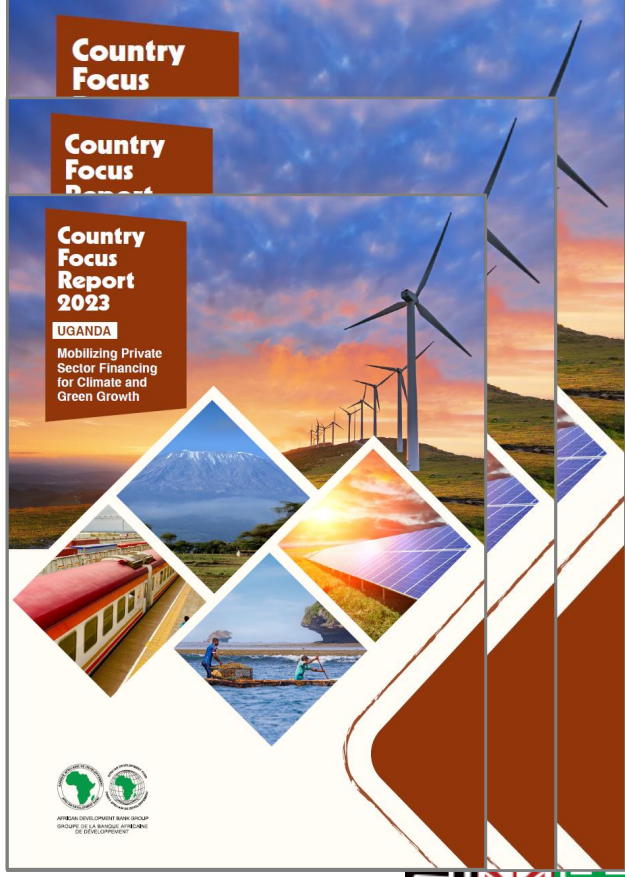
Uganda
Country Focus Report 2023



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Introduction and Outline

I. Macroeconomic performance and outlook
II. Private sector financing for climate and green growth
III. Natural capital for climate finance and green growth
IV. Policy recommendations and considerations

Recent Macroeconomic Developments

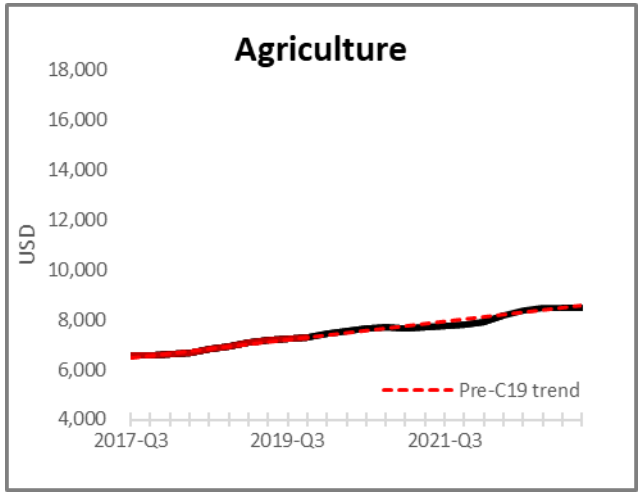
Performance	2017	2018	2019	2020	2021	2022
Difficult period of economic growth (%)	6.8	5.6	7.6	-1.2	5.6	5.8
Average inflation driven by global events (%)		2.6	2.1	2.8	2.2	7.2
Fiscal deficit peaked during height of C19		-4.9	-7.1	-9.0	-7.4	-5.3
Debt levels peaked in 2021?	32.6	33.8	35.3	46.4	47.9	46.2
Rising current account deficit		-6.1	-6.6	-9.5	-8.3	-8.6

