



COUNTRY PRIVATE SECTOR DIAGNOSTIC

CREATING MARKETS IN UGANDA

Growth through the Private Sector and Trade

Executive Summary

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EXECUTIVE SUMMARY

Uganda has a track record of pro-business and market-enabling policies, having helped to spur growth rates averaging six to seven percent since the 1990s. This period of growth has been the result of several factors, beginning with an aggressive privatization program in the 1990s, which reduced the number of state-owned enterprises (SOEs) in Uganda's economy to one of the smallest SOE portfolios in the region. The result has been private markets relatively unencumbered from distorting state competition.

With its increasingly competitive private sector, Uganda has leveraged intraregional trade to its advantage. In recent years, Uganda has been exporting more in terms of gross domestic product (19.5 percent in 2018) than the average East African country—a significant achievement for a landlocked country. Uganda also exports a more diversified basket of products than that of many other low-income countries. Further, it has been able to attract high levels of foreign direct investment (FDI), including investment that is efficiency-seeking: a testament to the competitiveness of its labor market and pro-business policy environment, compared to other countries in the region. The discovery of Sub-Saharan Africa's fourth-largest oil reserves in the Albertine Rift basin in 2006 gave an additional boost to investor interest.

But since 2015, Uganda's growth model has started to show signs of weakness, with growth rates decelerating even before the outbreak of the COVID-19 pandemic. Growth has relied too much on factor accumulation (mostly labor) and too little on productivity growth and human capital. With labor increasingly entering the market via low-productivity informal services and microenterprises, productivity growth has weakened. Meanwhile, the contribution of human capital has been constrained by rapid population growth. Paired with one of the lowest resource mobilization rates in the region and inefficiencies in public spending, providing the education and health services that are needed to make a productive workforce has been increasingly difficult. Rapid urbanization, if not managed well, will add further pressures on already weak public services. This could also undermine the important positive agglomeration effects for productivity that urbanization should bring. Finally, frequent climate shocks constitute another important risk to long-term growth, as Uganda is among the world's most vulnerable and simultaneously least-adapted countries to climate change.

The COVID-19 pandemic has exacerbated the country's development challenges. An estimated 2.6 million Ugandans will fall back into poverty in the short term because of the crisis. The economy contracted by 2.1 percent in 2020 and its fiscal deficit surged to 7.6 percent, significantly reducing the room for growth-enhancing expenditures in the years ahead. The COVID-19 crisis also reversed some of the positive structural transformation that took place in the past decade, with the employment share of agriculture increasing by 10 percentage points as off-farm activities became constrained by social distancing measures and falling demand in other sectors. Finally, the pandemic has delayed once more the prospects for the beginning of oil production, which was initially scheduled for 2022 but will now aim to kick off in 2024–25¹.

This Country Private Sector Diagnostic (CPSD) investigates the potential for greater private sector investment to meet some of these development challenges. At least 600,000 Ugandans enter the labor market every year, making for a workforce that is increasingly younger and urban based. To address the country's simultaneous productivity and job challenge requires a focus on growth in sectors that can leverage demand from abroad, are labor intensive, and low skilled. Three sectors hold promise in this regard: agribusiness, which is important for productivity, employment, and export growth; energy as an enabler of overall productivity; and housing because of its role in fueling growth in the labor-intensive construction sector and alleviating the demographic pressures that rapid urbanization puts on Ugandan cities. Within the agribusiness sector, the CPSD considers three of the most promising value chains—fish, dairy, and maize—and undertakes a more disaggregated assessment of the environment for private investment.

