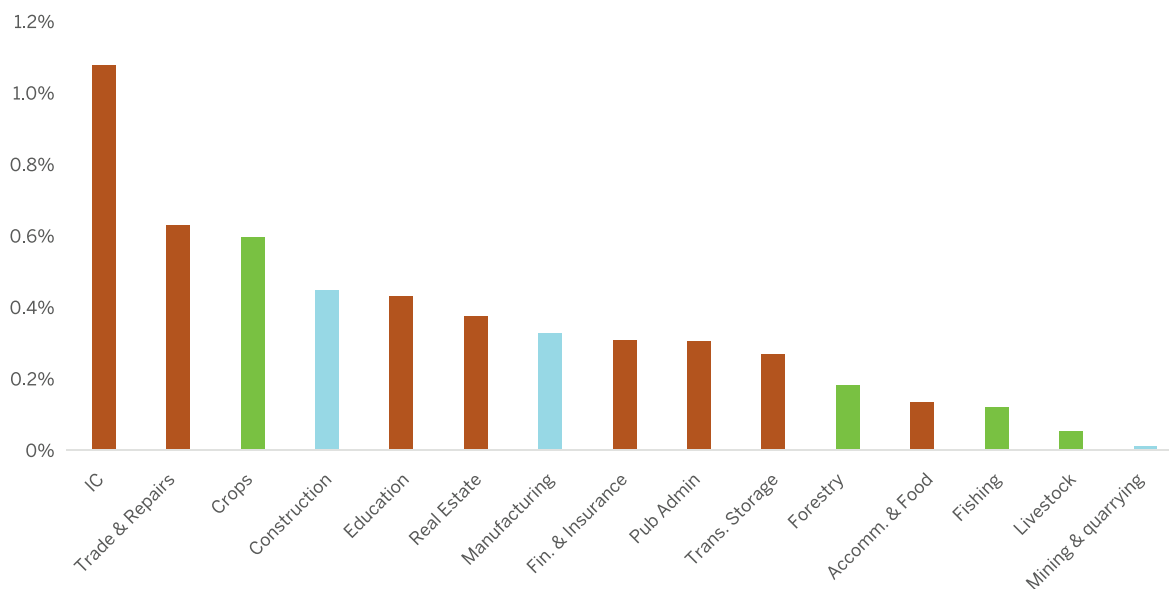
<sup>8</sup> Over-the-top tax is an excise tax levied on internet-based social media, messaging and voice services.

**Table 1: First half FY18/19 real GDP (percent change y/y unless otherwise indicated, selected sub-sectors)**

	Growth rate	% share of GDP	Contribution to growth rate
<b>GDP</b>	6.4	----	----
<b>AGRICULTURE, FORESTRY &amp; FISHING</b>	3.7	24.2	0.95
Cash crops	5.4	1.7	0.10
Food crops	3.3	14.0	0.50
Livestock	1.0	3.7	0.05
Forestry	4.9	3.6	0.18
Fishing	11.9	1.1	0.12
<b>INDUSTRY</b>	5.0	19.2	0.97
Mining & quarrying	-0.6	1.7	0.00
Manufacturing	4.1	7.6	0.33
Construction	6.7	6.9	0.45
<b>SERVICES</b>	8.2	56.6	4.46
Trade & repairs	5.3	11.7	0.63
Transportation & storage	9.2	3.1	0.27
Accommodation & food service activities	5.3	2.5	0.13
Information & communication	10.5	11.1	1.08
Financial & insurance	10.3	3.2	0.31
Real estate activities	6.7	5.7	0.37
Public administration	8.7	3.7	0.30
Education	7.1	6.2	0.43

Source: UBOS



**Figure 4: Contribution to First Half FY18/19 growth of 6.4 percent (selected sub-sectors)**

Source: UBOS

Note: Red depicts the services sub-sectors; green the agriculture sub-sectors; and blue the industry sub-sectors

Sustained growth in crops and a rebound in forestry and fisheries contributed to 3.7 percent growth in agriculture (Table 1) in the first half of FY18/19. Crop growth was, however, lower than in the first half of FY17/18. One explanation for this fall in crop growth is the decline in exports of key crops such as coffee, maize and beans, whose export values fell by about 21 percent or more in the first half of FY18/19 compared to the first half of FY17/18. This is likely due to the fall in global food prices for these commodities in the first half of FY18/19 and shows the continued dependence of Uganda's crop sector on the movement of these global prices.<sup>9</sup>

Although the agriculture sector accounted for only 0.95 percent of the growth rate of 6.4 percent in the first half of FY18/19 (Table 1), the sector's importance for livelihoods, poverty reduction and the broader economy is much greater. Agriculture-based products (i.e. both primary and processed products) account for more than 50 percent of all exports. The sector also employs about 70 percent of the country's labor force and is, thus, critical for household income growth and consumption, which then stimulates growth in other sectors.

<sup>9</sup> For example, the price of robusta coffee fell from an average of US\$1.95/kg in the first half of 2018 to an average of US\$1.80/kg in the second half of 2018 (World Bank Commodities Price Forecast, February 2019).



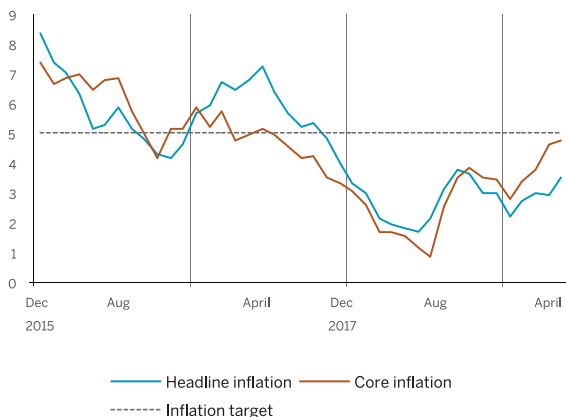
### 1.4 Monetary policy was tightened to keep inflation in line with policy targets

In the second half of 2018, an acceleration in core inflation toward the inflation target of 5 percent led to a tightening of monetary policy. Both headline and core inflation rose to 3.7 and 3.8 percent (yoy) in September 2018, respectively, from 2 and 1.7 percent in February. Heightened inflationary pressures compared to the first half of 2018 were caused by higher oil prices, pass-through effects of faster nominal effective exchange rate depreciation due to surging imports, and indirect tax hikes implemented with the new budget in July 2018. Higher indirect taxes, especially the OTT tax, led to an acceleration in services' prices from 1.7 percent in June 2018 to 5.3 percent in August 2018. In response to a

rebound in prices towards the inflation target of 5 percent, the Bank of Uganda (BOU) raised the key monetary policy rate by one percentage point to 10 percent in October 2018.

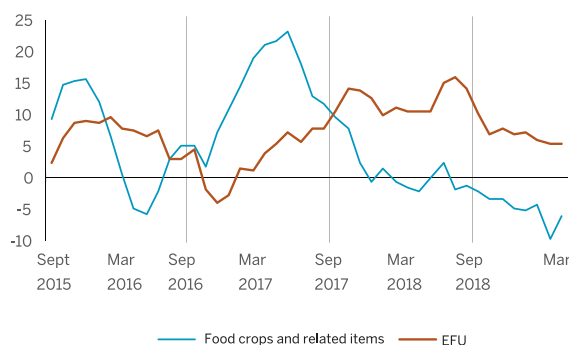
While inflation eased following monetary tightening, renewed pressures increased core inflation to 4.8 percent in April 2019. Core inflation slowed to 2.8 percent in December 2018 (yoy) driven by lower food and energy price inflation, and a rebound in the exchange rate. However, by April, inflationary pressures reemerged and core inflation accelerated sharply due to rising fuel and food prices, particularly fruit and vegetable prices which increased the most.

**Figure 5: Inflation rose in the second half of 2018 (percent, y/y)**



Source: Bank of Uganda  
 Note: Heavy dashed line indicates BoU inflation target

**Figure 6: Food prices drop and energy/ utilities prices stagnate (percent, y/y)**



Source: Bank of Uganda

## 1.5 A rise in revenues and slow execution of capital spending has kept the fiscal deficit well below budget

The fiscal deficit in the first half of FY18/19 is well below the budgeted deficit of 6.7 percent of GDP for FY18/19 (Table 2). At 5.1 percent of GDP it is only slightly up from the fiscal deficit in FY17/18 of 4.9 percent of GDP. This slower than budgeted increase in the fiscal deficit can be attributed to both a rise in tax revenues, by an estimated 1.5 percent of GDP during the first half of FY18/19 compared to the same period in FY17/18, and slower than planned execution of capital expenditures. Actual first half FY18/19 capital spending amounted to about 6.1 percent of GDP, which is well below the levels of spending in the first halves of FY's 14/15 and 15/16, of above 7 percent of GDP, and only about a quarter of the FY18/19 development budget.

**Improved collection of taxes so far in FY18/19 bodes well for achieving the annual revenue target.** The FY18/19 budget has a tax revenue collection target of almost 14.5 percent of GDP, which is in line with the government's ambition of annual increases of 0.5 percent of GDP from new administrative and tax policy reforms.<sup>10</sup> In the first half of FY18/19 this target has already been met (Table 2), and is also considerably higher (1.5 percent of GDP more) than the first half of FY17/18. This stronger performance was driven by higher payroll and

withholding tax collections, Value Added Tax (VAT) receipts and excise duties. Withholding tax collections increased by close to 70 percent in the first half of FY18/19 compared to the same period the year before. This increase is due to reforms introduced in the FY18/19 budget including: a 10 percent final withholding tax on commissions by telecommunication companies on mobile money and airtime agents; a 1 percent withholding tax on agriculture supplies; and a withholding tax on all payments for winnings of gaming, sports and pool betting.<sup>11</sup> Going forward, if government is to continue achieving its revenue ambitions, then it needs to quickly establish a framework to help manage tax exemptions that continue to drain the system of revenues forgone. This framework should include rules related to exemptions to assess their efficiency, impact and equity, and to remove them if warranted.<sup>12</sup>

**Current spending is growing too fast and is on course to again exceed the budget target for FY18/19.** In FY17/18, current spending increased to almost 14 percent of GDP (Table 2) or 32 percent above the budgeted amount, which was a significant factor in the rise of public debt. The FY18/19 budget is aiming to reduce current spending to about 11 percent of GDP. Unfortunately, the performance of

10 The government is finalizing a five-year domestic revenue mobilization strategy, with implementation set to start in FY18/19/20. The strategy targets annual increases of 0.5 percent of GDP from administrative and tax policy reforms and is being developed with assistance from the IMF, World Bank and other development partners.

11 According to URA, for the period July 2018 to January 2019, total agricultural supplies withholding tax collection was about 60 percent higher than target (i.e. US\$ 13.87 billion collected against a target of US\$ 8.75 billion). This was supported by administrative measures to bring more fishing and agricultural operators into the tax net.

12 See World Bank, 2017, *Uganda: Improving Domestic Revenue Mobilization – An assessment of Uganda's Domestic Revenue Gaps and how to tap the potential*; and World Bank, 2018, *Uganda Revenue Authority: An Assessment, Recommendations, and the Way Forward*.

current spending in the first half of FY18/19 is not encouraging, as over 60 percent (or 14.4 percent of GDP) of the current expenditure budget has already been spent. There have been big spending jumps (by about twenty percent or more) in two important areas that constitute about a third of current spending: wages/salaries and transfers to local governments.

**Overspending has resulted in the accumulation of arrears and the use of resources from the petroleum fund.** The stock of verified arrears at end-FY14/15 stood at about US\$ 1.1 trillion and more than doubled to US\$ 2.9 trillion

at end-FY16/17, equivalent to 3.2 percent of GDP. Arrears stagnated in FY17/18 at US\$ 2.8 trillion, which in GDP terms was a reduction to 2.8 percent. That said, the reliability, coverage and accuracy of the verified stock of arrears is uncertain. Preventing the accumulation of arrears needs to be a key policy priority (see Box 1). The reduction in the value of the petroleum fund from US\$ 470 billion in June 2018 to US\$ 289 billion at the end of December 2018 was due to a transfer of US\$ 200 billion to help finance the FY18/19 budget. This follows a similar withdrawal of US\$ 125 billion in FY17/18.<sup>13</sup>



<sup>13</sup> Petroleum Fund, Semi-Annual Report for the period ended 31st December 2018, MoFPED.

### **Box 1: Preventing the accumulation of arrears**

**Chronic domestic arrears have a negative impact on the domestic economy, the government's operational costs and implementation of the budget.** The accumulation of arrears undermines public confidence in the government's fiscal policy and its ability to meet future payment obligations. It also curtails economic growth by impeding the cash flow of private suppliers and contractors, which then directly contributes to the build-up of Non-Performing Loans (NPLs) in the banking system.<sup>14</sup>

**A Domestic Arrears Strategy (DAS) was released in March 2018 to address the issue of domestic arrears.** The strategy has four main objectives:

- a) Establish a comprehensive and reliable database for verified domestic arrears.
- b) Clear existing stock of arrears within four years.
- c) Strengthen measures to inhibit the diversion of domestic arrears resources.
- d) Enhance initiatives to stop the creation of new arrears.

**An arrears verification process is on-going, and resources are being allocated to the clearing of arrears.** An independent audit to verify the stock of domestic arrears up to the end of FY16/17 showed that of the total stock of US\$ 2.9 trillion, about US\$ 426 billion (15 percent) were rejected. This audit is being extended up to the end of FY17/18 and shall provide a more accurate picture of actual arrears. With US\$ 277 billion in arrears repayments made in the first half of FY18/19, the DAS target of clearing at least US\$ 300 billion worth of existing domestic arrears in FY18/19 is likely to be met.

**More needs to be done, however, to prevent the diversion of resources to clear arrears and, especially, the accumulation of new arrears.** Until the verification process is complete and there is information on the age and eligibility of creditors, then allocating funds for the broad clearance of arrears leaves too much room for the diversion of resources. This is also compounded by the limited reporting of arrears performance on a consistent basis.<sup>15</sup> In order to address this issue, more consistent reporting must be instituted for those Ministries and Agencies that hold and generate the bulk of arrears. The big issue, however, is preventing the accumulation of new arrears. This will involve (as proposed in the DAS) improving the realism, credibility and adequacy of budgets; requiring that all expenditure categories are covered in the commitment control system (CCS); and stopping over committed votes from engaging in new multiyear commitments.

*Source: Compiled from discussions with and information provided by the Ministry of Finance, Planning and Economic Development.*

14 IMF, Uganda: Technical Assistance Report—Managing and Preventing Expenditure Arrears, Country Report No. 17/271, September 2017

15 The PFM Act (2015) requires that quarterly reports be adopted on domestic arrears performance.



**Table 2: Government finances**<sup>16</sup>

Central Government Cash Balance					
(billions of Shillings)	Outcome		Budget	H1	
	2016/17	2017/18	2018/19	2017/18	2018/19
<b>Total revenues</b>	<b>13897</b>	<b>15281</b>	<b>18046</b>	<b>7334</b>	<b>8630</b>
(% GDP)	(15.2)	(15.2)	(16.2)	(14.2)	(15.8)
<b>Tax revenues</b>	<b>12593</b>	<b>14076</b>	<b>15939</b>	<b>6703</b>	<b>7926</b>
(% GDP)	(13.7)	(14.0)	(14.3)	(13.0)	(14.5)
<i>o/w VAT</i>	3904	4448		2118	2470
<i>o/w Income and profit</i>	4279	4641		2176	2568
<i>o/w International trade and transactions</i>	1446	1713		830	964
<b>Non-tax revenues</b>	<b>354</b>	<b>431</b>	<b>420</b>	<b>206</b>	<b>289</b>
<b>Grants</b>	<b>950</b>	<b>774</b>	<b>1687</b>	<b>424</b>	<b>415</b>
<b>Expenditures and net lending</b>	<b>17437</b>	<b>20183</b>	<b>25474</b>	<b>10040</b>	<b>11422</b>
(% GDP)	(19.0)	(20.1)	(22.9)	(19.5)	(20.9)
<b>Current expenditures</b>	<b>12133</b>	<b>13986</b>	<b>12170</b>	<b>6800</b>	<b>7840</b>
(% GDP)	(13.2)	(13.9)	(10.9)	(13.2)	(14.4)
<i>o/w Compensation of employees</i>	2151	2412		1187	1398
<i>o/w Purchases of goods and services</i>	2560	3576		1667	1960
<i>o/w Interest payments</i>	2360	2260		1176	1127
(% GDP)	(2.6)	(2.2)		(2.3)	(2.1)
<i>o/w Grants (transfers)</i>	4335	5259		2570	3069
<i>o/w Local Governments</i>	2562	2569		1340	1616
<b>Capital expenditures</b>	<b>5120</b>	<b>5893</b>	<b>12964</b>	<b>3016</b>	<b>3306</b>
(% GDP)	(5.6)	(5.9)	(11.6)	(5.8)	(6.1)
<b>Arrears repayments</b>	<b>184</b>	<b>305</b>	<b>341</b>	<b>224</b>	<b>277</b>
(% GDP)	(0.2)	(0.3)	(0.3)	(0.4)	(0.5)
<b>Overall balance, incl. arrears payments</b>	<b>-3541</b>	<b>-4902</b>	<b>-7428</b>	<b>-2706</b>	<b>-2792</b>
(% GDP)	(-3.9)	(-4.9)	(-6.7)	(-5.2)	(-5.1)
<b>Financing</b>	<b>3541</b>	<b>4902</b>	<b>7428</b>	<b>2706</b>	<b>2792</b>
<i>o/w domestic</i>	603	1358	1985	241	855
<i>o/w external</i>	2609	3496	5442	2181	1823
<i>o/w errors and omissions</i>	329	48	0	285	114
<b>Memoranda:</b>					
<b>Petroleum fund withdrawals</b>		125			200
<b>Primary balance, incl. arrears payments</b>	<b>-1181</b>	<b>-2642</b>		<b>-1530</b>	<b>-1666</b>
(% GDP)	(-1.3)	(-2.6)		(-3.0)	(-3.0)
<b>Public debt (% GDP)</b>	<b>38.5</b>	<b>41.0</b>			
<b>GDP, nominal (in billions of shillings)</b>	<b>91718</b>	<b>100530</b>	<b>111349</b>	<b>51606</b>	<b>54620</b>

Source: MoFPED and BoU; Note: o/w stands for "of which"

<sup>16</sup> Capital expenditure includes net acquisition of nonfinancial assets and net lending/repayments for policy purposes. However, for the Budget 2018/19 it includes development expenditures and net lending and investment.

Capital spending continues to fall short of expectations, diminishing the expected returns from public investments. While capital spending did increase by 0.3 percent of GDP in the first half of FY18/19 to 6.1 percent of GDP (compared to the first half of FY17/18), some of this increase was due to domestically financed expenditures to fund unbudgeted priorities, such as purchase of land and planes for the revival of Uganda Airlines. However, at 6.1 percent of GDP, it is still more than one percent of GDP lower than the levels reached in the first halves of FY's 14/15 and 15/16. This under-spending is constraining the ambitions of Uganda's national development plans for rapid growth and socio-economic transformation.

**Resources, including loans, are being committed to, particularly, infrastructure projects that face implementation challenges whilst there are pressing needs in other sectors.** Converting investments into productive assets requires effective management at all stages of the public investment project cycle – from inception to the management of the completed asset. Reforms to Public Financial Management (PFM) systems in Uganda have ensured that some parts of the PIM cycle meet several standards of good practice. Nonetheless, deficiencies in the 'quality at entry' of projects largely explain the implementation challenges such as time-overruns, contract disputes, cost escalations, and abandonment of projects.