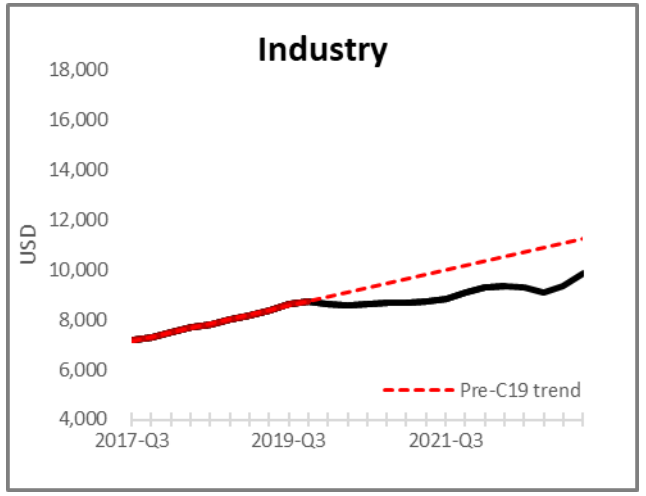
Major Developments

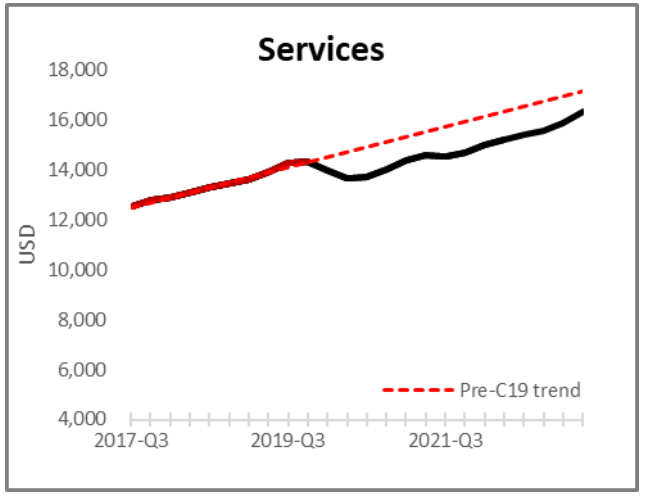
COVID-19 affected growth in 2020 + 2022 Russo-Ukraine War ignited global price rises in commodities
Debt uptake increased to deal with public health needs and other support => sovereign credit risk downgrade
Domestic inflation increased substantially in 2022 (food and energy) => increasing the cost of living esp. for urban dwellers
Bank of Uganda raised policy rate 4 times in 2022 (to 10%)

Nevertheless, Uganda's economy is relatively diversified and resilient to shocks.

