



External finance for rural development

Country case study: Uganda

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December 2020

Key messages

- Agriculture and rural development are high priorities for the government of Uganda, driven by the importance of the agricultural sector for economic growth, livelihoods and food security.
- Yet government investment in the sector is low and future public spending is expected to be below what is required to meet national development plans for the sector.
- Uganda receives a higher share of official development finance for agriculture and rural development than the global average – most of it concessional and in the form of grants.
- Our research shows an expected increase in demand by government for concessional loans, followed by grants, for the agriculture and rural development sector over the next five to 10 years. Our research also revealed mixed opinions on whether the government would demand more non-concessional finance in the future for the sector.
- The government prefers external development assistance that it is aligned to national priorities, flexible, long term and durable.

Introduction

Background

Rural development worldwide relies heavily on private funding. Yet the public sector has a key role to play in providing both investment and policy support to tackle persistent market failures. These include the under-provision of public goods (such as infrastructure and research and development), negative externalities (such as the need to adapt to and mitigate the effects of climate change), informational asymmetries (e.g. the development of rural financial services) and the lack of protection for vulnerable people through, for example, social protection.

Far more finance is needed to achieve food security and promote sustainable agriculture in line with Sustainable Development Goal (SDG) 2. The United Nations (n.d.) estimates that an additional \$267 billion per year is needed to achieve every SDG 2 target: almost twice as much as total official development assistance (ODA) each year from all donors combined. Official development finance (ODF)¹ to agriculture and rural development rose slightly from \$10.2 billion in 2015 to \$10.9 billion in 2018. This is only a fraction of the total ODF disbursements of \$254 billion in 2018. Public expenditure on agriculture development also remains low: since 2001, governments have spent, on average, less than 2% of their central budgets on agriculture (FAO, 2019).

Objectives, definitions and methodology of this country case study

This country case study summarises key findings from a country analysis of financing for rural development in Uganda. It is one of 20 analyses that is synthesised for comparison in Prizzon et al. (2020).

The case study has two main objectives:

- to map demand from the Government of Uganda over the next five to 10 years for external development assistance to support public investment in inclusive and sustainable rural development
- to analyse the financial and non-financial terms and conditions of such demand, its main preferences and the type of instruments that the government wishes to access or scale up to support public investment in rural development.

Definitions

What we mean by public investment in inclusive and sustainable rural development (see Prizzon et al., 2020, for more details). Our research has focused on six areas that contribute to such investment: access to agricultural technologies (research and development) and production services; agricultural value chain development (e.g. crops, livestock, fisheries); climate-resilient agricultural practices; rural basic infrastructure (e.g. water and irrigation systems, local roads, local energy generation and storage facilities); rural financial services; and rural investment environment (e.g. policy, legal and regulatory frameworks).

What we mean by external assistance for inclusive and sustainable rural development. We look beyond ODA to include government-to-government funds from bilateral and multilateral donors that do not meet concessionality criteria (usually defined as other official flows, or OOFs).² We call this official development finance (ODF). As a proxy for financing rural development, we examine data on external assistance to the agriculture sector and rural development (cross-cutting) based on an Organisation for Economic Co-operation and Development (OECD) definition. This is not a

1 The sum of ODA and other OOFs: the latter flow from bilateral and multilateral donors that do not meet the concessionality criterion for ODA eligibility.

2 The definition of concessionality is based on the share of the grant element. With the 2014 OECD reform, the grant element varies according to the income per capita of the ODA-eligible country to be counted as ODA: at least 45% for low-income countries (LICs), 15% for lower-middle-income countries (LMICs) and 10% for upper-middle-income countries (UMICs). The International Monetary Fund (IMF) discount rate (5%) is also adjusted by income per capita group: 1% for UMICs, 2% for LMICs and 4% for LICs, including least-developed countries (LDCs).

perfect measure, but given the lack of a sectoral definition or attribution to rural development as such, it is the closest we can get to a consistent, cross-country mapping of external assistance from development partners. As a second-best option, we rely largely on quantitative and qualitative data on agricultural development. While the agriculture sector is a major component of rural development, data on agriculture alone cannot capture important non-farm activities.

Research questions

This country case study reflects our four main research areas:

- the government's priorities for public investment in inclusive and sustainable rural development
- financing for public investment in inclusive and sustainable rural development
- borrowing (external development assistance) for this public investment
- the government's preferences in relation to external development assistance for public investment, including its demand for specific types of instruments.