At the same time, budget allocations to the social sectors, such as education and health, have declined progressively over the last decade (see Box 2) and, from the second budget call circular for FY19/20 (February 2019), are on

track to receive the lowest proportion of budget funding in at least a decade. The impact this is having on the education sector, including the deterioration in learning outcomes, will be discussed further in part 2.

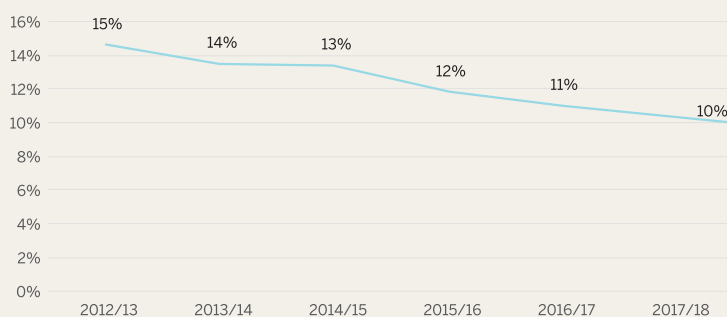
**The recently approved Uganda PFM Reform Strategy (FY18/19–FY22/23) and on-going PIM reforms provide a sound basis for reining in current spending, improving capital spending and managing the increase in public debt.** The PFM reform strategy aims to ensure that multi-year commitments are accurately reflected in annual budgets, commitment controls (including reporting and clearing of arrears) are reinforced, and PFM compliance is improved through better incentives and sanctions mechanisms. Although steps have been taken to address the issue of domestic arrears (with almost US\$ 300 billion in arrears repayments made in the first half of FY18/19), more needs to be done to prevent the accumulation of new arrears (see Box 1). Capital budget execution will improve as further reforms are undertaken to streamline and strengthen the PIM institutional arrangements and capacity, standardize information and documentation needed to guide the entire project cycle, rationalize projects and improve costing and baseline information in the Public Investment Plan (PIP). The PIM process will also need to be underpinned by an appropriate legal and regulatory environment that strengthens planning, mandates, incentive structures, and accountability.<sup>17</sup> Importantly, government is committed to ensuring this process applies to all public projects, including those financed and delivered through Public Private Partnerships (PPPs).

17 See World Bank, *Uganda Economic Update, 12th Edition, Developing the Agri-Food System for Inclusive Growth*, November 2018

### Box 2: Level of public spending in the education sector

Education expenditure as a share of the national budget has decreased from 15 to 10 percent over the last few years despite the introduction of the Universal Secondary Education (USE) policy in 2007 (Figure B1). The decline in education spending also coincides with large volumes of development partner support as Uganda has been one of the five top recipients of foreign aid for education at US\$1.6 billion disbursed between 2002 and 2014 (World Bank 2017).

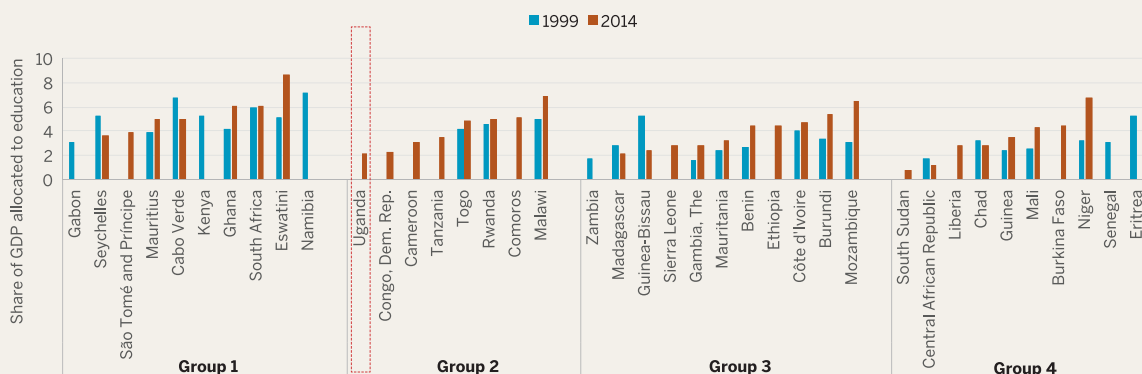
Figure B1: Education expenditure as a share of the national budget



Source: ESSP 2017-2020

In addition, public spending on education in Uganda, as a share of GDP, is low compared to countries of similar levels of educational attainment (Figure B2). As a result, the burden of financing education has been shifting to households, whose share currently represents almost two thirds of total funding (UNESCO, National Education Accounts).

Figure B2: Education spending as a percent of GDP



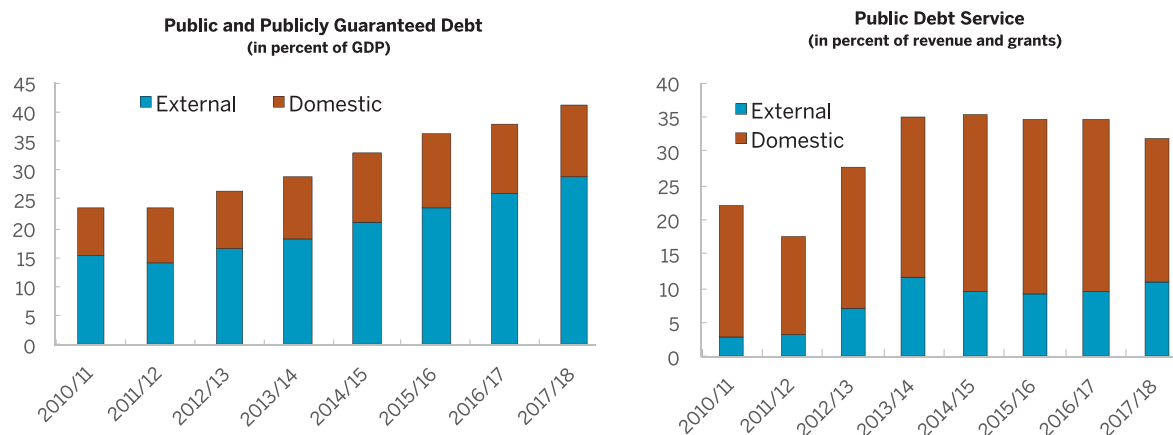
Source: World Bank, Facing Forward: Schooling for learning in Africa, 2017

Notes: **Group 1** is considered Established, with a high primary GER in the baseline year and is close to 100 percent circa 2013. The rate of out of school children of primary school-going age is low in the latest year of available data and primary retention rates are close to 100 percent in 2013. **Group 2** is considered Emerged with a high GER in the baseline year and circa 2013. The rate of out of school children of primary school-going age is low in the latest year of available data and primary retention rates are low. **Group 3** is considered Emerging where the GER is low in the baseline year and high by circa 2013. The rate of out of school children of primary school-going age is high in the latest year of available data and primary retention rates are low. **Group 4** is considered Delayed where the GER is low in both the baseline year and circa 2013, and the rate of out of school children of primary school-going age is high in the latest year of available data and primary retention rates are low in 2013. GERs for primary are high if they are at least 90 percent and low if below 90 percent. Out of school children rates are high if they are at least 20 percent, and low if below 20 percent.

The government’s financing needs in the first half of FY18/19 were largely met by foreign borrowing, which went entirely to project financing with no lending for budgetary support. There was, however, a fall in foreign borrowing to 3.3 percent of GDP in the first half of FY18/19 from 4.2 percent in the first half of FY17/18. This reflects completion of the two largest infrastructure projects, Karuma and Isimba dams, and the fact that major new infrastructure projects, such as access roads to oil wells, are yet to start in earnest. On the other hand, domestic borrowing was more than three times higher in the first half of FY18/19 (at 1.6 percent of GDP) than the same period in FY17/18 (at 0.5 percent of GDP). About a quarter of this increase was used to finance the revival of Uganda Airlines.

Public debt rose to about US\$11.4 billion, or 41.3 percent of GDP at end FY2017/18. This represents about a 14 percent increase (in GDP terms) over the past five years, which poses sustainability challenges (Box 3). Nevertheless, based on the joint IMF-World Bank debt sustainability analysis (DSA), Uganda remains at low risk of debt distress. Two-thirds (US\$7.9 billion) of outstanding public debt is owed to external creditors, largely for energy and infrastructure projects.<sup>18</sup> Domestic debt totals US\$3.5 billion, with roughly three-fourths in Treasury Bonds and the rest in short-term Treasury Bills. Close to 70 percent of external public debt is comprised of multilateral financing and is therefore on concessional terms, which reduces the present value of the public debt stock to 31.3 percent of GDP. This public debt figure does not include contingent liabilities, which were estimated in FY17/18 at 12 percent of GDP (state-owned enterprise debt of 9.1 percent of GDP and a PPP stock of 2.8 percent of GDP).<sup>19</sup>

**Figure 7: Evolution of public debt**



Source: Uganda Authorities and WB/IMF calculations

<sup>18</sup> External debt is measured on a residency basis and includes locally issued debt held by non-residents.

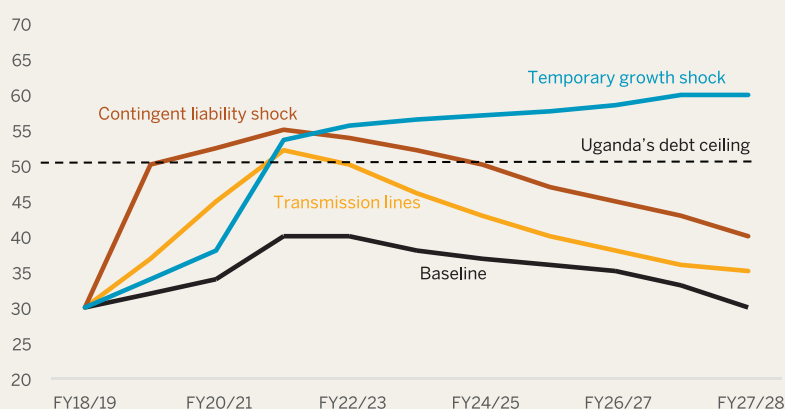
<sup>19</sup> IMF and the World Bank, Debt Sustainability Analysis, March 2019.



### Box 3: Public debt sustainability

Although public debt is manageable under current policies and expected economic conditions, debt vulnerabilities remain significant. Simulations conducted in the recent IMF-World Bank DSA find that the three most important risks are an unexpected downturn in GDP growth, the realization of contingent liabilities (from public-private partnerships and debt owed by state-owned enterprise), and the possibility that the full amount required for building transmission lines is financed by government borrowing (Figure B3).

**Figure B3: Debt sustainability under different scenarios**  
(PV of public and publicly guaranteed debt in percent of GDP)



Source: MoFPED, BoU, IMF and World Bank staff estimates

Note: In this chart, the temporary growth shock assumes growth rates are 1.5 standard deviation lower than forecast; transmission lines scenario assumes full amount of financing needed

**The increased reliance on semi-concessional and commercial borrowing to finance investment projects creates additional vulnerabilities.** Not only are interest payments higher on these loans, they also put higher demands on the government's gross financing needs because principal repayments generally start earlier, due to shorter grace periods, and are larger because of shorter maturities. To meet this gross financing need, the government may have to borrow more. Therefore, governments that have access to concessional loans should first maximize borrowing from these financing sources before looking to non-concessional financing.

**Other risks to debt sustainability include:**

- Oil export receipts are realized later than expected (i.e. beyond FY 23/24), thus postponing large inflows of foreign exchange. This would leave the budget without the planned revenue

for the government to repay debt coming due.

- Political pressures for higher current spending, as well as new ad-hoc tax exemptions.
- If the government nationalizes the electricity transmission system when the concession expires in 2025, it might need to borrow funds for maintaining and expanding the gridline.
- There are large investments financed with semi- or non-concessional loans that were not included in the DSA simulations and which are sources of additional fiscal risk.

Maintaining public debt on a sustainable path will require strengthening the budget process to ensure that budget targets become more binding, that public spending and public debt management become more effective, and that fiscal risks are comprehensively monitored.

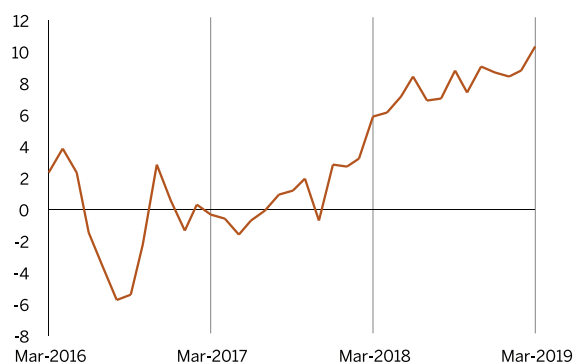
Source: Largely taken from the IMF and the World Bank, *Debt Sustainability Analysis*, March 2019

## 1.6 Credit to the private sector remains strong even after monetary tightening

Despite the increase in the monetary policy rate, private sector credit continued to grow strongly (Figure 8). Supported by robust economic growth and private investment, as well as a steady reduction in NPLs, lending to the private sector increased in real terms by 10.4 percent in March 2019 compared to the same period last year. This marks the first time since December 2015 that real growth in private sector lending has hit the double-digit mark. Private sector credit growth continued

rising despite tightened monetary conditions that have temporarily resulted in a slight increase in the average lending rate to close to 21 percent in February 2019, but have since fallen to levels seen before the increase in the monetary policy rate (19 percent). At the same time, the average interest rate on foreign currency loans remained constant at close to 8 percent. Such average lending rates are much higher than those of other East African Community (EAC) countries.

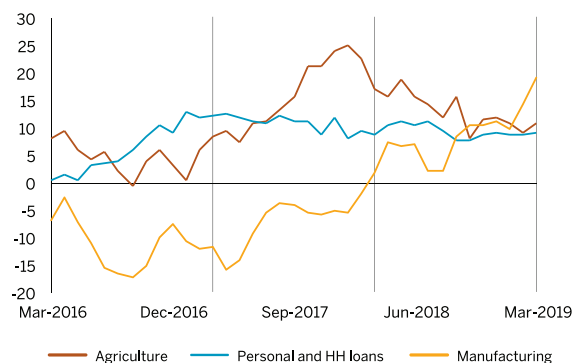
**Figure 8: Private credit continues with robust growth (percent, y/y, real terms)**



Source: Bank of Uganda  
Note: Nominal credit growth is deflated by CPI.

**Loans for agriculture, trade and manufacturing are driving the recovery in private sector credit growth.** Credit to the agriculture sector has seen double-digit growth in real terms over the past one and a half years, in large part led by credit growth in 2017 to finance agricultural processing (Figure 9). Credit to agricultural processing has in the second half

**Figure 9: Strong credit growth to agriculture and households (percent, y/y, real terms)**



Source: Bank of Uganda

of 2018 decelerated to more sustainable levels, averaging below 9 percent, in real terms, and was replaced by a surge in credit to agricultural production and marketing in 2018. The double-digit growth has roughly doubled the share of credit to agriculture to 12 percent since 2012 in total credit to the private sector. Strong growth in credit to agriculture is in part due to

an increased uptake of the Agricultural Credit Facility, whose marketing has been enhanced and terms adjusted to allow eligibility of more products along the agricultural value chain.<sup>20</sup> Credit growth to manufacturers and traders also rose significantly in 2018, averaging 5.2 and 7 percent (in real terms), respectively, supporting private consumption and investment. In 2019, credit to manufacturing doubled to close to 10 percent, in real terms.

**The banking sector has recovered from the crisis that erupted two years ago.** NPLs have declined consistently since end-2016 following the closure of Crane Bank and sizable NPL write-offs in the banking system. By end-2018, the ratio of NPLs had dropped to 3.4 percent (as a share of total gross loans), from over 10 percent two years ago. This NPL ratio is one of the lowest in the EAC. The banking sector continues to show sufficient liquidity in the system, with liquid assets to total deposits around 45 percent at end-2018.

## 1.7 Strong growth in investment good imports and slower remittances widened the current account deficit

**The current account deficit rose to 11.4 percent of GDP during the first half of FY18/19 compared to 6.2 percent of GDP during the same period last year (Table 3).** Import volumes continued rising strongly at the same rate as last year, outpacing higher exports. Meanwhile, personal transfers stagnated in the first half of FY18/19 compared to the previous year, reducing the surplus in the income and transfers account to only 1.2 percent of GDP, about one third of its value from the previous year, and thus contributing significantly to the current account deficit in the first half of FY18/19.

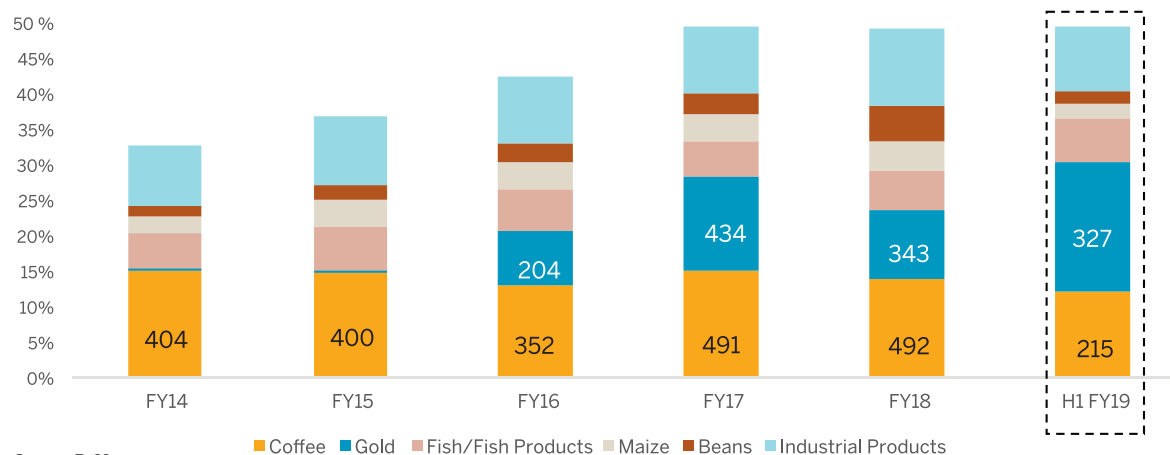
**The current account deficit was driven by a surge in import volumes fueled by robust growth in private consumption and investment.** The structure of imports changed significantly from last year, with government imports for capital projects declining over 20 percent, while private imports accelerated close to 30 percent compared to the first half of FY17/18. Private sector imports were driven by increased non-oil imports including investment and durable goods such as machinery and vehicles, as well as chemical products. Net imports of transport

and other business services have also increased. Oil imports rose 24 percent during the first half of FY18/19 as the price effect outweighed the decline in imported volumes.

**Merchandise exports continued to perform well, with the structure continuing to shift toward refined gold as a significant export good (Figure 10).** Merchandise exports rose 6 percent in the first half of FY18/19, after growing 8 percent in FY17/18, and 22 percent the year before following negative supply shocks in the form of droughts and pests. Growth in export volumes of coffee stood at 2.1 percent in the first half of FY18/19, slightly below last year's performance, while coffee prices declined 10 percent. Overall, the value of coffee exports has dropped 21 percent in the first half of FY18/19 compared to the same period the previous year. For the first time, gold exports exceeded coffee exports, recording a value of US\$327 million or almost 20 percent of total exports (Figure 10). Gold refining took off three years ago, with currently three processing facilities in Uganda exporting gold.