SLUGGISH SECTOR RECOVERY





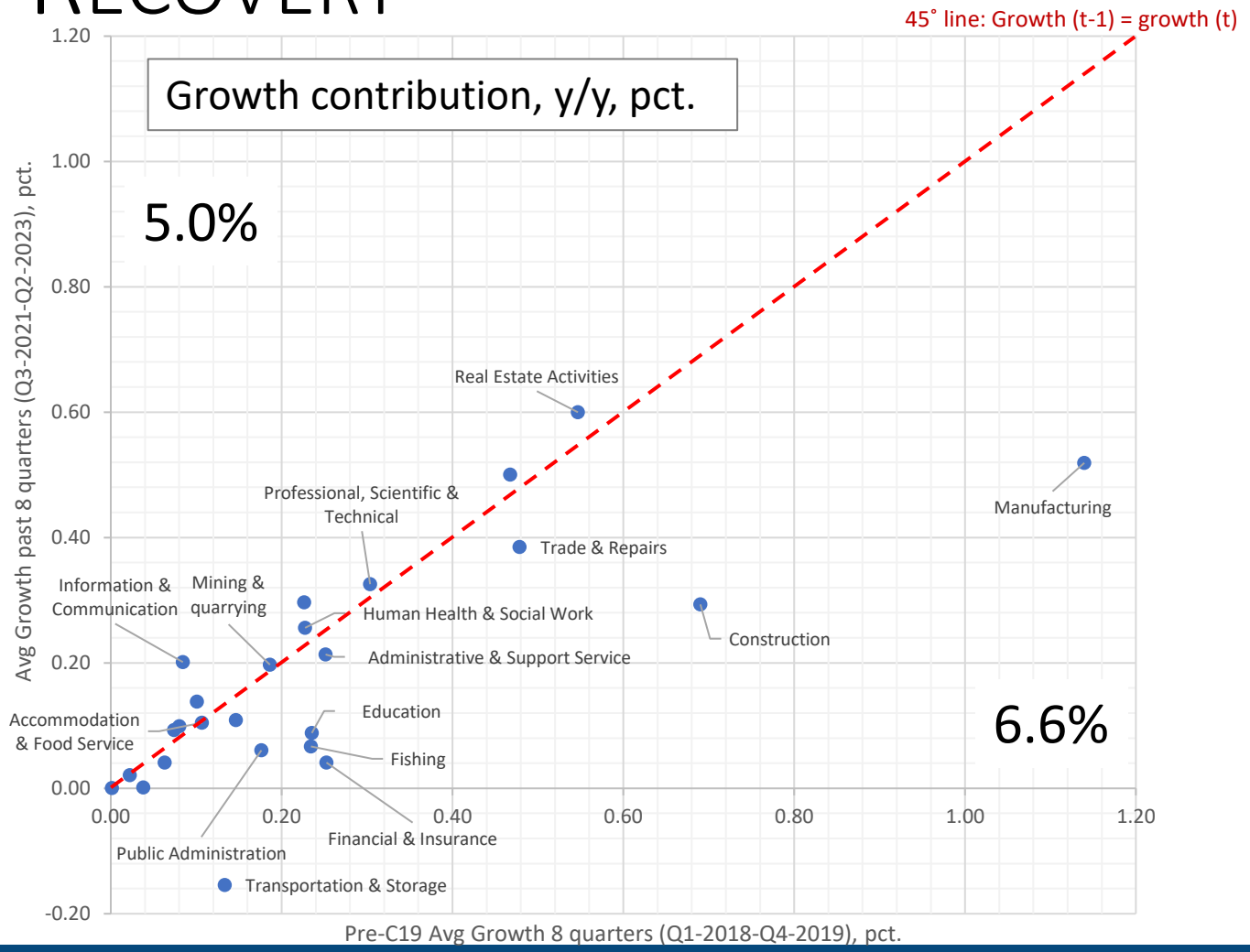


Trend based on Q3-2017 to Q4-2019

Bimodal rains keeps agriculture buoyant

Recovery is slower than pre-C19 trend. High lending rates has kept private credit growth subdued (10%).

Subsector Recovery



Growth contraction:
- Transportation

Growth slowdown:
- Manufacturing
- Construction

Below expectation:
- Education
- Financial sector
- Trade & repairs

Good news 2023-Q2 Growth – 6.8%

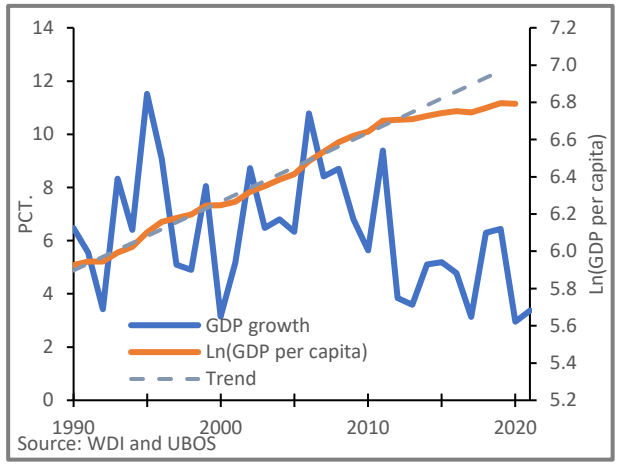
OUTLOOK AND RISKS

Outlook	2022	2023 (e)	2024 (p)
Medium term growth is looking strong	6.3 (5.8)	6.5	6.7
Average inflation declining	7.2	6.5	6.0
Fiscal deficit reducing	-5.3	-4.6	-3.9
Current account remains elevated	-8.6	-8.7	-9.0