Agribusiness

Uganda's natural topography, favorable climate, ample water sources, and low labor costs give it strong comparative advantages in agricultural production. An open trade regime has helped the emergence of a successful agro-industry for exports with eight of Uganda's top 10 export industries found in agribusiness, including fish, dairy, and maize—the three value chains of focus in this CPSD. These products reach a wide number of destination markets, with some products capturing significant market share. Agro-processing already represents most of Uganda's manufacturing output. Economic and market analyses suggest further potential for the sector to grow and diversify by increasing productivity and boosting product quality and complexity. As evidence of this potential, FDI into the sector had been increasing steadily prior to the pandemic, more than tripling from 2010 to 2019, when it reached \$230 million. The continued development of a competitive agribusiness sector would also play a central role in Uganda's ambitions to transform its economy and to create job opportunities for its fast-growing population. The CPSD discusses policies that could lift the agribusiness sector more broadly, such as adopting the National Accreditation System Bill, which would improve access to markets by supporting international recognition of Ugandan quality assurance systems, international certification, and related service providers.

Energy

Over the past 20 years, Uganda has undertaken significant power sector reforms, considered among the most comprehensive in Sub-Saharan Africa, which have led to considerable results along the energy value chain. Between 2002 and 2020, installed generation capacity quadrupled; the energy mix improved considerably, reducing costly thermal power from 24 to two percent and replacing it with renewable sources like hydro, biomass, and solar. In addition, the size of the transmission network more than doubled. Losses in the transmission and distribution system were also reduced considerably. Uganda now must take on the next generation of reforms to ensure that the excess supply that was generated also gets evacuated, leads to better electricity access for consumers, and stimulates productive use and regional export opportunities. There is an urgency to this agenda: unless Uganda invests now to further its transmission and distribution network, the mismatch between supply and demand could increase total electricity costs by over \$950 million per year. Moreover, to ensure successful delivery on the publicly stated government goals of increasing

access to electricity and reducing its costs, Uganda needs to build on the positive outcomes achieved in the previous reform process—including increased participation by the private sector in the economy—rather than reverse those reforms. Signals to the contrary emanating from the recent reemerging of previously unbundled sector institutions as well as questions surrounding the concession negotiation for Umeme (Uganda’s main electricity distribution company) may send undesirable messages to private investors. The CPSD investigates the different policy reforms that Uganda should consider to encourage private sector participation in the market, especially in the transmission and generation (on- and off-grid) segments of the sector.




Housing

Uganda’s housing market has large pent-up demand that, if satisfied, would not only solve many of the urbanization and inclusion challenges of the country but could also provide an important stimulus to labor-intensive construction and other related sectors. Currently, Uganda’s urban housing market comprises a very small formal housing market that is accessible to only an estimated 12 percent of households. Moreover, even at this high end of the market, many households are forced to transact using cash and personally obtained finance, such as loans from family members, because mortgage finance is inaccessible. Uganda’s future housing strategy must therefore focus on providing accommodation alternatives that meet the full spectrum of household affordability. To achieve this, innovative strategies are needed that reach beyond the formal into the informal segment of housing. For example, providing preplanned sites would ensure a level of settlement planning during initial urban growth processes that would be conducive to future service installation and tenure regularization. The CPSD discusses these and other strategic interventions and policy actions that can entice private investors into Uganda’s housing market.




Beyond discussing challenges and opportunities specific to these three promising sectors, the CPSD also analyzes some of the cross-cutting challenges affecting the Ugandan economy. Consultations held with experts, private sector stakeholders, and development partners have identified the quality of government institutions, land rights, access to productive finance, non-tariff trade barriers, and roads as critical areas where reform can support private sector-led growth. Table ES.1 provides a heatmap that summarizes how these constraints play out across sectors. Table ES.2 provides a summary of the recommendations found in this report.

1. More recently, Uganda’s oil story has taken a new twist with the signing of the East African Crude Oil Pipeline Agreement between Uganda, Tanzania, and other investors on May 20, 2021. This was one of the final parts in a very long process. The agreement will allow work to commence on the pipeline, stretching from Hoima in western Uganda to the Chongoleani peninsula in Tanzania—a journey of 1,445 kilometers. The signing has given a boost to Uganda’s oil ambitions, though after a decade of commercial and logistical setbacks, as well as sluggish oil prices, enthusiasm is measured. Increasingly, views in government are for greater diversification of the economy, seeing beyond oil as a quick fix for the economy.