<sup>20</sup> The Agricultural Credit Facility was set up by the government in partnership with commercial banks, the Uganda Development Bank, micro deposit taking institutions and credit institutions. The scheme's operations started in October 2009, with the aim of facilitating the provision of medium and long-term financing to projects engaged in agriculture and agro-processing, focusing mainly on commercialization and value addition.

**Figure 10: Share of total exports (main FY18 commodities) and value (in US\$ mil) of coffee and gold exports**



Source: BoU

Although the current account deficit has widened significantly, it still seems manageable as it was largely financed by FDI inflows and development assistance (Table 3). Net FDI rose to over 5 percent of GDP in the first half of FY18/19, financing a large share of the external shortfall. At the same time, government's net borrowing of 3.3 percent of GDP was largely through project financing rather than budget support. As a result, foreign exchange reserves accumulated by US\$114 million, which implies a coverage of 4.6 months of imports of goods and services, according to the BoU.

By April 2019 the shilling recovered after depreciating 5.5 percent in the first half of 2018 (Figure 11). The sharper than usual depreciation of the shilling over the period January to June 2018 was driven by strong demand for foreign currency to finance the widening current account deficit. Since then, the shilling recovered somewhat and appreciated 2.7 percent by April 2019 as FDI inflows and government foreign borrowing bolstered foreign exchange reserves.

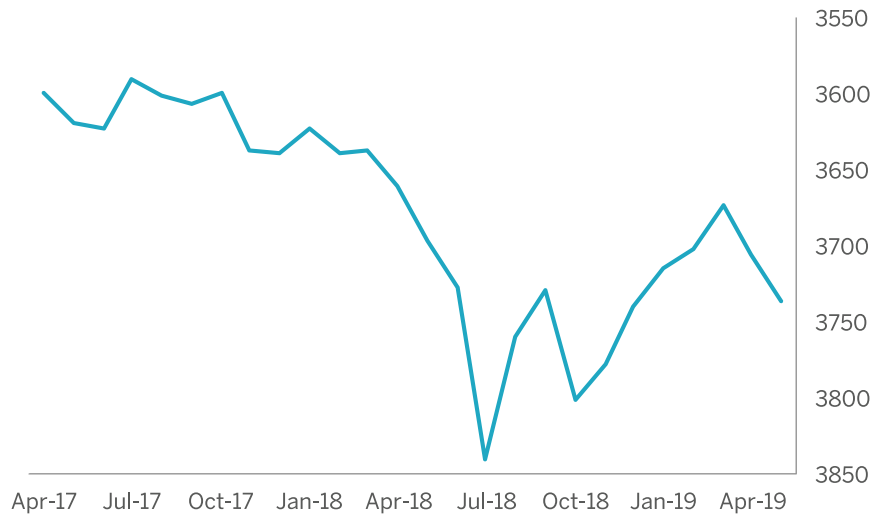


**Table 3: The current account balance and financing**

Current Account Balance (millions of dollars)	H1				
	2015/16	2016/17	2017/18	2017/18	2018/19
<b>Merchandise trade</b>	-2004	-1494	-2083	-1028	-1404
(% GDP)	(-8.3)	(-5.7)	(-7.6)	(-7.5)	(-9.9)
Exports	2688	3274	3537	1691	1796
Imports	4692	4768	5619	2719	3199
<b>Services</b>	-255	-268	-424	-233	-382
(% GDP)	(-1.1)	(-1.0)	(-1.5)	(-1.7)	(-2.7)
Exports	1985	1689	1830	890	1025
Imports	2240	1957	2254	1123	1408
<b>Income and transfers</b>	902	742	701	410	177
(% GDP)	(3.7)	(2.9)	(2.6)	(3.0)	(1.2)
<b>Current account balance</b>	-1357	-1020	-1806	-851	-1609
(% GDP)	(-5.6)	(-3.9)	(-6.6)	(-6.2)	(-11.4)
<b>Financing</b>	1243	1133	1090	780	1389
<i>o/w Net FDI inflows (equity and reinvested earnings)</i>	474	552	882	354	736
<i>o/w Intercompany loans</i>	208	162	90	47	30
<i>o/w Portfolio investment</i>	146	177	339	-246	-4
<i>o/w Other investment</i>	705	595	457	624	624
<i>o/w Capital transfers</i>	120	151	105	67	57
<b>Net errors and omissions</b>	95	157	416	236	279
<b>Change in foreign exchange reserves</b>	99	419	-198	230	114
<b>Memoranda:</b>					
Total external debt stock, nominal (percent of GDP)	22	24	26	25	28
Foreign exchange reserves, stock (months of imports of G&S)	5.5	5.7	4.5	5.2	4.6
GDP, nominal (in millions of dollars)	24134	25985	27474	13732	14132

Source: Bank of Uganda  
Note: o/w stands for of which

**Figure 11: Nominal exchange rate recovered recently**  
(Ush/USD exchange rate)



Source: Bank of Uganda

Note: Y-axis reversed

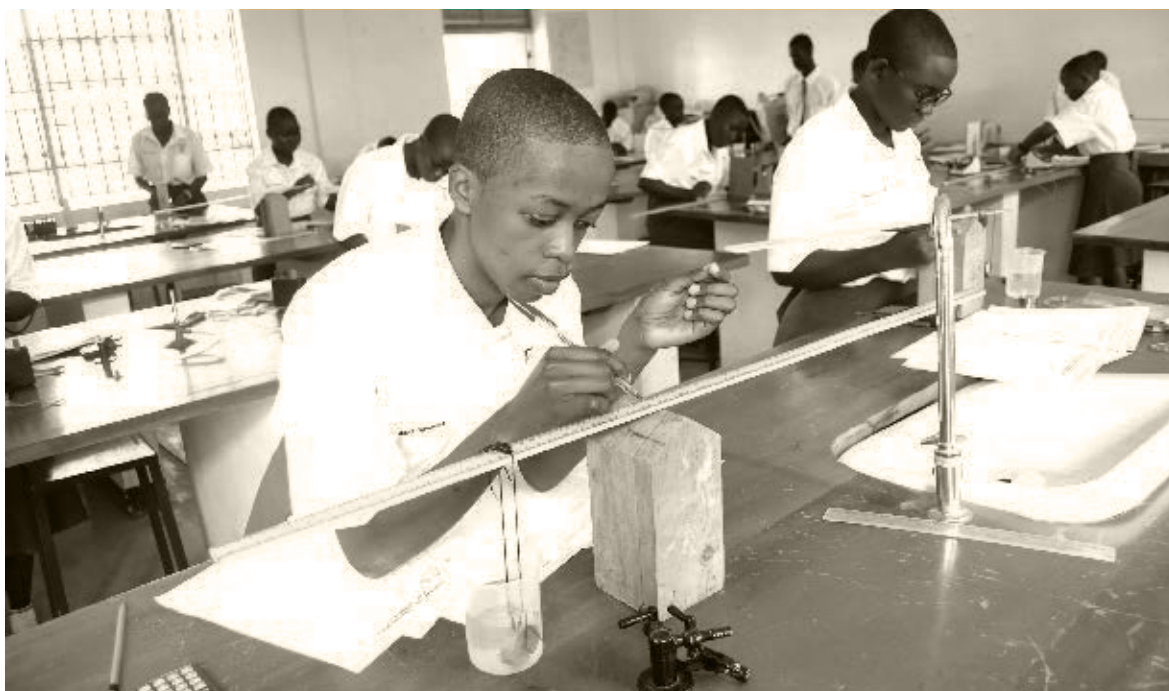


## 2. ECONOMIC OUTLOOK AND RISKS

### 2.1. Public and private investments to drive higher real GDP growth

Real GDP growth is expected to remain around 6 percent in FY18/19 and could rise further to 6.5 percent in FY19/20 (Table 4). Given the improved outlook, the projection for FY19/20 is slightly above the forecast of 6.4 percent growth that was made in the November 2018 Uganda Economic Update. The pick-up in growth will largely be driven by intensified public and private investments in energy projects, industrial parks, preparation for oil production, and continued expansion of IC

infrastructure. The scale-up in investments is expected to catalyze a rise in consumption, as the bulk of investments support more rapid growth in construction and services. This outlook assumes favorable weather conditions, continued strong external demand, and further growth in FDI inflows as oil production draws closer (see Box 4). The growth outlook is projected to deteriorate slightly in FY21 due to the general elections scheduled for 2021.<sup>21</sup>



<sup>21</sup> Growth has traditionally dipped in election years as heightened political activity leads to lower investment and economic activity. At the same time, however, government consumption expenditure is expected to rise, which will lead to a deterioration in the expenditure mix, significant expansion in the fiscal deficit, and a rise in public debt to almost 50 percent of GDP.

**Box 4: Closing regulatory and institutional gaps will ensure maximum benefits from oil**

**Oil production and associated revenues have the potential to transform the Ugandan economy.** Uganda's oil reserves are currently estimated at 1.7 billion barrels, the fourth largest in Sub-Saharan Africa, and production is set to commence in 2023 and last for 25 years. The government expects to receive between one half to four percent of GDP per year in oil related revenues during this period. The anticipated investments in the short to medium-term, especially to support oil production, are expected to be a key driver of economic growth. Over the longer term, oil has the potential to substantially raise government revenues, increase exports and drive even more impressive growth rates. However, these benefits are not guaranteed. Therefore, government has a crucial role in managing these resource revenues effectively and developing synergies with domestic industries.

**Since oil reserves were confirmed, government has undertaken several legal, institutional and policy reforms.** The National Oil and Gas Policy (approved in 2008) and the Petroleum Act (2013) jointly established the National Oil Company to manage the country's commercial interests in the sector and, through various regulations, their operationalization has also formed the legal basis for mid- and upstream development. An Oil and Gas Revenue Management Policy (2013) and the Public Finance Management Act (2015) include provisions on how Uganda will manage its oil revenues. This legal framework also established a Petroleum Fund, into which oil revenues are deposited once collected by the Uganda Revenue Authority, and a Petroleum Revenue Investment Reserve which is expected to be a sovereign wealth fund for investing a share of oil revenues. The Charter of Fiscal Responsibility was formulated in 2016 and sets a framework for macroeconomic stability and fiscal transparency.

**Gaps in the fiscal management framework remain and need to be addressed before production commences.** The production sharing agreements, Income Tax Act, and special taxation regime for the pipeline provide a good basis for managing the upstream revenue flows. However, several areas related to the use of oil revenues could be strengthened. There are concerns that the fiscal rule implied in the current fiscal regime is not stringent enough to manage rising spending pressures. This is especially due to the lack of both annual fiscal targets and guidelines for fiscal adjustment in the event of major economic shocks. Furthermore, better budget management, enhanced fiscal transparency and reporting, and improved public investment management will be crucial to maximize benefits from oil revenues for the economic transformation of Uganda.

*Source: Compiled from Government of Uganda, IMF and World Bank documents.*



The services sector is expected to continue to underpin growth, followed by industry and a limited contribution from agriculture.<sup>22</sup>

Telecommunication companies are expected to sustain investments to support both 3G connectivity country-wide and the roll-out of 4G services, and, with Uganda's youthful and increasingly connected population, data usage will continue to expand strongly. Given that any agriculture productivity enhancing initiatives (e.g. irrigation investments to boost water for agriculture) will take some time to deliver results, agriculture growth is

expected to remain in line with its historical performance of about 3 percent. The current outlook for fisheries looks more positive though, with a new fisheries and aquaculture law expected to be enacted this year, which will address challenges (e.g. poor-quality fish larvae/fingerlings, limited access to feeds, trade in illegal and unrecorded immature fish) and foster a sustainable fisheries and aquaculture sub-sector. Addressing these sub-sector challenges should support a rise in fisheries exports, which have already grown by almost 250 percent in the first half of FY18/19.<sup>23</sup>

**Table 4: Medium term outlook (annual percent change unless indicated otherwise)**

	FY18/19e	FY19/20f	FY20/21f
<b>Real GDP growth</b>	<b>6.2</b>	<b>6.5</b>	<b>5.8</b>
Private consumption	4.8	5.7	5.5
Government consumption	4.2	9.7	12.3
Gross fixed capital investment	14.4	10.4	7.5
Exports (goods and services)	6.2	5.5	5.4
Imports (goods and services)	12.6	9.8	9.1
Agriculture	2.6	2.8	2.7
Industry	5.6	6.1	6.0
Services	7.6	7.9	6.9
Inflation (consumer price index)	4.7	4.9	5.1
Current account balance (percent of GDP)	-8.3	-8.9	-8.6
Net foreign direct investment (percent of GDP)	4.1	4.3	3.7
Fiscal balance (percent of GDP)	-5.7	-6.1	-6.6
Public debt (percent of GDP)	43.6	46.9	49.4

Source: UBOS, IMF and World Bank staff estimates

Notes: Gross fixed capital investment includes both public and private investments.

<sup>22</sup> See World Bank, *Uganda Economic Update, 12th Edition, Developing the Agri-Food System for Inclusive Growth*, November 2018.

<sup>23</sup> At around 6 percent of total exports from FY14 to FY18, fish and fish products are Uganda's fourth largest export, after coffee, industrial products and gold (Figure 10).

**The fiscal deficit is likely to remain moderate, as public expenditure falls short of what was budgeted due to the perennial under-execution of capital expenditures.** The government's FY18/19 budget envisaged a significant increase in the fiscal deficit to 6.6 percent of GDP, and 6.1 percent the year after, driven by investments in public infrastructure and aircraft purchases for Uganda Airlines. The infrastructure investments include new oil-related roads, the Kampala-Hoima infrastructure/utility corridor, the East African Crude Oil Pipeline (from Uganda through Tanzania), completion of the Karima and Isimba dams, and power transmission and distribution networks to special economic zones and rural growth centers. However, given the historical under-execution of capital expenditures, the fiscal deficit is likely to only expand to 5.7 percent of GDP (Table 4) in FY18/19. Looking forward, the on-going public investment management reforms and better implementation of the government's resettlement action plan could push the fiscal deficit towards what has been budgeted for FY20.

**The rapid growth in imports to support the investment drive, combined with only moderate growth in exports, is expected to widen the current account deficit to around 9 percent of GDP over the medium term.** The strong investment drive will require significant imports of oil, machinery, vehicles and chemical products. A slower global economy combined with mixed economic performance of Uganda's main export markets could undermine exports. Although countries like Kenya, Rwanda and DRC have strong growth prospects going forward (Figure 2), the Euro Area growth is projected to decelerate to 1.6 percent in 2019.

At the same time, South Sudan is showing weak signs of recovery, but certainly insufficient to support previous Uganda-South Sudan trade levels. Furthermore, prices of commodities are expected to generally stabilise in the medium term.<sup>24</sup> So, on balance, export growth is likely to be moderate over the next few years. Thus, the expanded current account deficit is expected to be largely financed by net FDI inflows. With oil exports envisaged to gradually take off in 2023/24, this would ensure a sizable reduction in the current account deficit over the longer term. Net FDI inflows and other capital inflows, including external borrowing, should keep foreign exchange reserves equivalent to a least four months of imports of goods and services.

**As the growth recovery gains traction, headline and core inflation are anticipated to approach the BoU target of 5 percent.** Oil prices are expected to increase to US\$74/bbl in 2019, peaking in the first half of the year, and declining over the medium term to under US\$70/bbl.<sup>25</sup> This should limit any inflationary pressures from the price of fuel and certain imported goods. At the same time, favorable weather and reasonable agricultural performance will largely keep domestic inflationary pressures subdued. For these reasons, the BoU has recently communicated a more favorable outlook for inflation over the next twelve months and is expected to maintain the policy rate at around 10 percent over the course of 2019.<sup>26</sup> This should support more reasonable lending rates and, together with the positive economic outlook, private sector credit growth is likely to be sustained through 2019 and to further boost private consumption as more households access credit.

24 For example, the price of gold is expected to fall marginally from an average of US\$1,259/toz in 2018 to an average of US\$1,245/toz in 2019 and US\$1,231/toz in 2020. On the other hand, the price of robusta coffee is only expected to rise marginally from an average of US\$1.82/kg in 2018 to an average of US\$1.85/kg in 2019 and US\$1.88/kg in 2020 (World Bank Commodities Markets Outlook, October 2018).

25 World Bank, Commodity Markets Outlook, October 2018.

26 Bank of Uganda, Monetary Policy Statement for February 2019.

## 2.2. Risks remain tilted to the downside

**As the 2021 elections draw closer, heightened political activity and uncertainty could lead to a drop in investments and economic activity.**

Whereas this has been factored into the outlook for FY21, political risks could arise sooner and impact the nearer term outlook. Uganda is strongly predicating its prospects on the oil industry and boosting its international image to grow the tourism sector. However, politically linked riots and civil unrest would increase uncertainty and could lead to a fall in investor sentiment (both domestic and international), which could slow down oil investments and deter tourists from visiting.

**Spending pressures could jeopardize Uganda's hard-earned macroeconomic stability.**

Spending pressures may arise from excessive current spending in the run-up to the 2021 elections, unexpectedly high subsidies to revive and sustain Uganda Airlines, and/or if contingent liabilities, partially stemming from increasing use of public-private partnerships, materialize. On the other hand, new ad-hoc tax exemptions that put downward pressure on tax revenues in conjunction with existing exemptions, and weak implementation of new tax-enhancing measures and reforms, may strain the government's ability to raise additional revenue to offset higher expenditures.

**Poor execution of the capital expenditure budget and slower revenue mobilization would increase public debt vulnerabilities.**

Procedural and financial delays that have traditionally led to poor execution of the government's large infrastructure programs are being addressed through capacity building in government to better prepare and appraise projects. However,

weaknesses in managing the social risks, largely emanating from lack of policies and systems to protect communities in which these infrastructure investments take place, remains a risk to project execution (see Box 5). Thus, significant delays in public investment execution (and related returns), and further sizable increases in current spending may constrain real GDP growth and the future growth dividend. At the same time, any rise in U.S. interest rates could result in accelerated depreciation of the Ugandan shilling, which would result in more expensive repayments of foreign debt.

**Swings in global oil prices present varying risks to Uganda's growth prospects.**

Lower oil prices are beneficial to Uganda's trade balance and real growth outcomes, but also increase risks to investment plans in the Ugandan oil sector. Commodity price forecasts suggest that oil prices will, over the medium term, remain above the estimated break-even price for production.<sup>27</sup> However, there is uncertainty around these forecasts. If oil prices fall significantly, then plans for production may need to be adjusted, with possible delays in realization of oil revenues. These delays could result in liquidity pressures given the current heavy borrowing for infrastructure that is relying on the enhanced repayment capacity from oil exports, and especially if less concessional financing materializes.

**Reliance on rain-fed agriculture and susceptibility to the armyworm and other pests remain risks to real GDP growth, the poor's income, and export earnings.**

The performance of the agriculture sector, and corresponding environmental shocks, has been closely linked

<sup>27</sup> World Bank, *Commodity Markets Outlook*, October 2018. Analysts estimate that an oil price of US\$60/bbl is the break-even point for production in Uganda (Patey, L., 2015), which according to the Ministry of Energy and Mineral Development is now envisaged to start in 2023.

to household income growth, and subsequently, to poverty reduction (Hill and Mejia, 2016).<sup>28</sup> To build resilience to weather and other shocks, it is crucial to invest in the agricultural sector, expand existing or introduce new social protection programs, and ensure labor demand

in other sectors. The latter is a significant challenge, as it is projected that Uganda will have to accommodate an additional 600,000 new entrants into the labor market each year up to 2020 – and even more thereafter, given demographic projections (World Bank, 2018).