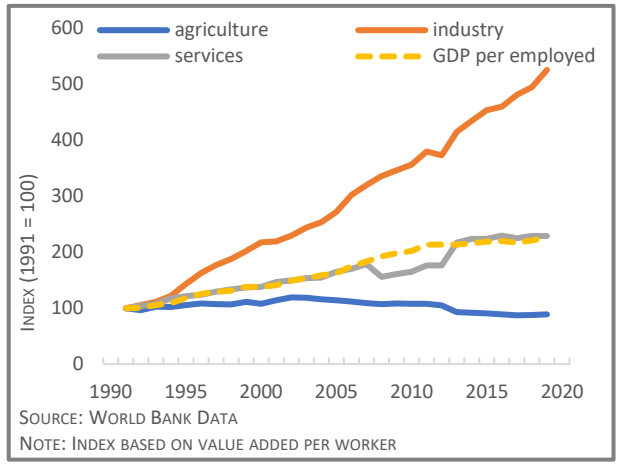
Risks		**Impact**
Global Monetary tightening	=>	higher cost of funding (SOFR 5.1%)
Geopolitical tensions	=>	moderating trade and growth
Spread of Sudan conflict to the region	=>	security concerns, investment
Weak public investment management	=>	slower growth
Poor rains, mitigated by bimodal farming	=>	lower agriculture output

LONG TERM MACROECONOMIC TRENDS

Strong growth during 00's, but downward shift from 2011. Slow growth rebound, with "flatter" income trend.



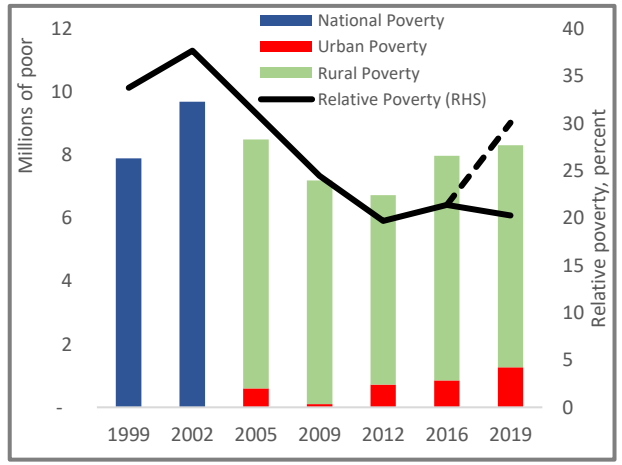
Despite overall labour productivity rising, big concern about labour productivity in agriculture, which



Employment: 17.4 million, 2022 (1991)

Agriculture	62%	(73%)
Industry	10%	(9%)
Services	28%	(18%)

Puts at risk previous poverty gains. Shift in trend?



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CLIMATE FUNDING FLOWS, NEEDS, & GAP

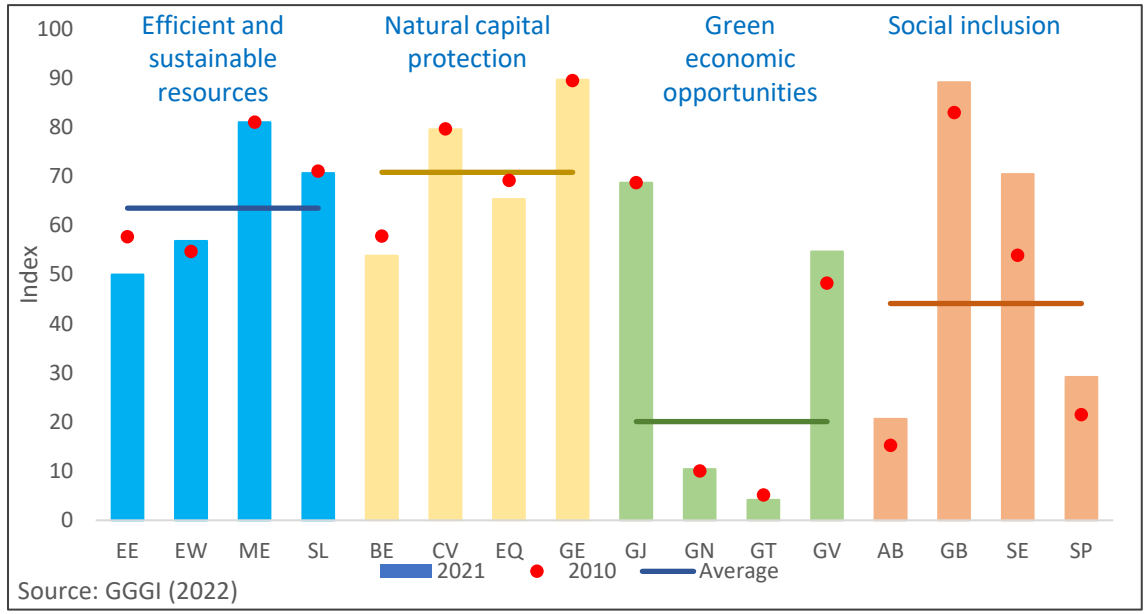
- Est. needs – USD 3.4-4.0 bn per year over current decade
- Climate finance – Dev. Partners
- USD 785mn mobilized
- Avg. funding gap USD 2.9 bn per year (4.6% of GDP)