**TABLE ES.1 HEATMAP OF CONSTRAINTS BY SECTOR
(DEGREE OF CONSTRAINT: RED-HIGH, YELLOW-MEDIUM, GREEN-LOW)**

Cross-Cutting Constraints	 Agribusiness			 Energy	 Housing
	Fisheries	Dairy	Maize		
Institutional <ul style="list-style-type: none"> • Regulatory • PPPs/financial • Competition 	Insufficient legal/regulatory systems to reduce illegal and unregulated fishing and safeguard biosecurity.	Lack of enforcement of quality standards for dairy products. Need for system of demarcation/traceability.	Overlapping roles of government agencies in regulation of crops.	Gaps in enforcement of quality standards for off-grid systems (e.g., solar). Gaps in the regulatory framework for independent power transmission.	Competing local government structures complicated holistic urban planning.
Access to Productive Finance	Small percent of lenders' portfolios in agribusiness, reflecting perceived risk, be this fishing or smallholder farming.		Lack of innovative financing/financial incentives in off-grid sector. Still very nascent stage.	Constrained capital markets limiting availability of wholesale finance. High interest rates, very limited mortgage finance available.	
	Lack of financial literacy, credit history, and collateral options for smallholders and fishing communities.				
Non-Tariff Barriers to Trade & Logistics	Costly logistics, storage, and cold chain services.		Lack of harmonization of legal, regulatory, and operational framework for intraregional power trade.	Construction sector losing regional and international trade competitiveness due to logistics constraints (roads, rail, and points of exit).	
	Unpredictable trade relationships and delays in resolving trade disputes.				
	For maize, high % of informal exports; quality levels below acceptable standards.				
	Border delays increasing logistics costs.				
Infrastructure Gaps	Insufficient national quality infrastructure.		Inadequate infrastructure at medium/high voltage levels in the transmission and distribution network.	Lack of infrastructure and serviced land limiting orderly expansion of urban areas. Poor quality transport links limiting inter- and intra-urban mobility.	
	Inconsistent power supply.				
	Low penetration of agtech/fintech services for farmers. For fish, high cost of temperature controlled logistics and storage.				

Note: PPP = public-private partnership.

Cross-Cutting Constraints	 Agribusiness			 Energy	 Housing
	Fisheries	Dairy	Maize		
Skills	Lack of awareness of sustainable fishing, dairy, and commercial framing practices. Limited capabilities in producing key inputs (i.e., fish food, fodder, high quality feed for cattle).			Capacity gaps in specialized technical areas (transmission/ procurement).	Professional skills limited and prone to out-migration. Technical skills training insufficient leading to poor quality construction.
	Poor market information and business development services.			Insufficient project management for large transmission infrastructure projects.	Lack of formal real estate businesses constraining housing sector growth.
Land Rights	Use of customary tenure land, which comprises over 70% of the land in the country, challenged by inadequate national coverage of documentation required to secure land rights.			Limited land security limiting the development of mini-grids.	Limited formal land rights and overlapping traditional land rights increasing time and expense of land transactions. Large informal housing sector developing outside of formal land titling and planning system.
Other Critical Constraints	Overfishing and unsustainable fishing practices threatening depleting stocks. Environmental degradation from pollution and impacts of climate change on water levels.	Low use of modern data analysis to maximize milk composition, production volume, and animal fertility.	Insufficient access to quality assurance testing along the supply chain (e.g., to reduce contamination of crops).	Lack of coordination across government agencies, especially in energy sector planning.	Lack of information technology and infrastructure limits use of 4IR technology in housing sector development.

Note: 4IR = 4th Industrial Revolution; fintech = financial technology.