### **Box 5: Managing social risks is critical to realizing the returns from capital investments**

Research has shown that if social risks associated with development projects are not adequately mitigated, they could lead to unintended adverse effects on the well-being and livelihoods of affected communities, particularly poor and vulnerable groups. These risks include i) poorly executed land acquisition/resettlement processes, ii) inadequate stakeholder engagement/consultation, iii) lack of access to functioning grievance redress mechanisms, iv) exacerbation of gender issues and social exclusion, and v) all those risks associated with an influx of labor into targeted communities, including social conflict, spread of communicable diseases, Gender Based Violence (GBV), Violence Against Children (VAC), and labor issues.

For example, the World Bank's Inspection Panel received a complaint in 2015 for the *Transport Sector Development Project* that raised serious allegations associated with its implementation including road workers' sexual relations with minor girls and resulting pregnancies, the increased presence of sex workers in the community, the spread of HIV/AIDS, sexual harassment of female employees, child labor, increased dropout rates from school, inadequate resettlement practices, fear of retaliation, lack of community participation, poor labor practices, and lack of road safety. These allegations eventually resulted in the project being cancelled and a Management Action Plan (still under implementation) prepared to address these issues.

Since then, the Ugandan government has significantly strengthened its capacity to address infrastructure project related social risks, notably in the transport sector and under the lead of the *Uganda National Roads Authority*. These have included the (i) provision of emergency remediation for child survivors of abuse in the project area, (ii) strengthening of local prevention and response to GBV and VAC, (iii) elaboration of a program to address the underlying risks of GBV, and (iv) on-going efforts to address endemic social issues associated with infrastructure projects.

These challenges, that go beyond the transport sector, highlight the need to strengthen the country's systems for the prevention, mitigation and management of social risks. In pursuit of its infrastructure development agenda, the Ugandan government is committed to strengthening its *Social Risk Management (SRM)* architecture and is developing a robust and well-coordinated system for managing these risks in development projects. Once implemented, this system will support a development agenda that is inclusive and sustainable.

Key amongst this reform agenda is the policy and legal framework that will ensure proper land acquisition and resettlement, clear and transparent systems for assessing and accounting for social impacts in development investments, and stronger mechanisms for coordinating actions across government. An effective SRM system will ensure inclusive growth, as communities positively benefit from these projects, but will also avoid delays and litigation on project works that delay and ultimately reduce the return on investments.

Source: Based on "Uganda Management of Social Risk and Gender Based Violence Prevention and Response Project, Social Impact Assessment. Ministry of Gender, Labor and Social Development, April 2017" and "Strengthening Social Risk Management and Gender-Based Violence Prevention and Response Project," Project Appraisal Document. World Bank, May 2017.

<sup>28</sup> Thus, factors that positively contribute to the development of the agricultural sector (such as enhanced access to markets and regional trade integration) also contribute to the reduction of poverty.



**Regional and global factors could also undermine Uganda's export performance.** Reduced foreign demand for Uganda's exports could come in the form of regional instability, such as violence or hostilities in the DRC and South Sudan, continued tensions and the border closure between Uganda and Rwanda, and/or because of the unfolding trade war between the U.S. and China, which might slow global growth. Almost a quarter of Uganda's FY18 exports went to the DRC and South Sudan (World Bank, 2018). The DRC came through the December 2018 elections relatively peacefully, and the country's medium-term outlook is positive. The power-sharing agreement signed by the South Sudanese leaders in September 2018 has been maintained up to now. If it

stays in place and South Sudan's economy increasingly improves, then demand for Ugandan exports may pick up again. Over the last decade about 9 percent of Uganda's exports went to Rwanda. The closure of certain border posts since February 2019 has put a halt on bilateral trade, which, depending on how long they stay closed and to what extent they are reopened, will have a detrimental effect on Ugandan exports. Uganda also serves as an important transit country for Rwanda; both for its imports from other countries and exports heading to Kenyan ports. A diversion of this trade through other countries may affect growth in Uganda's services sectors such as logistics, transportation and storage.











PART 2:  
**EDUCATION**

### 3. ECONOMIC DEVELOPMENT, HUMAN CAPITAL AND DEMAND FOR SKILLS: A CASE FOR INVESTING MORE IN EDUCATION

#### 3.1. Human capital in Uganda

Human capital is a key determinant of economic development and wealth. The new generations of workers are facing an increased demand for higher levels of human capital, including advanced cognitive and socio-behavioral skills. As the nature of work evolves in response to rapid technological change, investing properly in human capital is considered not only desirable, but necessary in the pursuit of prosperity. To illustrate this concept the World Bank developed the Human Capital Index (HCI) which measures the impact of underinvesting in human capital on the productivity of the next generation of workers. It is defined as the amount of human capital that a child born today can expect to achieve in view of the risks of poor health and poor education currently prevailing in the country where that child lives (more details in Box 6).

Health and education are important components of human capital and are interrelated. Health indicators include survival, stunting and nutrition. Stunting has considerable impacts since a healthy diet during infancy and childhood increases achievement at school.<sup>29</sup> Also, investing in prenatal care and maternal education improves infant health, leading to improved educational attainment, mental health and higher earnings later in life.<sup>30</sup>

Education is a major component of the HCI, and Africa is the region of the world with the highest economic returns to education. The key drivers of these returns are the quality of education and the average years of schooling that a child may benefit from. Each year of schooling raises average earnings by 11.3 percent for males and 14.5 percent for females.<sup>31</sup> Education interventions are shown to have a direct impact on skills, academic achievement and, consequently, earnings. For instance, attending pre-school for one year enhances cognitive skills during early childhood, improves academic skills during elementary school, and increases earnings by 5 percent.<sup>32</sup> Additionally, education contributes to empowering women, allowing them to access better jobs, have fewer children and invest more in each child.

Empirical analyses show that the HCI components are highly correlated to productivity and economic growth. The HCI and GDP per capita correlation is 0.86 (Figure 12). Between 10 and 30 percent of per capita GDP differences are attributable to cross-country differences in human capital, which is also an important input to technological innovation and long-term growth.<sup>33</sup> As illustrated by figure 12, Uganda's HCI is below what would be predicted by its income level, whereas Kenya and Burundi, for instance, score much above what is expected by their income levels.

<sup>29</sup> Belot and James (2011); Sandjaja et al. (2013).

<sup>30</sup> Andrabi, Das, and Khwaia (2012); Gertler et al. (2014); Walker et al. (2011).

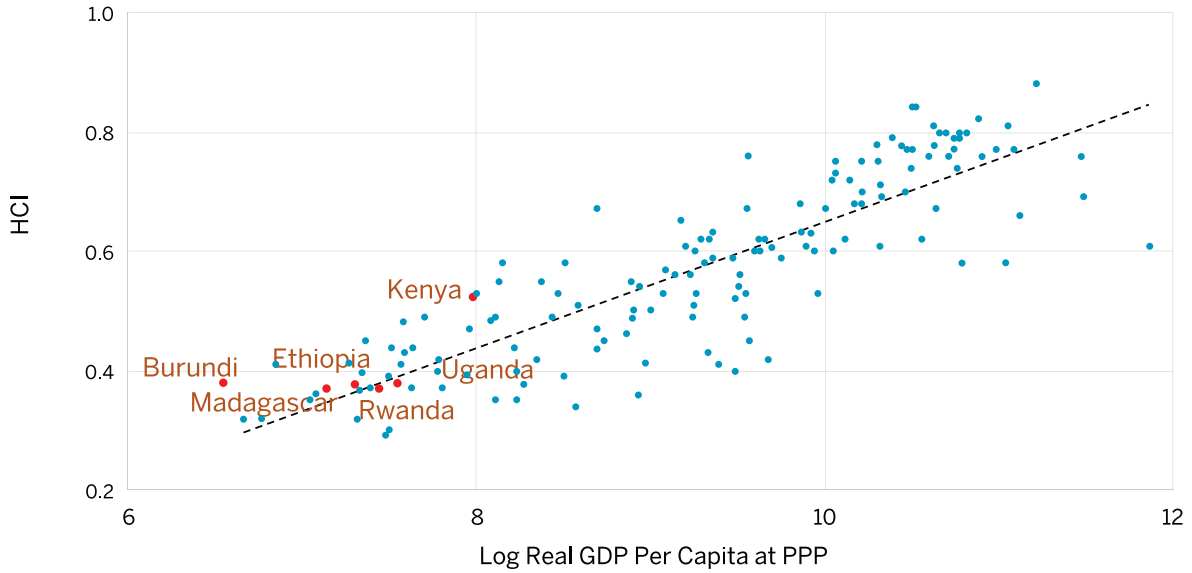
<sup>31</sup> Montenegro and Patrinos (2014).

<sup>32</sup> Berlinski, Galiani and Gertler (2009).

<sup>33</sup> Hsieh and Klenow (2010).



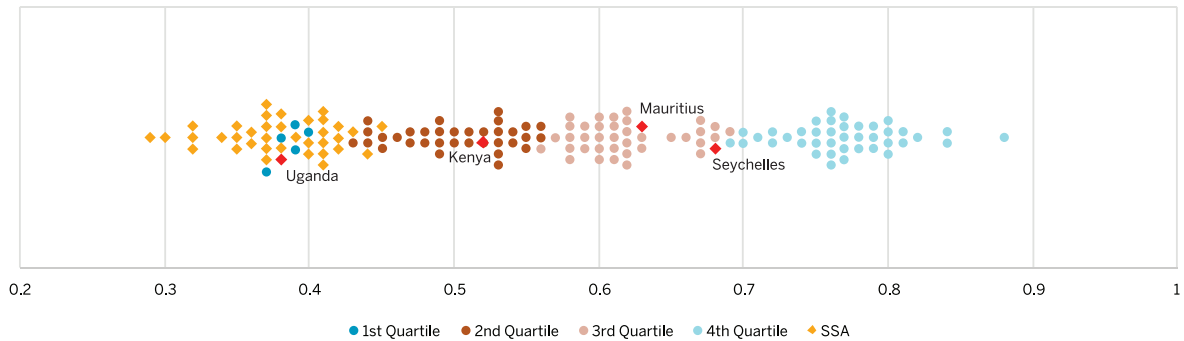
**Figure 12. Relationship between HCI and GDP per Capita (Idem)**



Analyses of HCI indexes among developing countries show that Uganda is underinvesting in the future productivity of its citizens. A child born in Uganda today will be only 38 percent as productive when she grows up as she could

be if she enjoyed complete education and full health.<sup>34</sup> Uganda is ranked among the countries in the lowest quartile of the HCI distribution, with an index slightly lower than the average for the SSA region.

**Figure 13. Human Capital Index in Uganda and other Sub-Saharan African countries**



<sup>34</sup> The official definition of HCI

**Table 5. HCI by components in Uganda and other Sub-Saharan African Countries**

	Ethiopia	Kenya	Mauritius	Rwanda	Seychelles	Uganda	SSA
<b>HCI Component 1: Survival</b>							
Probability of Survival to Age 5	0.942	0.954	0.987	0.962	0.986	0.951	0.934
Contribution to Productivity	0.94	0.95	0.99	0.96	0.99	0.95	0.93
<b>HCI Component 2: School</b>							
Expected Years of School	7.8	10.7	12.5	6.6	13.7	7.0	8.1
Harmonized Test Scores	359	455	473	358	463	397	374
Learning-Adjusted Years of School	4.5	7.8	9.5	3.8	10.1	4.5	4.9
Contribution to Productivity	0.47	0.61	0.70	0.44	0.73	0.47	0.48
<b>HCI Component 3: Health</b>							
Survival Rate from Age 15-60	0.786	0.787	0.859	0.808	0.840	0.698	0.732
Fraction of Children Under 5 Not Stunted	0.616	0.738	..	0.633	0.921	0.711	0.684
Contribution to Productivity	0.87	0.89	0.91	0.88	0.94	0.86	0.87
<b>Human Capital Index (HCI)</b>	<b>0.38</b>	<b>0.52</b>	<b>0.63</b>	<b>0.37</b>	<b>0.68</b>	<b>0.38</b>	<b>0.39</b>

**Uganda scores low in the HCI and investing in education is important to improve outcomes for the population.** From 2012 to 2017, Uganda's HCI increased from 0.36 to 0.38, due to improvements in all components of the index. While further gains in human capital will require multi-sectoral policies that aim at reducing child mortality and stunting and improving adult health, improving the education status of the younger generations will have the highest contribution to productivity. A child born today in Uganda is expected to complete only seven years of education combined by age 18, compared to a regional average of 8.1.<sup>35</sup> Because of the low levels of learning achievement in Uganda, this is only equivalent to 4.5 years of learning (see 'Learning-Adjusted Years of

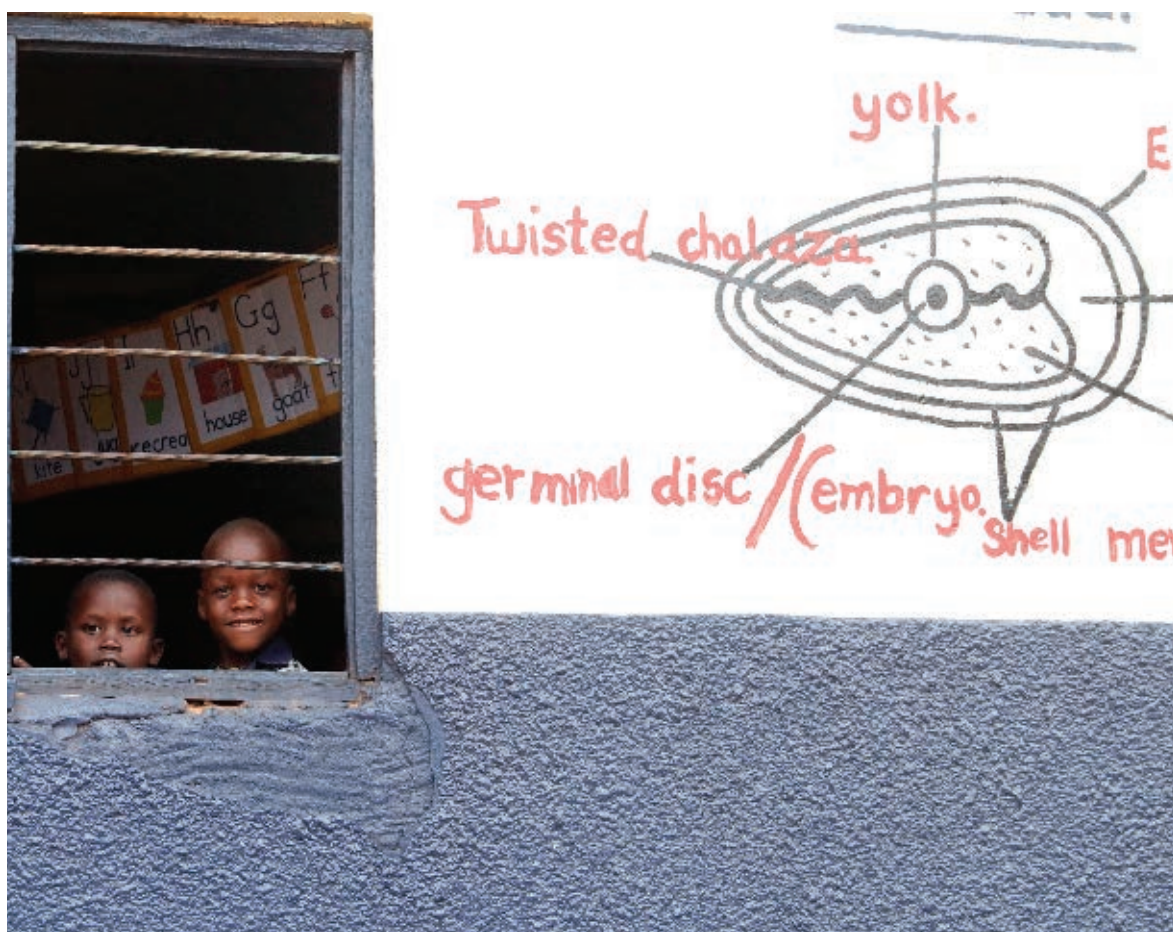
School' component in table 5), with 2.5 years considered as lost due to poor quality. Uganda's score on this component is below the SSA average. Learning outcomes are measured by the Southern and Eastern Africa Consortium for Monitoring Education Quality (SACMEQ) assessment, last administered in 2013. While 70 percent of grade 6 students achieved the minimum competence level in reading, only 40 percent of those tested reached that same competence level in Mathematics. The evidence of poor learning outcomes is substantiated by the national Early Grade Reading Assessment's (EGRA) results.<sup>36</sup> For instance, only 28 percent of children can read 20 words per minute in the third grade of primary (P3), while the expectation is that all children should be able to read a simple paragraph by that age.

35 Primary level in Uganda is seven grades; lower secondary is four and upper secondary is another two.

36 An assessment focused on early grade proficiency in basic literacy skills, typically conducted in grades 2-4.

To improve its ranking in the HCI, Uganda needs to adopt a dual priority approach focusing on schooling, in particular on expanding access to pre-primary and secondary education, and learning, through improving quality at all levels. While the country has largely universalized education access at the primary level, it shows extremely low GER at pre-primary, as well as at secondary levels. Both pre-primary and secondary education enrollments are among the lowest in the region, and the secondary enrollment rate has been stagnating for the last decade. In primary education, the high

enrollment rate hides alarmingly low learning outcomes and completion rates. Moreover, inequities in access to education persist at high levels among children across gender, demographic, socioeconomic, and regional groups. This chapter of the economic update aims to recommend solutions on how to achieve this dual priority of learning and schooling in the most efficient manner, that is fiscally realistic and sustainable given Uganda's current economic performance, fiscal policy and macroeconomic management.



### **Box 6: What is the Human Capital Index?**

The Human Capital Index (HCI) measures the human capital that a child born today can expect to attain by age 18, given the risks to poor health and poor education that prevail in the country where she lives. It is based on three components:

#### **Survival Component: Probability of survival to age 5**

Measured using the under-5 mortality rate to reflect the fact that not all children born today will survive until the age when the process of human capital accumulation through formal education begins.

#### **School Component: Expected years of school and harmonized test scores**

Combines information on the quantity (expected years of school) and quality (harmonized test scores) of education. Learning-Adjusted Years of School are then generated by multiplying expected years of school by the ratio of test scores – calculated from major international learning assessments – to 625, corresponding to the TIMSS benchmark of advanced achievement. For example, expected years of school in Uganda is 7 and the average test score is 397, then the country has  $7 \times (397/625) = 4.5$  Learning-Adjusted Years of School. The distance between 7 and 4.5 represents a learning gap equivalent to 2.5 years of school.

#### **Health Component: Survival rate from age 15-60 and the fraction of children under 5 not stunted**

This component uses two proxies for the overall health environment: adult survival rates measured by the share of 15-year-olds who survive until age 60, and the fraction of children under 5 who are not stunted. The first reflects a variety of health outcomes that a child born today may experience as an adult. The later serves as an indicator for the prenatal, infant, and early childhood health environments, which have important consequences for adult health and well-being.

#### **Human Capital Index**

The overall index is constructed by multiplying the three components' contributions to relative productivity, as follows:  $HCI = \text{Survival} \times \text{School} \times \text{Health}$ . The benchmark of complete high-quality education corresponds to 14 years of school and a harmonized test score of 625. The benchmark of full health corresponds to 100 percent child and adult survival and a stunting rate of 0 percent.