- o/w climate financing from private sector, 3.4% (USD 26.5 mn)

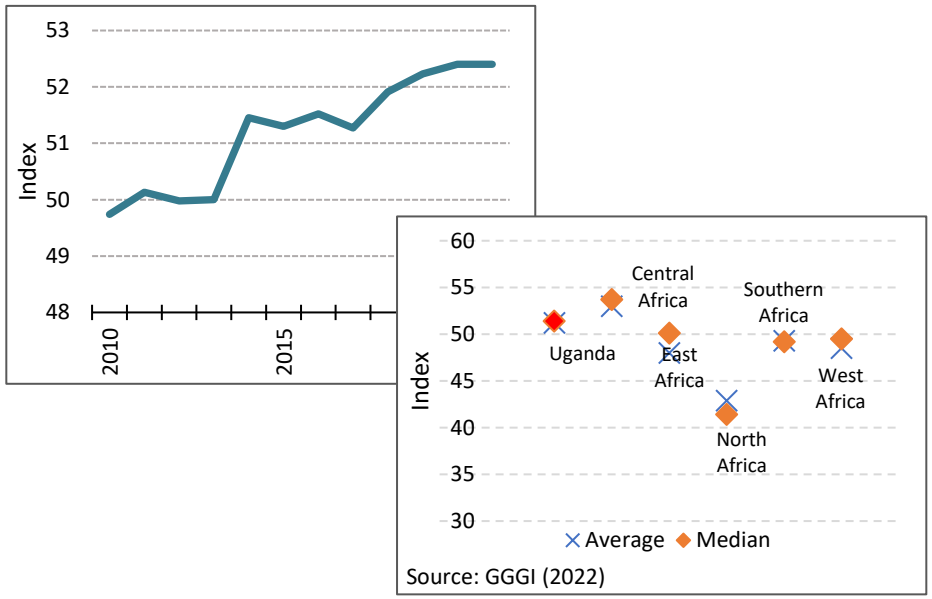
Average annual total climate finance (2019-2020)		
Sector	USD mn	Distribution
Agriculture, Forestry, Other land uses and Fisheries	286.5	36.5%
Others & Cross sectoral	152.7	19.5%
Energy systems	133.7	17.0%
Transport	80.5	10.3%
Water, Wastewater and Waste	35.1	4.5%
Buildings & Infrastructure	23.3	3.0%
Industry	0.4	0.1%
Information and Communications Technology	0.0	0.0%
Unspecified	72.3	9.2%
Source: (CPI, 2022)		

Green Growth and Progress

Green growth index by sub-indicators (2010 & 2021)



Green growth index trends



Regional comparison

EE, efficient and sustainable resource use; EW, efficient and sustainable water use; ME, waste and material use efficiency; SL, sustainable land use;
BE, biodiversity and ecosystem protection; CV, cultural and social value; EQ, environmental quality; GE, GHG emission reductions;
GJ, green employment; **GN, green innovation**; **GT, green trade**; **GV, green investment**;
AB, access to basic services and resources; GB, gender balance; SE, social equity; SP, social protection.