TABLE ES.2 SUMMARY OF SECTOR RECOMMENDATIONS**Agribusiness**

- Conduct a comprehensive review of the MAAIF and all other agriculture-related institutions to clarify functional mandates, strategic objectives, and budget allocations.
- Review Operation Wealth Creation subsidy design for opportunities to shift toward private sector-led solutions.
- Adopt the National Accreditation System Bill; prioritize capacity building in quality and standards institutions.
- Ensure that negotiations for AfCFTA implementation (and existing regional trade agreements) focus on the removal of persistent and ad hoc NTBs to facilitate access to existing and new markets.
- Leverage international technical and financial support to implement trade facilitation improvements to align with the WTO Trade Facilitation Agreement.
- Conduct a financial feasibility study of a shift to alternative pay-for-results programs for agriculture extension service providers.
- Increase the budget and prioritize capacity building for the Uganda National Meteorological Authority to further develop agriclimate information and make data publicly available to strengthen innovation and risk assessment in agrifinance programs.
- Improve the PPP Unit's capacity and continue prioritizing PPPs for irrigation, temperature-controlled logistics, storage, and off-grid energy solutions.
- Develop leasing regulations conducive to the needs of commercialized farmers, especially smallholders.

**Energy**

- Undertake thorough cost/benefits analysis of the recent UEGCL, UEDCL, UETCL merger as well as other institutional changes to ensure that development benefits are not reversed.
- Engage with private and public partners to make sure that institutional changes in the sector are carried out transparently and follow a consultative process for continued trust among stakeholders.
- Allow PPP investments in transmission infrastructure through UETCL special purpose entities with private players.
- Introduce IPTs for transmission infrastructure through regulations to guide risk-sharing arrangements, tariffs, and provider selection procedures.
- Provide clear guidelines for enforcement of quality standards for SHSs.
- Streamline territorial zoning for the on-grid distribution operations to improve concession viability and network optimization.
- Revise the Energy Rebate Policy and provide a framework for direct utility investment for dedicated grid extensions for productive users.
- Enhance resource mobilization for smart subsidies to support mini-grids and SHSs.
- Review the role of small service providers in distribution to minimize fragmentation.
- Introduce adequate institutional structures (i.e., PPPs) for promotion of export and regional power trade.
- Develop mini-grid project "packages" for private competition including the provision of land and subsidy and grant facilities.
- Pilot transmission projects for PPP tenders to test market responses and enable empirical determination of appropriate terms and conditions.
- Enlist potential productive users constrained by lack of access and tender offers for development.
- Invite firms to provide SHSs under special subsidy and grant plans.



Housing

- Review legislative and policy reform and implementation to improve systems of land titling, transfer, compensation, and records.
- Continue rollout of the digitized deeds registry to create a platform for private sector investment in the housing sector.
- Improve planning and infrastructure development capacity of Greater Kampala Metropolitan Authority to guide its future rapid urban growth and housing requirements.
- Make metropolitan spatial planning, urban infrastructure development, and housing part of an integrated strategy with a single, overarching planning agency.
- Integrate urban, housing, and infrastructure planning functions in newly designated secondary cities, ensuring linkages to industrial park development strategy to maximize local economic development opportunities.
- Review tariffs and trade arrangements in relation to import and export of housing-related intermediate inputs to ensure maximum trade competitiveness and encourage locally manufactured inputs for housing and construction sectors.
- Develop an integrated investment promotion framework for land, infrastructure, and housing to guide public and private investments.
- Conduct review of Uganda's PPP framework as it relates specifically to housing.

Note: Recommendations for agribusiness subsectors are in appendix B of the main report. AfCFTA = African Continental Free Trade Agreement; IPT = independent power transmissions; MAAIF = Ministry of Agriculture Animal Industry and Fisheries; NTBs = nontrade barriers; PPP = public-private partnership; SHS = solar home system; UEDCL = Uganda Electricity Distribution Company Ltd.; UEGCL = Uganda Electricity Generation Company Ltd.; UETCL = Uganda Electricity Transmission Company Ltd.; WTO = World Trade Organization.

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