Source: Gatti, Roberta V.; Kraay, Aart C.; Avitabile, Ciro; Collin, Matthew Edward; Dsouza, Ritika; Dehnen, Nicola Anna Pascale. 2018. *The Human Capital Project* (English). Washington, D.C.: World Bank Group.



### 3.2. The demand for skills and the critical role of lower secondary education

In addition to raising Uganda's productivity, as evidenced by the HCI, primary and lower secondary education are essential to employability. In Uganda as in other parts of SSA, the share of non-wage informal employment is likely to change very slowly. On average, across countries in Sub-Saharan Africa, eight of every 10 jobs are in agriculture or non-farm household enterprises. In the future, manufacturing and services are expected to become more important sources of jobs. However, the movement of labor out of agriculture in SSA has been slower than in the rest of the world, and projections show that even in optimistic scenarios, the share of non-wage informal employment – mostly low-productivity and low-earning jobs – is likely to remain high for a long time.

**Despite the slow transformation of the content of jobs, Uganda is at risk of hindering its future economic growth by underinvesting in the education of its citizens.** Primary and lower secondary education are critical education levels affecting both social cohesion and economic growth. Up to the lower secondary level, education is needed for more than earning income—it enables all aspects of youth transition from dependence to independence, plays an important role in building citizenship and unity, and has powerful effects on several positive social behaviors, such as reducing fertility and preventing child marriage. As noted in a World Bank publication,<sup>37</sup> ending child marriage today in Uganda could generate by 2030 up to US\$2.7 billion in annual benefits (in purchasing power parity terms) simply from lower population growth and a reduction in rates of under-five mortality and stunting for

young children. Moreover, women's earnings today would be higher if they had been able to avoid marrying early. This last loss in earnings alone is estimated at more than US\$ 500 million during the same period.

**On the other hand, lower secondary education is critical to building the skills—cognitive and socio-emotional—which will be vital for realizing the development potential of today's youth.** While many of the secondary educated youth won't be able to find employment in the public or the modern sectors of the economy, through self-employment they still can seize opportunities and create a decent living for themselves and family members on farms or in non-farm businesses. Some of them, with solid entrepreneurship skills, may even be able to create growth-oriented businesses and employ non-family labor. Finally, the pace of technological change requires tomorrow's workforce to possess solid digital skills and competencies that enable them to regularly use the internet for digital financial inclusion, or to access other government or commercial services. Disruptive technologies present leapfrogging opportunities in many areas which can be seized only by digitally literate workers. These entrepreneurship and digital skills and competencies can hardly be acquired if a worker hasn't completed the lower secondary cycle. This is confirmed by labor market outcomes: in 2017, while only 25.6 percent of children completed this level in Uganda, analyses of the UNHS 2016/17 show that private returns to education are estimated to be on average 15.8 percent higher for those with lower secondary than for those who completed primary education.<sup>38</sup>

<sup>37</sup> Wodon, Q. et al. (2018).

<sup>38</sup> Wodon, Q. (2019).

The next sections will review the state of the education system, analyze the reasons why Uganda has been underinvesting in education and suggests critical strategic directions and policies to boost its human capital. As Uganda seeks new drivers of sustained, inclusive growth, the pressure on skills building will grow. The country's growing working-age population will represent a major opportunity to reduce poverty and increase shared prosperity when the quality of education improves and when the coverage of lower

secondary education expands. Only then will Uganda start to reduce the learning gap that separates it from a number of comparator countries in the region and to provide better economic opportunities for all citizens. It is also worth noting that this report focuses on the part of the education system that lays the foundations for improvement in productivity. The higher, technical and vocational education levels further build the skills of the population when these foundations are solid. They will need to be addressed in a separate report.



## 4. STATE OF THE EDUCATION SECTOR

### 4.1. Status of access in primary and secondary education in Uganda

Uganda is one of the pioneers in Sub-Saharan Africa in terms of setting the goal to achieve universal access to basic education. After Universal Primary Education (UPE) was introduced in 1997, primary school enrolment increased at a rapid pace, growing from 2.5 million learners in 1996 to 8.3 million in 2015. As a result, the primary GER increased to 118 percent in 2011 and stabilised at 111 percent in 2017. As part of the UPE agenda, in 1997, the Government of Uganda (GoU) formally abolished primary school tuition, Parents and Teachers Association fees, and textbook fees for up to four children per family.<sup>39</sup> The expansion of primary education has therefore been pro-poor. Indeed, various studies indicate that the UPE policy effectively improved access to

primary education for children of underserved families.

#### Uganda Education System:

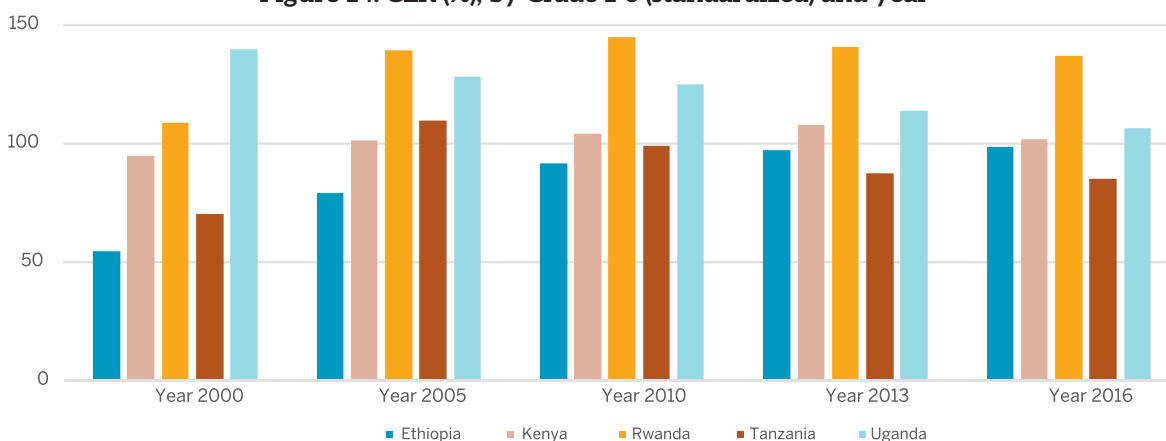
Primary level – 7 years, P1-P7

Lower secondary level – 4 years, S1-S4

Upper secondary level – 2 years, S5-S6

Overall, Uganda's progress in increasing enrolment in primary education is on par with regional comparator countries (see Figure 14). Uganda's GER is higher than Kenya due to relatively more under- and over-age children at the primary level (see below).

Figure 14: GER (%), by Grade 1-6 (standardized) and year



Source: Adapted from Bashir et al. 2018.<sup>40</sup>

Note: GER calculated from analysis of UNESCO Institute of Statistics data.

<sup>39</sup> Kan, S., et al. (2018).

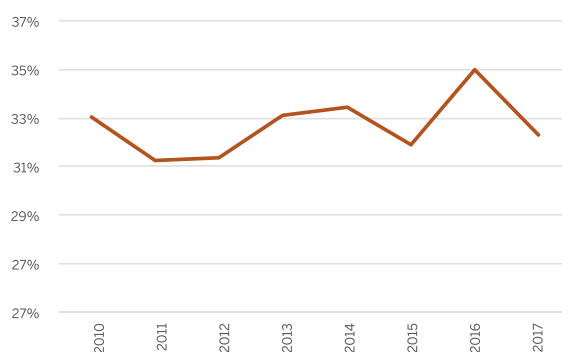
<sup>40</sup> Bashir S., et al. (2018).

However, despite immense progress towards achieving universal access to primary education, overwhelming population growth - the student population tripled between 1997 and 2014<sup>41</sup> - poses a serious problem to the system. With the absolute number of students gradually increasing, as a consequence of the growing sizes of each school cohort, a significant percentage of those who enter primary school do not reach the final primary grade. Indeed, primary completion rates for Uganda<sup>42</sup> are very low and have not shown much improvement for nearly a decade, standing 44 percent in 2017 (see Figure 22).<sup>43</sup> Low quality of education service delivery also appears to be playing an important role in these low rates of primary completion. This is evidenced by high repetition rates (at P1 about 10-12 percent p.a. officially, but likely much higher as will be seen later) which are associated with high rates of discouragement and dropout.<sup>44</sup> Although many factors contribute to low completion rates, one plausible explanation is that the rapid expansion of the primary education system was not accompanied (often due to capacity constraints) by adequate pro-active measures to introduce quality standards, boost learning,

as well as policies to reduce overcrowding in the early grades.<sup>45</sup>

Moreover, the expansion of primary education has not been matched by a similar expansion in secondary education. Though enrolment in secondary education has been growing since the introduction of the Universal Secondary Education (USE) policy in 2007, the pace of growth has been insufficient to offset demographic growth. Although enrolment increased from 954,000 students in 2007 to over 1.5 million in 2016, the GER remained stagnant, at 25 percent since 2010. When focusing on the lower secondary cycle alone, which again is the minimum level expected to be attained by every citizen, since 2010 the GER has been consistently confined to between 31 and 35 percent (Figure 15). This last rate is significantly lower than in neighbouring Kenya, Rwanda and Ethiopia, where it stood at 58 (2009), 37 (2016) and 38 percent (2012,) respectively (more recent data is unavailable)<sup>46</sup>. As can be expected, the lack of opportunities of progression to secondary education discourages many students from completing primary education.

**Figure 15: GER at lower secondary**



Source: EMIS 2010-2017.

41 UNICEF, (2019).

42 Measured by the International definition of survival to the start of the last grade in primary.

43 This is according to analyses of household surveys. For more details see Figure 22 and related footnotes.

44 Global Partnership for Education Project Appraisal Document (PAD), (2014).

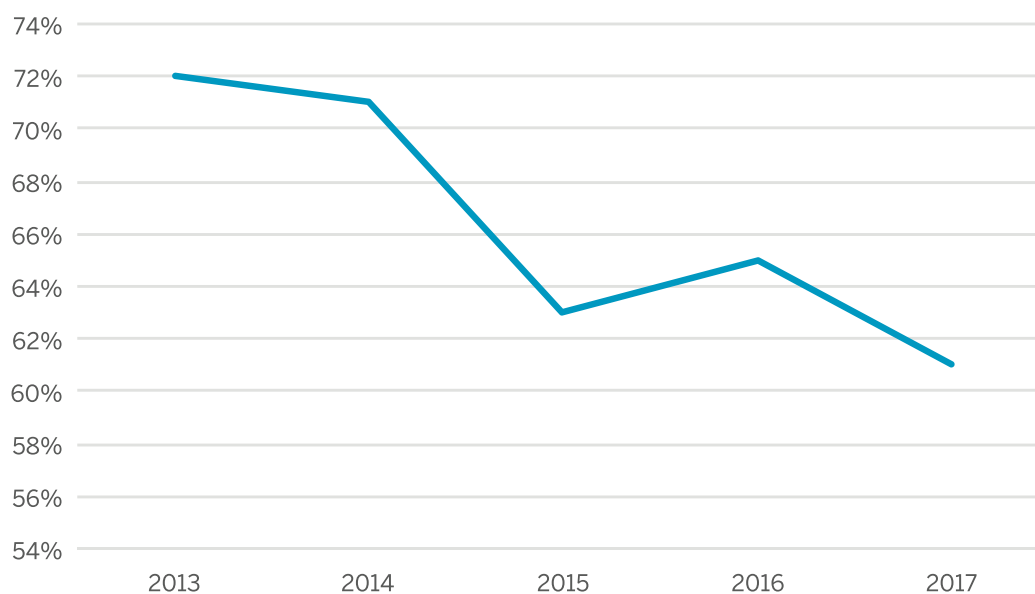
45 Bashir et al. (2018).

46 UNESCO Institute of Statistics, (2019).

The stagnant enrolment rate in secondary education is to a large extent a consequence of the declining transition rate from primary to lower secondary education. This rate has declined from 72 percent to 61<sup>47</sup> percent of the graduates from 2013 to 2017 (Figure 16). The main barriers to improved transition rates are low P7 pass rates<sup>48</sup> in the Primary Leavers Exam (PLE), which stood only at 47 percent in 2017 according to the Uganda National Examinations Board. Further barriers are due to an insufficient number of secondary

schools to absorb the growing demand or costs associated with the schooling. The recent influx of 1.2 million refugees, among them secondary education aged children estimated to number at least 132,000 (in eight out of 12 refugee hosting districts), only worsened the situation.<sup>49</sup> In addition, the evidence suggests that the distribution of secondary schools throughout the country is not related to actual demand, and likely reflects other (often supply driven or political) priorities.

**Figure 16: Transition rate to S1**



Source: EMIS 2010-2017

<sup>47</sup> Transition rate is defined as the number of children who transition to S1 as a proportion of students who passed PLE.

<sup>48</sup> Pass rates are defined as the number of children who passed the PLE as a proportion of children enrolled in P7.

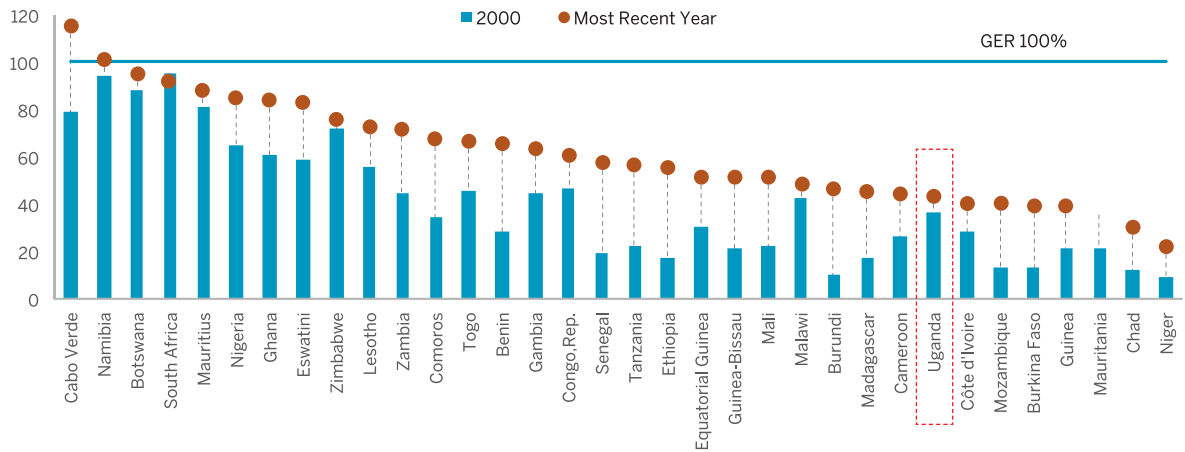
<sup>49</sup> The refugee enrolment data for Kampala, Hoima, Koboko and Lamwo are not available mainly due to the fact that the said settlements are relatively new.



As a result, Uganda has been lagging behind its neighbours in terms of improving enrolment at the lower secondary level. As shown in figure 17, despite fast growing demand, barely any progress has been made to increase enrolment

since 2000. This is considerably worse than most low-income countries shown in the graph, and leaves Uganda with a long way to go to achieve universal lower secondary enrolment.

**Figure 17: Lower-Secondary GER of 34 Sub-Saharan African Countries, by group, 2000 and most recent year**



Source: Adapted from Bashir et al. 2018.

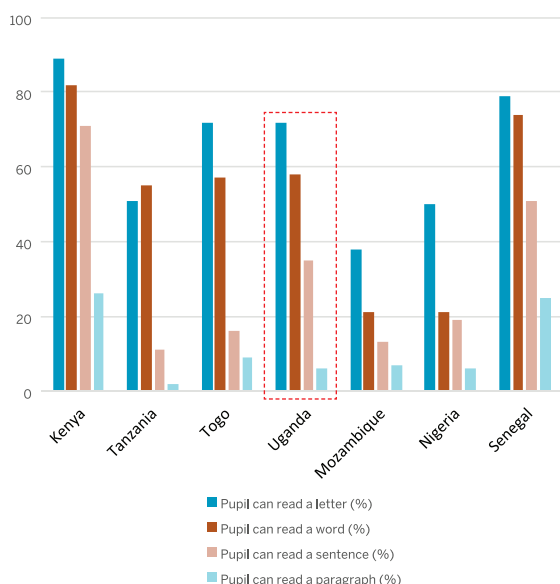


## 4.2. The learning crisis

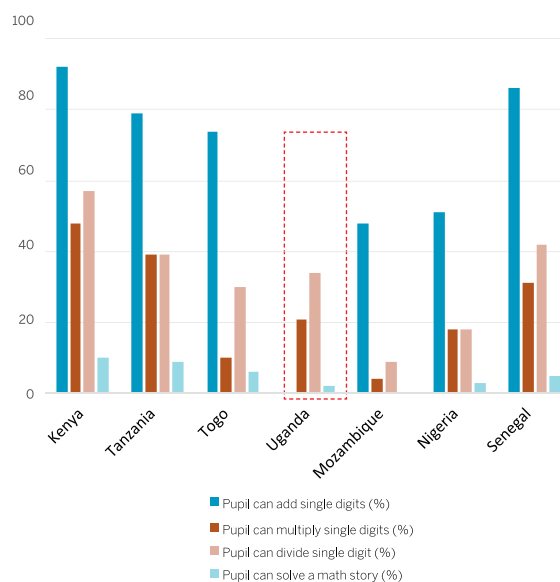
While the UPE policy resulted in considerable gains in terms of access to primary education, this was not accompanied by adequate progress in learning outcomes. Only 6 percent of students in Uganda can read a paragraph at the end of the fourth grade (P4), which is well below the comparator countries (see figure

18). Numeracy skills are equally poor - only 2 percent of students in Uganda could solve a simple, age-appropriate mathematics problem by the end of P4. This is much below peers in Kenya and Tanzania, who achieve 10 and 9 percent, respectively (see figure 19).

**Figure 18: Selected reading skills, 4th grade**



**Figure 19: Selected math skills, 4th grade<sup>50</sup>**



Source: Adapted from Bashir et al. 2018.

According to the last national assessment of progress in education (NAPE) administered in 2014, the proportion of P6 pupils who reached the defined proficiency levels in Numeracy and Literacy in English was 39.4 percent and 38.3 percent, respectively. This means that less than half of the P6 pupils have acquired most of the competencies in Numeracy and English Literacy specified in the P6 curriculum.

Sub-standard student learning achievement is to a large extent predetermined by the lack of support from teachers. Teacher absenteeism is high and pedagogical and subject specific skills are lacking. The Service Delivery Indicators study (2013) found that on average 24 percent of teachers across primary schools are absent from school on any given day, and of those who are in school only 39 percent are actually in classrooms and teaching.

<sup>50</sup> Data represented by blue bar unavailable for Uganda.

The absenteeism rate is higher in public schools (27 percent) as opposed to private schools (14 percent). Teachers suffer from lack of basic subject knowledge and pedagogical skills, e.g. only 21 percent of grade 4 math teachers could compare fractions and 25 percent could assess students' abilities. Some recent improvements in teacher attendance and performance can be observed under selected projects (often supported by donors), however, areas not targeted by such interventions seldom demonstrate improvements.

**Low learning outcomes in secondary education.**

Results of the NAPE conducted since 2008 and targeting Senior Two (S2) students show that student learning in math, biology and English is on a declining trend. According to NAPE (2014), there was a continued decline in the proportion of S2 students rated proficient in English language in the period 2008 – 2013. This proportion dropped from 81.9 percent in 2008 to 43.1 percent in 2013, with a small increase to 49.3 percent in 2014.