INVESTMENT OPPORTUNITIES IN PRIVATE FINANCING FOR GREEN GROWTH AND CLIMATE CHANGE

- Renewable energy – solar mini grids for remote areas (challenges with power storage, but pumped hydro storage?)
- Safeguarding biomass - reforestation (or shift to efficient cook stoves, electricity or LPG)
- Safeguarding watersheds and wetlands
- Water for production -irrigation
- Water storage systems for livestock
- Global trends/shifts – Electric vehicles (bodas, buses, …)

BARRIERS TO MOBILIZE PRIVATE FINANCING FOR GREEN GROWTH AND CLIMATE CHANGE

- High cost of capital
- Insufficient competitive facilitating infrastructure (high factor costs – transport, electricity, skilled labour, inputs, land, capital)
- Lacking predictability of taxes, are adjusted annually
- Cost of doing business (licensing and permitting, judicial support to solve twists, …)

PATHWAYS TO MOBILIZE PRIVATE FINANCING FOR GREEN GROWTH AND CLIMATE CHANGE

- Deepening financial markets to mobilise domestic finance (promote savings culture)
- Crowd in National Social Security Fund and other funds
- Establish a green industrial facility/fund (blended finance)
- Clearly articulate policies around greening the economy and industry
- Phase changes of taxes to allow private sector to gradually adjust their business operations

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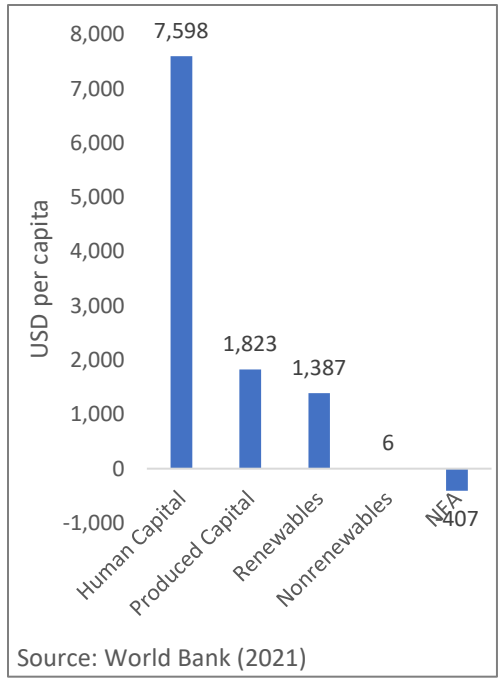
NATURAL CAPITAL COUNTRY CONTEXT

Wealth per capita

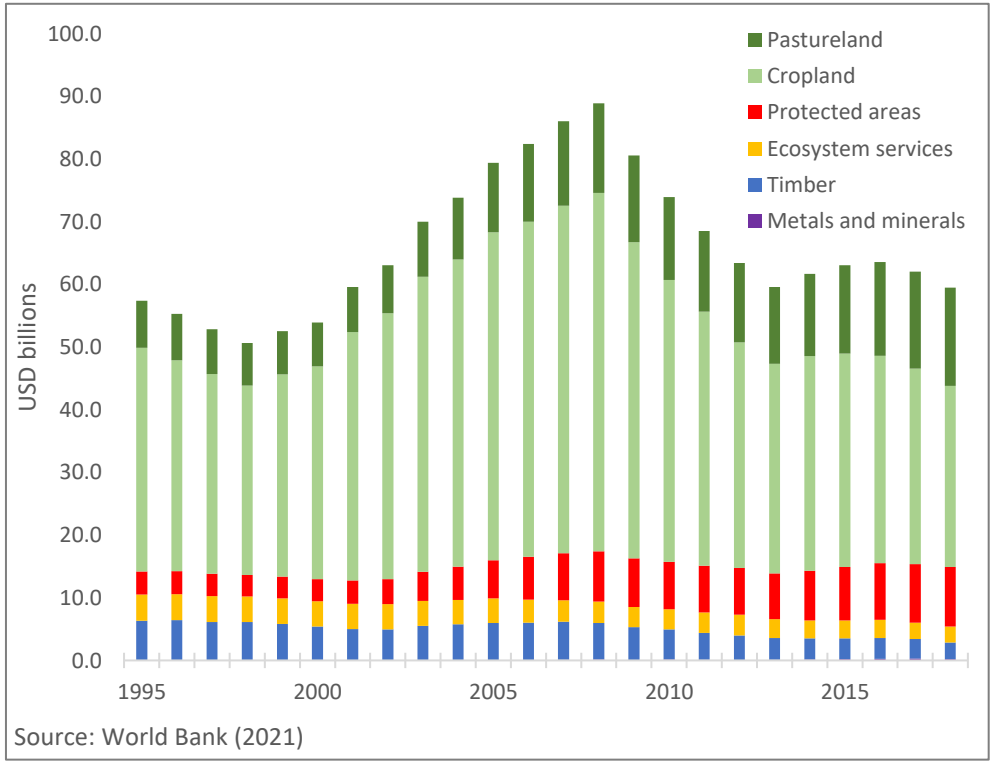


Source: World Bank (2021)