As this project took place during the early stages of the Covid-19 pandemic, we also reflect the short- and medium-term implications of the crisis for government priorities and preferences for public investment, as well as the amount and type of external assistance demanded.

Methodology

We used a qualitative case study approach, with the analysis of individual countries informed by a political economy framework, as developed by Greenhill et al. (2013) for aid negotiations (see Prizzon et al., 2020).

Our approach comprised a critical review of relevant policy literature³ and data analysis,⁴ which also helped us to identify country stakeholders. This was followed by interviews

with key informants, informed by an electronic questionnaire submitted before each interview. For Uganda, we held 11 interviews between May and June 2020, and received 11 questionnaires (see Annex 1 for a list of those interviewees who agreed to their names being shared).

Uganda: country context

Uganda is classified as a low-income and least-developed country (LIC and LDC). It is eligible for concessional assistance from the international financial institutions – the World Bank's International Development Association (IDA) and the African Development Fund (ADF) of the African Development Bank (ADB) – as well as preferential trade agreements.

Uganda's economy has been marked by a sustained period of high growth since the end of the armed conflict in 1986. Gross domestic product (GDP) averaged an annual rate of 6.1% between 1986 and 2011, one of the highest across Africa (World Bank, 2015). While the global financial crisis in 2008–2009 meant a temporary slump in Uganda's economy, its growth rates have picked up, and stood at an average of 5.2% between 2014 and 2019 (World Bank, 2020c).

At the same time, however, Uganda has an extremely young and fast-growing population, which increased from 24 million in 2002 to 35 million in 2014 and its population is expected to top 80 million by 2040 if there is no reduction in the fertility rate (World Bank, 2016). As a result, per capita growth stood at only 1.6% on average between 2014 and 2019 (World Bank, 2020c) and lags behind the average growth rate for neighbouring countries (Kenya, Rwanda and Tanzania) (IMF, 2019).

The basis for Uganda's economic growth has shifted over time from agriculture to services and industry. The service sector (retail, financial services, telecommunications, hospitality and the tourism sector) accounted for 46% of the economy in 2019, followed by industry (manufacturing, mining, construction and

3 Government strategies, IMF Article IV and World Bank diagnostic tools.

4 Spanning IMF, Food and Agriculture Organization (FAO), African Development Bank (ADB), OECD and World Bank sources.

energy) at 30% and agriculture at 24% (World Bank, 2020c).

The discovery of recoverable oil reserves in Uganda could accelerate this shift and transform the economy, providing anywhere between 0.5% and 4% of GDP per annum over the next 25 years (IMF, 2019).⁵ However, this is highly dependent on oil prices, which have fallen markedly in 2020, and on the effective management of revenues. At the time of writing, no final investment decision had been taken on moving ahead with extraction.

The vast majority of Uganda's people – 79% – live in rural areas (FAO, 2018), and agriculture accounts for 70% of all jobs, even though it is the basis for only 24% of the country's GDP. This is a far higher percentage of employment than the average in sub-Saharan Africa and for LICs in general (World Bank, 2020c). Of those working in the sector, 76% are women and 63% are youth (FAO, 2018). This reflects the country's fast-growing population and the fact that other sectors of the economy, while delivering growth, are not delivering jobs.

No data is available on rural poverty in Uganda. Extreme poverty levels were halved across the whole country between 1992 and 2013, but have been increasing in recent years and currently stand at 41.7% (World Bank, 2020c).

Climate change is already having an impact on Uganda's development, with more adverse weather events (World Bank, 2019b). Some regions are seeing more intense and prolonged dry spells leading to droughts, while others face greater rainfall and floods. The temperature has also risen and there are higher incidences of pests and diseases (GOU, 2018c). Climate change has lowered productivity as a result of shifting seasons, soil erosion and loss and damages to crops. All of these changes undermine the sustainability of the natural resource base and peoples' livelihoods, particularly for those

working in the agriculture sector. And the predictions suggest that things are likely to get worse in the future (GOU, 2018c).

Food security is also a major challenge for the country, with 8.8 million people severely food insecure in 2017/2018, according to the Food and Agriculture Organization (FAO). While there is no data on rates of undernourishment in general, data on malnutrition show that 29% of all children under five were stunted in Uganda in 2016 (FAO, 2020).