**At the lower secondary level, the learning crises is largely underpinned by an array of inefficiencies related to an overcrowded curriculum as well as arbitrary allocation of teachers to schools.** Currently the number of different subjects in secondary schools remains too high at 40 and out of line with modern pedagogic practices, which favor consolidation in a fewer number of subjects to encourage teachers and students to use multi-subject approaches to teaching and learning. Moreover,

the large number of subjects suggests that the emphasis is still on learning facts rather than on critical thinking and problem-solving skills. On a typical school day, students are expected to sit through 10 lessons of 40 minutes each (i.e. about 30 minutes of effective teaching time<sup>51</sup>), which is way beyond what is optimal for learning.

**Despite the curriculum reform being underway, which will reduce the number of subjects from 40 to 21 at the lower secondary level, inefficiencies related to overloaded curricula will remain until the number of subjects proposed by each school is drastically reduced.** The current practice in most lower secondary schools is to offer about 15 subjects, seven compulsory and eight electives. This results in a very high number of teachers working well below the standard for teaching hours in comparator countries,<sup>52</sup> or their official workload of 16 hours per week. Uganda has one the lowest weekly teaching loads in the region, and its official annual teaching time is well below the standard in many middle-income countries captured by the World Education Indicators Survey.<sup>53</sup> For instance, a typical lower secondary school in a rural area would have one stream<sup>54</sup> only and less than 250 students in order to be close to local communities. Despite its small size, such school would endeavor to offer 15 subjects to its students and would need a director, a deputy director and about 10 teachers to cover all subjects. Even by assuming that each teacher covers two subjects, each of them would teach

51 This is considering that 10 minutes are necessary for students and teachers to move from one classroom to another and get ready for the next lesson. This then leaves 30 minutes of "effective" interaction between the teacher and students, which is "effective teaching time".

52 The average for lower secondary teaching hours in Anglophone Sub-Saharan African countries is around 19.5 hours per week. Source: Mulkeen, A. (2010).

53 Ibid.

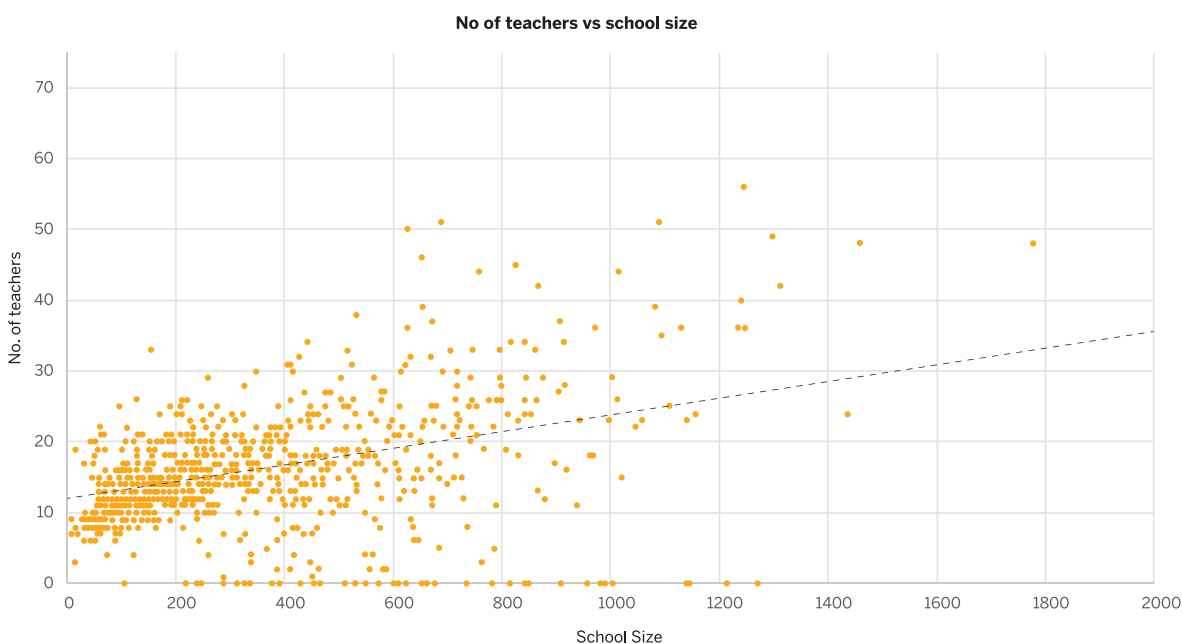
54 One class of students per grade.

only about 13 hours per week, which is below the standard teaching load. In the context of constrained fiscal space, poor teacher utilization decreases the overall efficiency of the system and increases the government's costs per student.<sup>55</sup>

**The issue is further exacerbated by poor teacher distribution.** As suggested by the graph below (figure 20),<sup>56</sup> the allocation of teachers to schools doesn't seem to follow a clear pattern or to be aligned with actual needs. Poor deployment practices, therefore, result in further additional costs to the government.

**This results in substantial inefficiencies and additional costs.** According to the National Education Accounts (NEA) the cost of service provision of lower secondary education is 4.5 times higher per unit than the cost for primary education, against 1.7 and 1.9 in Senegal and Côte d'Ivoire, respectively (NEA). Consequently, the government pays for a bloated teacher force which is neither used to its full capacity nor efficiently distributed, and that's a key reason for the lack of fiscal resources to expand enrollment and raise quality.

**Figure 20: Teacher distribution according to secondary school size**



<sup>55</sup> Mulkeen, A. (2010).

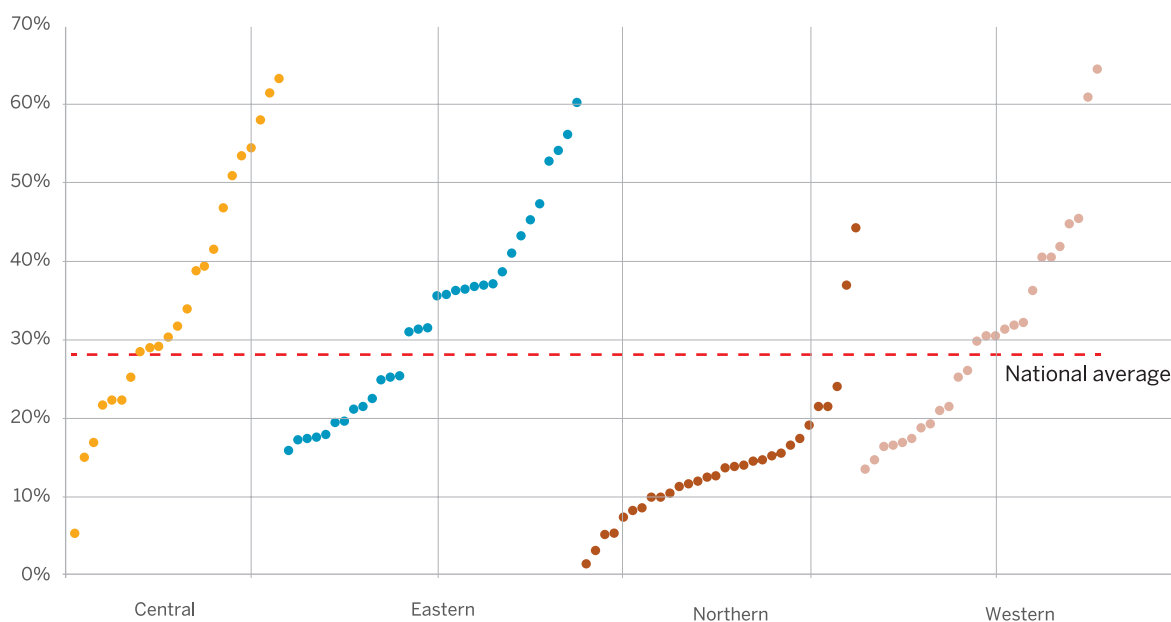
<sup>56</sup> A common approach for evaluating the degree of inconsistency (randomness) in teacher allocation across schools is to regress school-level data on the number of teachers against the number of students. The regression can be taken as measure of the share of variation in teacher allocation across schools explained by variation in enrolments; conversely, the regression provides a measure of the inconsistency of teacher allocation.

### 4.3. Regional and gender disparities

As mentioned in the previous section, the expansion of primary education has been pro-poor, and therefore equity of access has significantly improved. However, access to secondary education remains highly inequitable. As shown before, access to lower secondary remains largely insufficient to meet the growing demand due to inadequate supply and distribution of schools. Consequently, important inequities exist by region, location, wealth, and gender. The Northern region lags far behind in terms of access with a GER below the national average of 28 percent (in 2015 for lower and upper secondary) for nearly all

districts in the region, and below 10 percent for many of them (Figure 21). There are also dramatic disparities between urban and rural areas. For instance, the GER in the capital city of Kampala was over 50 percent in 2015 while it was 10 times lower in rural Kaabong (Karamoja district). Variations by welfare quintiles also reveal that secondary school enrolment drops sharply with decreasing welfare, from 41 percent for the fifth (highest) quintile to 7 percent in the lowest quintile.<sup>57</sup> Disparities in completion<sup>58</sup> rates are evident between rural areas, at 6.5 percent, and urban areas, at just over 14 percent.

**Figure 21: Gross secondary enrollment rates per regions and districts (2015)**



Source: Uganda Bureau of Statistics and own data.

57 National Household Survey 2012/13. [Data on wealth and enrolment disparities not included in the 2016 National Household Survey]

58 Completion rate here is defined as children completing primary seven as a proportion of children entering primary one.



**These regional and wealth related disparities are much more pronounced for girls.** Compared to boys, girls' secondary education experience is characterized by lower access, higher dropout, and lower transition rates. In 2016 the enrolment rate for boys was four percent higher than for girls at 29 and 25 percent respectively, and the Gender Parity Index (GPI)<sup>59</sup> was 86 percent. Nationally, about 25 percent of girls drop out of school because of pregnancy - the levels are higher in Eastern Uganda at 37.3 percent and in West Nile at 32.3 percent (MoES 2015). Completion rates for Senior 4 boys stood at 40 percent against 36 percent for girls (EMIS 2016). This is due to several gender-specific factors including the practice of son preference, low value attached to girls' education, and high levels of VAC - which predominantly affect girls - in schools, home, and communities. The disparity widens at the transition point to Senior 5 with 34 percent of boys and only 24 percent of girls transitioning to upper secondary. Moreover, learning outcomes for girls tend to be significantly lower than that for boys in certain subjects. For instance, in 2016 only 33 percent of girls in Senior 2 were proficient in mathematics in comparison with 49 percent of boys.<sup>60</sup>

**Violence against children in schools is pervasive and has proven to have negative effects on physical and mental health, which in turn can adversely affect educational attainment.** A recent study identified that 93% of boys and 94% of girls, aged 11-14, experienced physical violence in schools. Sexual violence is also likely to be high, but it tends to be underreported due to the stigma associated with these experiences.<sup>61</sup>

**Early pregnancies and marriage are the primary reasons negatively affecting girls' education and have important social and economic consequences.** At the national level, the primary reason for a girl dropping out of secondary school is early pregnancy at 40 percent, marriage at 28 percent, and cost of schooling at 7.3 percent.<sup>62</sup> Though the incidence of child marriage and early pregnancy has declined over the years, Uganda's levels of child marriage are above what would be expected at its level of income. The share of women aged 18-22 who married before the age of 18 was 36.5 percent according to the 2011 Demographic and Health Survey (latest). One in seven women aged 18-22 have their first child before the age of 18.<sup>63</sup> The probability of completing secondary education for a woman aged 25-34 who married after 18 is 12.9 points higher than for women who married earlier.

<sup>59</sup> According to UNESCO Institute for Statistics: 'GPI is a ratio of female to male values of a given indicator (...) GPI equal to 1 indicates parity between females and males. In general, a value less than 1 indicates a disparity in favour of boys, and a value greater than 1 indicates a disparity in favour of girls.'

<sup>60</sup> Education and Sports Sector Annual Performance Report, FY16-17, pp. 200 - 201.

<sup>61</sup> Raising Voices (2017).

<sup>62</sup> Ibid, pp. 5.

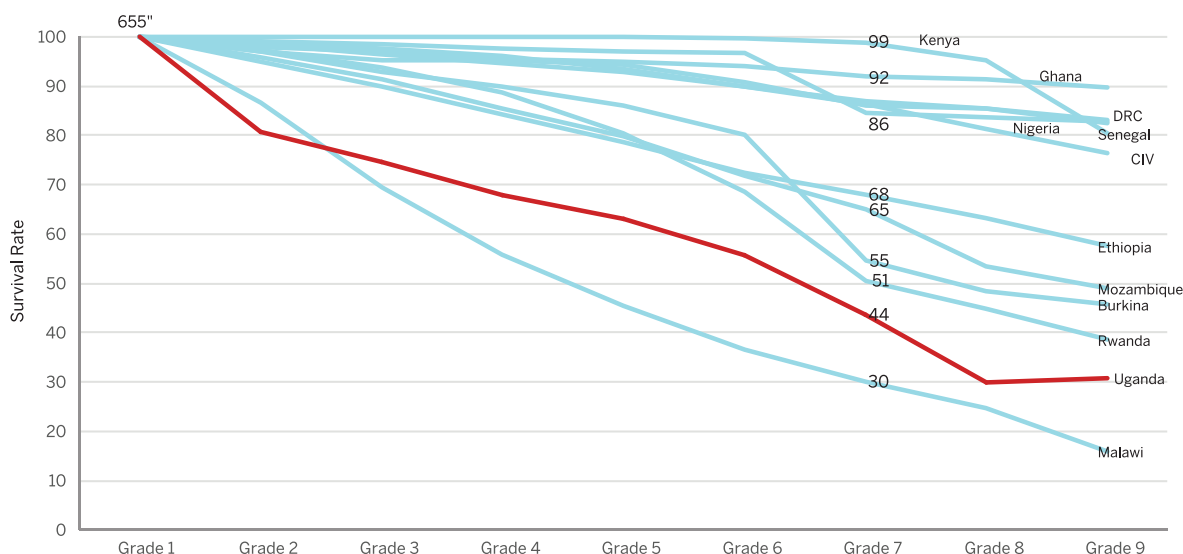
<sup>63</sup> Wodon, K. (2016).

#### 4.4. The early grade ‘bulge’ and its impact on the quality and efficiency in primary education

Primary education in Uganda is characterised by one of the lowest survival rates in the region. In 2017, while most school aged children start primary education, their survival rate at the end of P7 stood at 44 percent, which is considerably below the primary survival rate in Kenya at 95 percent (grade 8), Ethiopia at 63 percent (grade 8), and Rwanda at 68 percent (grade 6) (Figure 22). Because of this low overall efficiency, it takes almost twice as many years of

schooling than normal to produce a graduate in primary and secondary education. On average it took 12.6 years for a primary school student to graduate (primary cycle in Uganda is seven years). Moreover, there hasn’t been much improvement over the last decade and recent survival rates are only marginally better than the 14 years of schooling it took to produce a graduate in 2008.

**Figure 22: Survival rates in primary education**



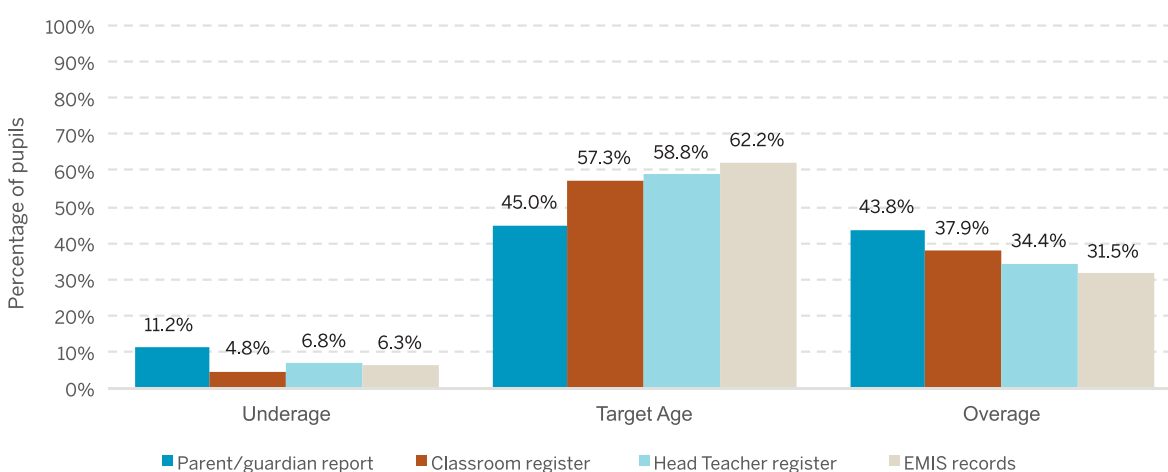
Source: Bashir et al. 2018.<sup>64</sup>

<sup>64</sup> Analysis of microdata (most recent year) from the World Bank Living Standards Measurement Studies (Burkina Faso, Cote d’Ivoire, Democratic Republic of the Congo, Kenya, Malawi, Rwanda and Uganda); and the Demographic and Health Surveys (Ethiopia, Ghana, Mozambique, Nigeria, and Senegal). Note that the “survival rate” is the percentage of a cohort of students enrolled in first grade, in a given school year, who eventually reach grade six and grade nine, regardless of repetition. Survival rates are estimated using the reconstructed cohort method.

The low survival rates throughout the primary cycle are due to a variety of factors, chief among them is repetition in the early grades and its consequences. The analysis of the age profile of primary education students reveal the existence of some underage children as younger children accompany their older siblings to school when parents cannot look after them. Still, the rate of overage children<sup>65</sup> in the early grades is especially high. While official statistics show that most students enrolled in P1 were at target

age, 6 and 7 years old, parents and teachers reported up to 44 percent of pupils aged 8 years and older are still enrolled at that grade (Figure 23).<sup>66</sup> The difference is particularly high for overage children, suggesting an underreported issue of repetition in the first grade.<sup>67</sup> Official statistics (EMIS) report repetition rates in P1 to be 11 percent. However, teachers reported repetition rates in P1 to be 41 percent, while parents/guardians perceive repetition rates to be as high as 51 percent.<sup>68</sup>

**Figure 23: % of pupils per age group in P1 by source**



Source: RTI, DFID, 2018.

The repetition issue creates an enrolment “bulge” in early grades, which is both costly and counterproductive. On average, children spend 1.4 years in P1 suggesting an early grade ‘bulge’ problem of 40 percent. The same issue persists through P2 and P3, though to a lesser extent. This so-called early grades

“bulge” or “traffic jam” takes a heavy toll on the quality of teaching and learning, as it translates into overcrowded classrooms, demotivated and overworked teachers, and a shortage of teaching and support material, especially textbooks. Numerous empirical studies have demonstrated that repetition is

<sup>65</sup> According to the Uganda Education Act (2008), target age for P1 is 6 and 7 years old. Children entering P1 below this age group are categorised as ‘under-age’, while children entering P1 aged 8 or more are classified as ‘over-aged’.

<sup>66</sup> Weatherholt, T. (2018).

<sup>67</sup> Ibid, pp. 14.