USD 6,232 per capita (1995)
USD 10,407 per capita (2018)

Natural capital 13.4% of total

Developed countries will have higher produced capital and less natural capital.



Source: World Bank (2021)

NATURAL CAPITAL COUNTRY CONTEXT

- Most natural capital emanates from renewables
  - Agriculture and Forests are critical renewables
- Other sources are sunshine (electricity), water (irrigation, electricity), and fisheries
- Non-renewables include oil & gas, and iron and steel, and other industrial minerals
- Rapid decline in natural capital per capita (population growth)
  - USD 2,811 (1995) to USD 1,392 (2018), driven by cropland decline
  - Deforestation
  - Soil degradation
  - High population growth

OPPORTUNITIES FOR ENHANCING CONTRIBUTION OF NON-RENEWABLES

- Industrial minerals and metals have great opportunities
  - Phosphates (fertilizer), limestone (cement), iron ore (steel), rare earth elements (magnets, batteries)
  - 583 million tons of iron ore (50-69% iron content, high grade)
  - > 100 years of production
- Oil and gas 1.4 (6.5) billion barrels of commercial (reserves) oil
  - Royalties, profit oil, corporate taxes (est. USD 1.6 billion, USD 75 per barrel).
  - 20-30 years of production
- Other metals – gold ca. 340,000 kg

OPPORTUNITIES FOR ENHANCING CONTRIBUTION OF RENEWABLES

- Agriculture land (increase productivity, reduce fragmentation, mechanization, innovation)
  - Gravity flow irrigation, drip irrigation, greenhouse farming, and hydroponics
- Forestry, for the construction and building industry (and firewood)
  - Replenish forests and improve management
- Protected lands provide opportunities for tourism
  - Increase access (roads, airstrips)
- Solar energy for production of electricity
  - Mini-grids, green hydrogen to produce green steel,

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MACROECONOMICS

- Continue to strengthen **domestic revenue mobilisation**, while maintaining fiscal consolidation during a period of tighter monetary policy.
- Limit **non-concessional financing** only to high-return projects.
- For investors and larger-scale manufacturing to drive development (and growth), **access to competitive and fully-serviced land is critical**.

PRIVATE SECTOR FINANCING

- Strengthen **institutional capacity and coordination** of national-level institutions, i.e., the implementors of green growth and climate action frameworks.
- Establish **blended green growth industrial fund** or facility, to lower the cost of finance, spur industrial growth.
- **Clearly articulate policies and actions on industrial green growth to attract investors**.
- Develop platforms that **link domestic private sector with international financing actors** to diversify green finance.
- **Expand innovative financing instruments** (i.e., blended funds, private equity, green bonds) at a much larger **scale** to de-risk private sector investments, particularly in agriculture, forestry, and industrial development.

NATURAL CAPITAL

- Raising the value of agricultural land, **agricultural productivity must be increased**. Expand agriculture extension services, facilitate private sector involvement in input services and mechanisation.
- Harnessing opportunities in forestry requires actions to **replenish forests**. Promote policies and regulations to **enforce illegal logging**. Promote sustainable forestry practices and replenish forests.
- **Expand solar energy** as part of the renewable energy program to **diversify dependence on large hydro**. Make financing attractive through **scaled up blended funds** to transition to cleaner energy.
- Develop **iron ore reserves that could be the foundation for the country's industrialisation**.
- Accelerated energy transition scenarios indicate a **declining demand for oil after 2026/27.** This could make future oil investment less attractive. Need to **assess public investments in oil-related assets to avoid stranded asset**.

Thank You

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