<sup>68</sup> Ibid.

costly and does not improve the achievement of the low-achiever, nor does it reduce the range of abilities in a classroom.<sup>69</sup> By contrast, where automatic promotion was implemented in conjunction with quality-enhancement measures, including in SSA, it fostered equity in learning outcomes, especially between male and female students and between rural and urban settings.<sup>70</sup>

**Automatic promotion policies are not unknown in Uganda, and have at least been experimented with, showing clear and multi-dimensional benefits.** A recent study<sup>71</sup> suggests that the implementation of an automatic promotion policy in Uganda in 2005 translated into an increase in learning outcomes in reading and mathematics at P3 and P6. The same study shows that decomposing the effect along gender and school location (rural or urban) dimensions reveals positive and statistically significant effects on literacy and numeracy in both grades, an effect on students' scores in rural areas higher than that on students' in urban schools and, in terms of gender, the effect is relatively similar for female students and their male counterparts. However, the recent data reveals<sup>72</sup> that the current school practices do not adhere to the policy of automatic promotion and need to be re-examined by Ugandan policymakers. While it is recognised that the automatic promotion policy alone will not address poor learning outcomes,<sup>73</sup> if it is implemented consistently and accompanied by quality-enhancement measures, it can yield positive results. Indeed,

the education community has amassed a solid body of knowledge that points to the fact that implementation of an automatic promotion policy in early grades, together with quality enhancement measures, would in most cases be associated with more fluid student flow, higher efficiency, positive impacts on learning outcomes and higher gender and urban/rural equity.

**Another factor contributing to high repetition rates in early grades is the shortage of pre-primary programs.**<sup>74</sup> The vast majority of Ugandan children are totally unprepared when they enter primary education and P1 curriculum does not respond to the needs of those who did not attend pre-primary education. In 2016, the official GER for pre-primary was only 13 percent. As government funding does not support delivery of pre-primary education – the sub-sector is entirely financed by the private sector (e.g. families and donors) – these services tend to be concentrated in urban areas and serve wealthier families. This creates a major inequality factor as children from low socio-economic backgrounds are less likely to attend pre-primary than pupils from high socio-economic backgrounds<sup>75</sup>, and, consequently are nearly four times more likely to repeat early grades of primary school than those who did. As a result, creating more opportunities for children to access pre-primary education should be considered another high impact policy that could, at the same time, improve learning acquisition and reduce the enrollment “bulge” at the early grades.

69 Ndaruhustse, (2008); and Peterson et al., (1987).

70 Chen et al., (2010); and McCoy & Reynolds (1999), Ndaruhustse (2008).

71 Okurut, (2015).

72 Weatherholt, T. (2018).

73 Glick, P., & Sahn, D. E. (2010).

74 Bashir et al. (2018).

75 Ibid, pp. 26.

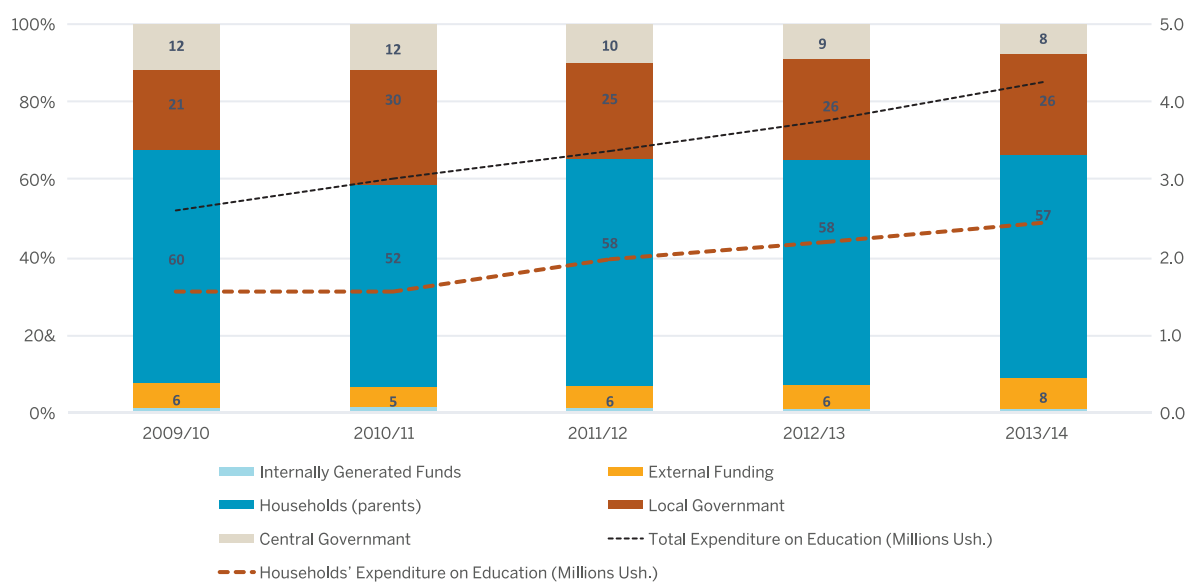
## 5. EDUCATION FINANCING AND PROSPECTS

### 5.1. The private sector and households – powerful allies toward the achievement of education goals

In 2013/14, households contributed more than half of education expenditures, or 3.6 percent out of the 6.3 percent of GDP spent on education. Households' contribution was equal to 57

percent of total education financing, while the rest was shared between the local and central governments and external financing (Figure 24).

**Figure 24: Breakdown of education funding in Uganda by source, 2009/10 – 2013/14**



Source: NEA data 2009/10 – 2013/14

**Households contribute to education through fees and other payments to schools.** These are most significant in private schools and at the secondary level. However, even in the public system, supplementary payments – for items such as uniforms, teaching materials, additional teachers and other expenses – still represent 56 percent of the education expenditures funded

by households at the primary level and 38 percent at the secondary level.<sup>76</sup> The absence of a transparent framework that holds the schools or their parent associations accountable for the efficient management of these co-payments is the main reason why they are under-reported.

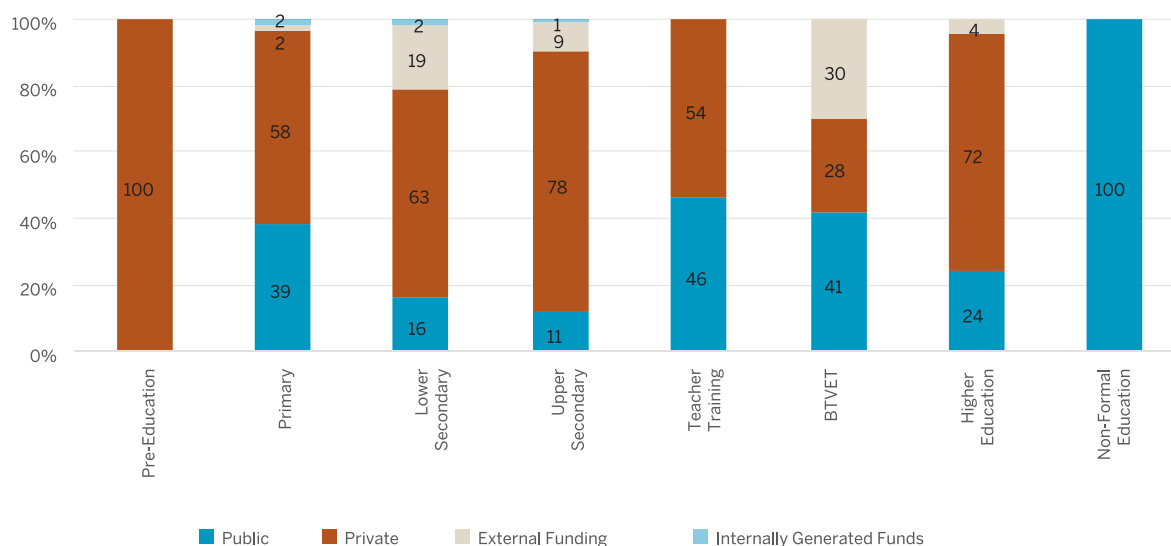
<sup>76</sup> Government of Uganda, International Institute for Educational Planning and IIEP-Pôle de Dakar. 2016. National Education Accounts Report. Kampala.



It is highly unusual to see as much a share coming from households. Comparable National Education reports show that households fund approximately a quarter of education expenditure in Vietnam, one-third in Côte d'Ivoire, and about a half in Nepal,<sup>77</sup> against 57 percent in Uganda (Figure 24). When

considering the source of funding at each level of education, households fully pay for pre-primary education, and cover 58, 63 and 78 percent of the costs of primary, lower and upper secondary, respectively (Figure 25). These are relatively high proportions for the region.

**Figure 25. Source of funding per student by level of education (both private and public education)**



Source: NEA data 2009/10 - 2013/14

77 UNESCO. (2016).

The non-state actors in Uganda contribute significantly to increasing access to, and delivering, a quality education (see Box 7 for more information). For example, pre-primary education delivery is a preserve of the private sector/non-state actors, according to the Early Childhood Education (ECE) Policy. Research on the demand for ECE in Uganda shows that there is significant unmet demand for ECE

owing to barriers such as high costs. At the primary level, up to 20 percent of total enrolled pupils are in private schools. At the secondary level, up to 53 percent of total enrolled students are in private schools. Indeed, the stagnation of the lower secondary education enrolment rates over the past decade could have been worse if not for solid capacity growth in the non-government education sector.

### Box 7: Public-Private Partnerships (PPPs) in Uganda

Since the introduction of the Universal Secondary Education (USE, 2007), a PPP policy has allowed the GoU to meet the increased demand for education services. It involved providing a government subsidy of approximately US\$13 (Ush 47,000) per student, per term to private USE schools (O'Donoghue, J. et al., 2018). The PPP policy contributed significantly to the expansion of access to secondary education – it grew to cover over 800 schools in 2016, compared to only 363 in 2007. Indeed, a recent evaluation done for the government (O'Donoghue, J. et al., 2018) finds that 30 percent of students, or approximately 130,000 students, enrolled in PPP schools wouldn't be enrolled were it not for the government subsidy. In addition, the PPP subsidy also allowed the government to expand access to secondary education in a more cost-effective manner compared to investing in expanded public provision. In terms of achievements, the PPP USE schools deliver similar academic performance to public schools, but at a lower cost.

However, in 2014 the government first called for the PPP programme to be ended and these funds channelled to construct more public secondary schools in order to realise the policy of having a secondary school in every sub-county. In addition, it is the government's perception that the quality is low in some private schools and that the subsidies are being misused. Thus, in January 2018, the government officially announced its gradual withdrawal of the USE PPP policy. While government's perception may be true in certain cases, it is not a sufficient reason for ending the PPP subsidies given the similar performance of the non-state schools and public schools. Instead, as proposed by the same evaluation (O'Donoghue, J. et al., 2018), the government's concerns could be addressed more effectively through a better policy framework, improved engagement by the government, and stronger regulation of the non-state sector.

*Source: A review of Uganda's Universal Secondary Education Public Private Partnership programme. James O'Donoghue, Lee Crawford, Jacklyn Makaanu, Polycarp Otieno, and Rita Perakis, April 2018.*

## 5.2. Education prospects

Uganda's education system is plagued with internal inefficiencies such as high repetition and dropout rates, and low completion rates, at both primary and secondary levels. The main elements that drive the problem of low internal efficiency include the early grades 'bulge' due to under and over-age enrollment, high repetition and dropouts throughout the primary education cycle (often associated with poor learning outcomes), and low transition from primary to secondary cycle.

All these inefficiencies mean that the government is continuously losing resources by spending on repeaters and those students who drop out before completing the cycle. According to estimates from 2017, inefficient public spending on students who repeat and drop-out amounted to US\$ 298 billion (US\$ 82 million) or 24 percent of the overall public spending in primary education. Although very high, these estimates are still conservative as they do not account for the cost of the numerous students who do reach the upper grades of primary education, but do not achieve basic literacy and numeracy skills.

In addition, the growth of the private education sector is expected to slow given gradual phasing out the USE PPP program, which had been supporting students in private schools. Although the decision is expected to have considerable implications on Uganda's ability to achieve progress in the provision of secondary education, it is too early to assess its full impact. Among other things, the

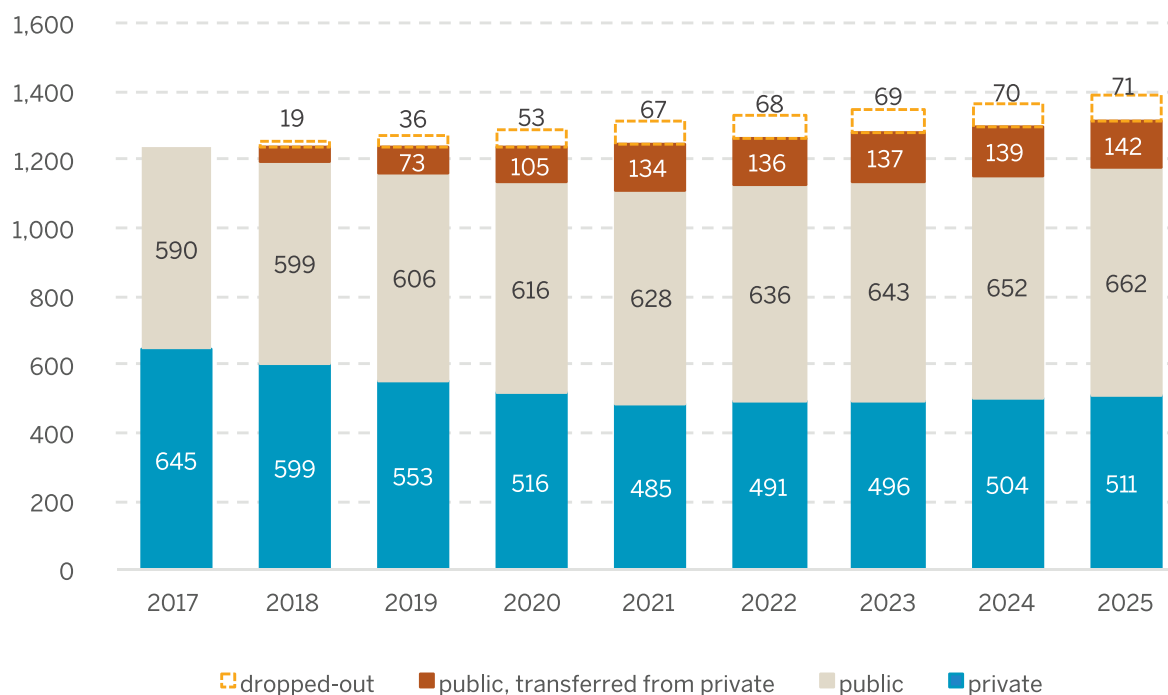
private sector provision in Uganda has been critical in supplementing public expenditures for capital investment and recurrent costs.<sup>78</sup> Indeed, an evaluation of Uganda's USE PPP policy suggested that this policy has been very cost effective. It has been estimated that the recurrent unit cost to government at a public USE school is 4.5 times higher than in a private USE school, while producing similar learning outcomes.<sup>79</sup>

**If not compensated by a massive increase in the public provision of secondary education, the phasing out of the USE PPP scheme will likely lead to a sharp decline in enrollment.** Creating additional capacity in the public sector to compensate for this decline, without changing the current inputs mix, is likely to cost at least US\$ 110 million of additional government expenditures by 2022 (i.e. during the phasing out period). This estimate uses the assumption that 20 percent of children studying in private USE schools (who have been receiving government subsidies) will drop out, as families are unable to cover school-related costs such as uniforms and fees to schools. The remaining 80 percent of the students will transfer to public schools or continue in private institutions (assuming a 50:50 split) (Figure 26). According to these estimates, the additional fiscal burden on the government would be at least three times higher than what it would have been for the same level of enrollment had the PPP scheme not been phased out.

78 Wodon, Q. (2016).

79 O'Donoghue, J., et al. (2018).

**Figure 26: Effect of USE PPP phaseout  
(students in public and private lower secondary schools, thousands)**

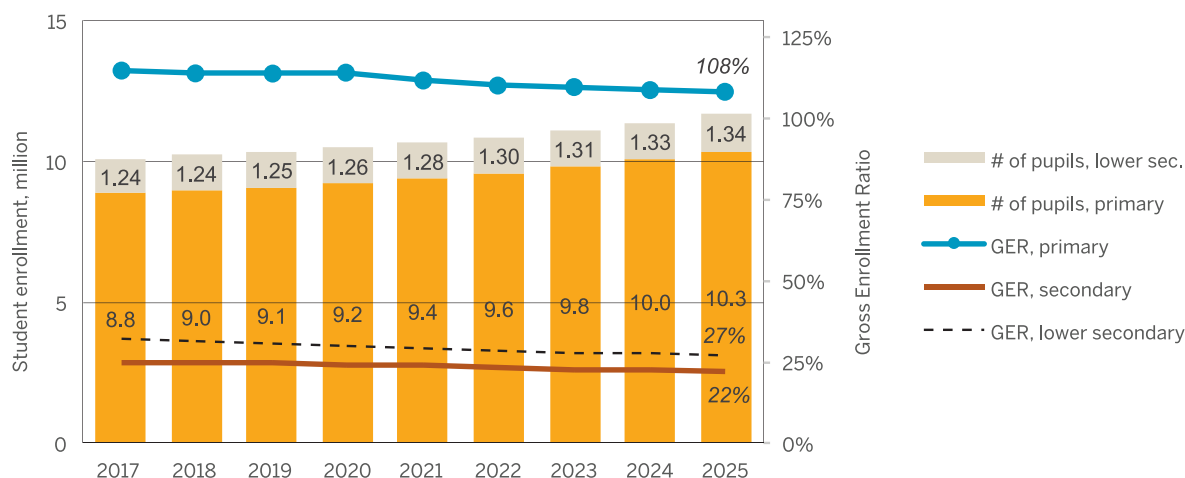


Source: World Bank estimates based on EMIS data.

With the system’s current quality, efficiency, financing characteristics, trends and recent policy changes, it is expected that enrollment rates in secondary education will decline by 2025, even though the number of students will continue to grow (see Figure 27). Enrollment is estimated by averaging intake, promotion and dropout values from the recent years at P1, and each subsequent grade of primary and lower secondary education. Because this growth of enrollment is expected to be exceeded by the

demographic growth of the corresponding age group, secondary education GER is likely to fall to 22 percent by 2025, from the current 25 percent. Correspondingly, lower secondary GER will also decrease from the current 32 percent to 27 percent by 2025. This would be a major setback, rarely seen in any country in a time of peace. This ‘Business as Usual’ scenario is one where the enrollment objectives of the current 2017/18-2019/20 Education Sector Strategic Plan (ESSP) will not be achieved.

**Figure 27: Projection of primary and lower secondary enrollments (bars, left axis, million pupils) and GER (lines, right axis, percent), 2017-2025**

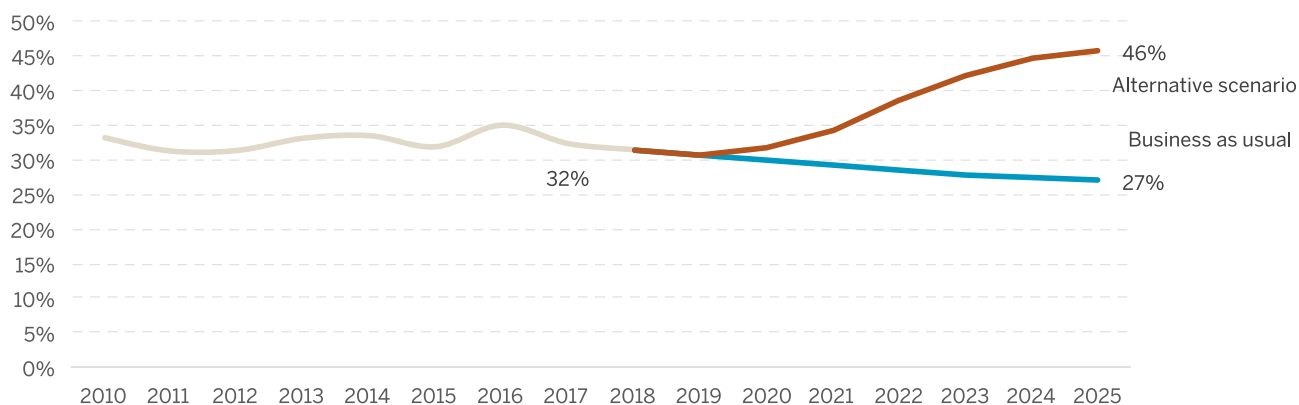


Source: World Bank, 2019

To reverse this trend and achieve the ESSP enrollment objective for secondary education of 35.5 percent by 2025, a 46 percent GER in lower secondary is required.<sup>80</sup> This, in turn, will require government to improve transition and overall efficiency across primary and lower secondary. Under a revised fiscal and policy

scenario, the system’s efficiency is gradually improved and a lower secondary GER of 46 percent can be achieved at a cost which could be within Uganda’s resources and fiscal capacity (see Figure 28). This is the ‘Alternative’ scenario, which will be discussed in the next section.

**Figure 28: Gross Enrollment Rate in Lower Secondary Education under two scenarios**



Source: World Bank estimations

<sup>80</sup> Given this report proposes measures targeting primary and lower secondary education, the assumption is that key parameters (e.g. enrollment rates) for upper secondary will remain unchanged.





## 6. BUILDING UGANDA'S HUMAN CAPITAL TO BOOST ECONOMIC GROWTH: ALTERNATIVE SCENARIO AND RECOMMENDATIONS

### 6.1. Policy recommendations to achieve the alternative scenario

As seen in previous sections, Uganda has been underinvesting in its human capital and therefore falling behind its neighbors. This puts the country at risk of reducing its potential for growth. To reverse this trend, the GoU needs to set clear objectives regarding the main components of the HCI, including reducing child mortality and stunting, and increasing adult survival and the Learning-Adjusted Years of School (LAYS). There is a broad agreement that this can be better achieved if, at the same time, the fertility rate is on a rapidly declining trend, especially if it involves better access to education for adolescent girls.

**Uganda needs to achieve universal education up to lower secondary level as quickly as possible.** Separate goals and policies for lower (S1 to S4) and upper secondary education (S5 to S6) need to be set. For the reasons stated earlier, lower secondary education is an essential building block of citizenship and plays both a social and economic role, and Uganda should seek to make it universal as soon as possible. Whereas, upper secondary education prepares for further professional and academic careers and thus has a unique value in the labor market. Accordingly, upper secondary expansion needs to be consistent with enrollment capacities in higher or technical and vocational education, as well as with labor market demand and expectations from families. Growth in the supply of upper secondary education that is either too rapid or too slow may create mismatches between the supply and demand for higher level skills, which can lead to adverse social and economic effects.

Building Uganda's human capital requires drastic measures and actions to improve the LAYS, which will need to grow from 4.5 currently to at least 5.5 by 2025 (i.e. a 20 percent increase). To achieve this ambitious goal, Uganda needs a three-pronged strategy that aims at: (i) improving the quality and completion rate of primary education, (ii) rapidly expanding access to lower secondary education, while improving its quality, equity and efficiency, and (iii) devising ways to finance such efforts in a sustainable manner. Improving completion of primary education and expanding access to lower secondary education would increase a child's expected years of education, while improving quality would reduce the number of years which are currently lost because of poor learning achievement. Together, the two results would combine to increase Uganda's LAYS indicator and, subsequently, its HCI and the productivity of its workers.

**The next section identifies key policies that will reduce inefficiencies in the primary and lower secondary cycle, thereby boosting enrollment and using financial resources more efficiently.** The policy recommendations will lead to efficiency gains that will, in the medium term (2019-2025), partly offset the initial investment related to the implementation of these policies, and, in long term (post 2025), generate substantial savings for the government.

### **6.1.1. Primary Education: improving quality and completion rates**

It is an imperative to raise the completion rate of primary education to close to 100 percent, while improving quality, by 2025. A few countries in the region are already at that level (Ghana, Mauritius, Kenya, Togo<sup>81</sup>). As already discussed, while nearly every child gets a chance to start primary education, only 44 percent reach the end of primary (P7) and, of those who reach that level, only about half acquire the minimum level of skills expected. To address these issues, the government needs to expand pre-primary education and ECE programs and enact and enforce a policy of automatic promotion in the early grades with appropriate qualitative inputs.

#### **1. Pre-primary education and early childhood education programs expanded**

The Government should adopt the recently developed Early Childhood Care and Education Policy. The policy implementation shall aim at achieving a concrete target: the proportion of children with access to pre-primary programs should increase from 13 percent to 50 percent by 2025. This ambitious target is required to bring the indicator closer to current levels of pre-primary coverage in Kenya, at 77 percent, or Ethiopia, at 60 percent. This would ensure that by 2025, half of the children would benefit from programs that stimulate their readiness to learn and, thus, would be less likely to repeat or drop-out from the early grades. In addition, most early childhood interventions have positive impacts on children's emotional and behavioral skills and improve children's health and safety.

To be able to achieve such an ambitious goal, the government needs a two-pronged approach:

First, whenever possible the government should add pre-primary classes to existing primary schools. Its potential to reduce class-sizes in Uganda will be highest in schools where the proportion of under-aged children is significant (for instance, where younger children accompany their older siblings to school when parents cannot attend to them). However, lack of adequate school infrastructure may limit the scope of this approach in its initial phase.

Second, an approach is needed to harness the benefits of community-based and public-private partnership programs that are cost-effective and could quickly lead to substantial gains (as evidence has shown in other countries). Subsidies could be offered to support vulnerable children, who are most at risk of repeating and dropping out of primary school. These subsidies could be channeled through qualified ECE providers or directly to families.

#### **2. Automatic promotion policy consistently implemented in primary education with accompanying quality-enhancement policies**

Automatic promotion policies were intended to reduce repetition, but are not consistently practiced/enforced by schools, despite evidence suggesting their effectiveness in eliminating the enrollment bulge and in improving learning.<sup>82</sup> However, these policies need to be clearly defined and their implementation needs to be preceded by adequate communication and consultations with stakeholders to avoid backlash. They also need to be implemented

81 World Bank WDI, (2017) or the latest available data.

82 As stated earlier, early grades repetition levels are under-reported because they are not well captured in official statistics.



in conjunction with quality-enhancement measures, such as ECD expansion, remedial courses for under-achieving students, and improving the quality of instruction in early grades. In particular, textbooks and teacher training are essential resources that need to be made more available to every school. Although the number of English language and Mathematics textbooks per student improved significantly in recent years, textbooks for other subjects are still lacking. While most teachers received pre-service training and are certified, many of them still do not have the basic understanding of their respective subject areas or pedagogical skills. Therefore, additional efforts are required to ensure that teachers receive ongoing support from peers and head teachers, and that school-based inspection is performed at every school to guide changes in teaching and learning practices. Finally, schools need to be further incentivized to ensure that teachers are more frequently present in classrooms.

### 3. Improving transition to lower secondary

One way to address the issue of low transition could be by abolishing examinations in the final grade of primary – a practice that governments are adopting more widely in the developing and developed world alike. The rationale for such a policy is that most countries now consider primary and lower secondary education as part of the same foundational education level, often called basic or foundational education, which they are making compulsory. However, this isn't a costless policy option as it will require continuous monitoring of education quality by administering formative student assessments throughout the primary cycle. Moreover, uprooting a strong public belief that a final primary exam is necessary would require mindset shifts, which can be achieved through social campaigns and outreach.

#### 6.1.2. Lower secondary education: improving access, quality and efficiency

Increasing the lower secondary education enrollment rate from 32 to 46 percent by 2025, while reducing geographical and gender equity, is achievable. To realize this goal, the government needs to build lower secondary schools in underserved areas and closer to communities to make it easier for students, especially girls, to attend. To this end, the MoES has adopted the ESSP which consists of increasing the number of one-stream lower secondary schools, designed to accommodate 240 students, or 60 students in each of the four levels of lower secondary.

However, what works efficiently in a 1,000-student school in terms of curricula, teachers and teaching resources, leads to a highly inefficient configuration when a school is a fourth of that size. For instance, in smaller schools the laboratories and libraries tend to be used less frequently and teachers are underutilized. At the same time, government will need to pay the full cost of these resources. In addition, in many cases, capital costs are higher in smaller schools, which are often located in rural areas (and thus teacher housing is required). Therefore, the capital and recurrent costs need to be rationalized to keep the unit costs per student sustainable.

A new model of sustainable expansion of lower secondary education in Uganda needs to be developed and implemented, in which capital investments in school construction, as well as recurrent costs, are optimized. Key elements of such a model are described below.

#### 4. Building schools in a cost-efficient manner

Achieving lower secondary GER of 46 percent will require constructing facilities needed to accommodate about one million additional students. Expanding at this scale and pace, in a

sustainable manner, would necessitate revising the current standards for school construction. The following adjustments are proposed:

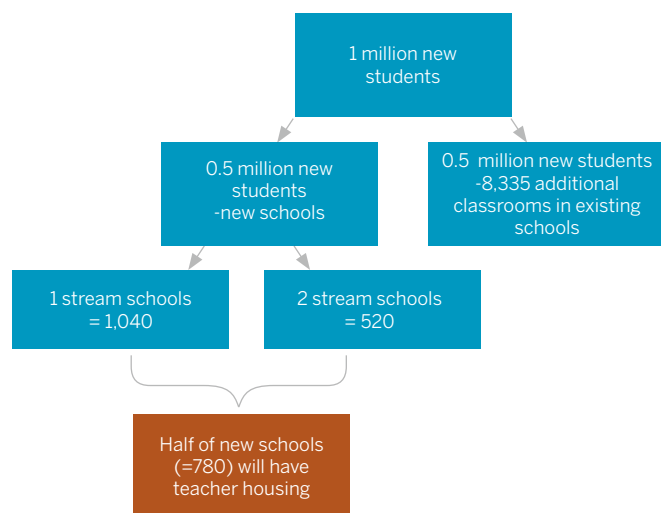
- a) *Provide teacher housing only where most needed.* Estimates suggest that costs of housing for six teachers is similar to the costs to build seven new classrooms. Thus, providing housing for more than half of the new schools is very expensive and likely to impede expansion goals.
- b) *Employ classroom libraries, rather than dedicated library facilities.* Equipping a school with a dedicated library carries a similar cost to the addition of two classrooms. An alternative model should employ ‘classroom libraries’ to place books within easy access to students.
- c) *Make better use of existing infrastructure.* Given the ESSP sets a target of a pupil-classroom ratio of 60:1, Uganda faces the daunting prospect of building more than 16,000 new classrooms by 2025 if expansion targets are to be achieved. However, the current stock of classrooms appears to be under-utilized: the ratio of

pupils per classroom is at 55:1, meaning that the equivalent of more than 1,000 classrooms are not in use. Better utilization of the existing infrastructure can reduce the number of new classrooms required.

- d) *Two-stream schools should be considered as an efficient option in areas with a high population density and unsatisfied demand for lower secondary education.* Larger schools in such areas will substantially reduce capital and recurrent costs (i.e. unit cost per student).

In the new model for sustainable expansion of lower secondary education we suggest that (i) of the one million new students, half will enroll into the new schools and half into new classrooms added to existing schools; (ii) half of the new schools will be one-stream and half - two-stream; and (iii) only half of the new schools will require teacher housing (see Figure 29). Thus, the following infrastructure will be required: 8,335 new classrooms added to the new schools; 1,040 new one-stream schools; 520 new two-stream schools; and 780 teacher housing units.

**Figure 29: Proposed composition of facilities required to accommodate 1 million new lower secondary students**





### 5. **Rolling out a new modernized curriculum for lower secondary education, reducing the number of subjects offered by schools, and using teachers more effectively**

A new curriculum has been prepared and has been formally endorsed, but is yet to be rolled out. While the introduction of the new curricula will represent significant progress compared to the current one, the approach adopted by most schools to offer up to fifteen subjects needs to be revised. In fact, small one-stream schools should not offer more than three elective subjects in addition to the seven compulsory core subjects. The elective subjects are to be selected by the school to enable them to specialize in specific profiles (e.g. sciences, humanities), while achieving more efficiency. With this rationalization, school-time and resources could be better managed and teachers could spend more time teaching. In addition, the need for specialty teachers and facilities would be considerably reduced, leading to significant budget savings.

Such savings could be invested in providing schools with modern didactic and learning materials, particularly ICT, that enhance teaching, learning and school management. There are many promising ICT based educational solutions already available in Uganda, some of them produced locally, and some borrowed from international best practices. Gradual introduction of such resources and technologies would allow full scale implementation of the new curriculum, which reinforces the teaching of digital and ICT related skills.

In addition, the following teacher practices should be implemented:

- The official teaching load should be clearly stated and consistently adhered to in all schools. This will enable school managers to redistribute work more efficiently to the teachers who have less than the minimum

expected load. The official teaching load should match the regional standard of 20 hours per week.

- A teacher distribution policy should be clearly articulated and significantly more needs-based than currently.

### 6. **Implement robust school safety measures, including towards early marriage and pregnancies**

Violence against children, early marriage and pregnancy are major impediments to both expansion and quality of education. To respond to such cases, both in and out of school, policymakers need to introduce a package of interventions for implementation at the national level. Such a package would include:

- Introducing awareness campaigns for communities;
- Promotion of concepts of appropriate and inappropriate behavior;
- Introduction of codes of conduct for teachers;
- Enhancing existing Grievance Redress Mechanisms (GRM);
- Strengthening the reporting, tracking, and referral of cases; and
- Re-enrollment policies for young mothers.

### 7. **Adopt transparent policies toward financing from households and for the non-state sector**

While family funds going into the education system are substantial, they are often underreported. Best practices in the region demonstrate that a simple framework that empowers parents' associations could make the management of these funds transparent and hold the schools accountable. The expenditures of the private sector and households represent currently more than half

of national expenditures on education, which is a much higher rate than what is found in comparable and neighboring countries. These non-government resources have been leveraged thanks in part to the Uganda USE PPP policy, which offered a per-student subsidy to participating low-cost private secondary schools. While the government is phasing out this policy, Uganda will not have the necessary fiscal space in the future to finance the growing cohort of students in public schools if it doesn't adequately leverage the private sector. The private sector and households are essential partners to crowd-in resources for both infrastructure and services. To harness the assets of, and maximize synergies with the non-state sector, the government could consider two critical actions:

- a) **Develop a policy framework for governing and regulating non-state actors throughout the education sector.** This framework would clarify the governance for non-state actors in terms of: (i) accountability for learning outcomes; (ii) the regulatory environment for non-state actors; (iii) appropriate quality service standards in areas such as teaching and learning, teacher qualifications, infrastructure, etc.; and (iv) roles and responsibilities for both government and non-state actors.
- b) **Explore non-state sector contract management options for managing schools.** The GoU is undertaking an ambitious program of school construction at both primary and secondary level. In addition to the capital costs, these schools will require significant recurrent expenditures. The non-state sector could support government in managing these schools and associated costs, including teaching and non-teaching staff - who could be recruited outside public service. There are numerous examples globally where government schools are

run by non-state actors and where these arrangements, when well managed and with clear accountability frameworks, have contributed to improved learning outcomes.

Furthermore, existing government schools, which have traditionally performed poorly, could be put under non-state sector management contracts, with clear accountability mechanisms to engender school improvement. This approach could be taken up on a pilot basis to prove the concept before a policy is enacted.

The policy framework for governing and regulating non-state actors shall also define the principles of contract management, including the following: (i) the nature of school operators (i.e. should the operators be profit or non-profit), (ii) the status of teachers and how they will be managed, (iii) the number of operators that are allowed and the upper limit of the number of schools an operator can manage, and (iv) the funding modalities and criteria for operators that government would use to allocate public funds.

### 6.1.3. Fiscal implications

Table 6 provides estimates of the fiscal implications of introducing the seven policy measures described in this section, including

the expected efficiency gains / savings from a more efficient primary and lower secondary education system. It covers a six-year period, which is the estimated time frame for introducing these measures.

**Table 6: Summary of additional costs and savings (2019-25 period) of proposed primary and lower secondary education policies**

Policy measure/program	Additional Costs	Efficiency Gains/ Savings
<b>PRE-PRIMARY &amp; PRIMARY LEVELS</b>		
1. Expansion of early childhood education programs (improvement of pre-primary GER up to 50 percent by 2025)	US\$ 111 million	US\$ 130 million
2. Consistent implementation of automatic promotion policy, while enhancing the quality of instruction	US\$ 72 million	US\$ 64 million
3. Improving transition to lower secondary by abolishing PLE	US\$ 23 million	US\$ 119 million
<b>LOWER SECONDARY LEVEL</b>		
4. Building schools in a cost-efficient manner, including:		
a) construction costs	US\$ 1.2 billion	US\$ 400 million
b) capitation grant for new students	US\$ 99 million	US\$ 0
c) salaries for new teachers	US\$ 308 million	US\$ 0
5. Rolling out a new modernized curriculum for lower secondary education and reducing number of subjects offered by schools	US\$ 158 million	US\$ 324 million
6. Implement robust school safety measures in all lower secondary schools	US\$ 30 million	N/A <sup>83</sup>
7. Transparent policies toward financing from households and for the non-state sector	Depends on parameters of PPP framework	Depends on parameters of PPP framework
<b>Total</b>	<b>~US\$ 2 billion</b>	<b>~US\$ 1 billion</b>

Source: World Bank calculations based on current unit costs observed in on-going programs in Uganda and in the region (further details available on request)

As shown in Table 6, the implementation of these proposed policies will ultimately generate substantial efficiency gains and savings that can be re-invested in the education system. The real fiscal impact will only materialise in

the medium to long term. By 2025, the net increase in spending required to implement the policy measures will be partially offset by the efficiency savings. The estimated financial gap for the next six years is close to US\$ 1 billion.

83 A World Bank study (Wodon 2018) estimated that ending child marriage and early childbirths in Uganda would result in savings for the government of US\$ 257 million (current values) by 2030. However, further analysis would be required to determine the exact savings over the 2019-25 period.

## 6.2. A case for investing more in education

To sustain higher enrolment (e.g. capitation grants, teacher salaries, learning material, etc.) and to close a US\$ 1 billion funding gap, Uganda would need to gradually increase its public expenditure on education as a share of total public expenditures. The rationale for the increase is quite 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. In the meantime, Uganda's public education expenditure, as a share of total public expenditures, dropped from 15 percent in FY12/13 to 10 percent in FY17/18. This uncharacteristic drop may have been encouraged by a large flow of foreign education aid to the sector during the same period. If not reversed, however, this decline suggests that education has a lower national priority than five years ago. In any case, this decline conflicts with the urgency of building the country's human capital and it also sends a negative signal to development partners. Ideally, by 2025 the government should seek to re-align the share of its spending on

education with both its previous practices and the regional average. This could generate up to US\$ 1.6 billion in additional resources between 2019 and 2025, which would be enough to close the gap and meet the financing requirements of the alternative scenario.

**These recommendations and simulations do not intend to be a readily applicable recipe, as they require additional consultations, decisions and commitments by the government.** However, the alternative scenario shows that the long period of inadequate learning achievement and low completion rates in primary and lower secondary education could be reversed within the next six years. Importantly, this can also be done in a financially sustainable manner. As Uganda is preparing for a new Education Sector Strategic Plan, the recommendations of this report should help in setting ambitious yet reasonable goals, framing the challenges and key policy choices, and guiding the investment programs that will be required to meet the goals.



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