Government priorities for rural development

Rural development and agriculture are high priorities for the government of Uganda. The country's '2040 Vision' (GOU, 2007) and its Third National Development Plan (2020/2021–2024/2025, NDP III) (GOU, 2020b) both identify agriculture as vital for the transformation needed to drive national development.

The NDP III aims to deliver sustainable industrialisation for inclusive growth, employment and sustainable wealth creation over the next five years (*ibid.*: xix). It recognises agriculture as one of five sectors⁶ to be prioritised for transformation, with a focus on driving commercialisation and competitiveness and supporting food security in the sector. The importance of agriculture is driven not only by its significant contribution to the economy and to jobs, but also its potential for the sector to contribute to future growth. About 80% of Uganda's land is arable, but only 35% is under cultivation, with massive potential to scale up the sector, and total-factor productivity (TFP) remains persistently low.⁷ Most of Uganda's exports are currently unprocessed and there is potential to increase their value through far greater processing in-country (*ibid.*).

Uganda's NDP III also aims to improve regional development, with a focus on reaching

5 Based on Brent prices of \$60 per barrel in constant 2018 prices.

6 Other sectors identified are tourism, minerals, oil and gas and a knowledge-based economy.

7 Also known as multi-factor productivity, TFP is usually measured as the ratio of aggregate output (such as GDP) to aggregate inputs.

regions that have been left behind by national progress. Regional development includes agro-industrialisation, but goes further to include improvements to rural infrastructure, enhancing value chains beyond the agricultural sector and improving local governance.

NDP III is the first to adopt a programme-based approach, with 18 key programmes identified, one of which is dedicated to agro-industrialisation. This programme covers a broad set of objectives: increasing agricultural production and productivity by strengthening research and technology, extension services, agriculture inputs, markets and distribution systems; expanding access to and the use of water and agricultural mechanisation; and reducing post-harvest losses. It also aims to support value-chain development; improve market access and competitiveness for agricultural products in domestic and international markets; and increase the mobilisation, access and utilisation of agricultural finance (GOU, 2020b).

Access to rural basic infrastructure (e.g. water and irrigation systems, local roads, local energy generation and storage facilities) is expected to be the top priority for government public investment over the next five to 10 years, according to our interviewees. The second priority is expected to be agricultural value-chain development and access to new agricultural technologies. This reflects the challenges facing the agriculture sector, which suffers from low production and productivity, weak infrastructure, limited value-chain development, inadequate access to agricultural research and technology and poor disease and pest control management (GOU, 2020b; World Bank, 2018).

Most of our interviewees noted that public sector investment in the sector is hampered by inadequate financing, given the importance of agriculture to the economy. They also noted that government spending does not always focus on the most efficient areas for boosting returns, with critical public goods often under-funded and the government sometimes crowding out the private sector (World Bank, 2019a).

In addition to these challenges, nearly all of our interviewees raised the issue of weak government capacity for the design and implementation of programmes as a major

obstacle to public investment in the sector. They stated that while there was no shortage of interventions, many of these were delayed by poor design and limited staff capacity for their implementation. Many noted that the government could benefit from greater project prioritisation to avoid over-stretching capacity that is already limited.

The World Bank has also identified the need for better planning, coordination and monitoring of results across public institutions working in the sector (World Bank, 2018). These problems of government capacity are not, however, confined to agriculture, with the International Monetary Fund (IMF) noting chronic under-implementation of key infrastructure projects (IMF, 2019).

Some interviewees also raised governance as a challenge to the sector. Corruption has been a long-standing issue in Uganda (TI, 2013) and has an impact on many sectors. The World Bank has noted that the ‘public sector is over-promising and underdelivering and is not effectively held accountable for poor service delivery and graft’ (World Bank, 2015). While steps have been taken to improve the situation, the president of Uganda noted alarming levels of corruption in 2018 (IMF, 2019).

Rural development and agricultural policies target key crops, regions and vulnerable groups. The agricultural programme within Uganda’s NDP III targets 11 commodities – seven of which have potential for export and income generation and four of which support food security. In addition, the plan’s objective of improving regional development focuses on the left-behind regions identified as having high or rising levels of poverty, including Karamoja, Bukedi, Bugisu, Busoga, West Nile, Acholi, Teso and Bunyoro. Women, youth, people living with HIV/AIDS and those who are food insecure are also viewed as target groups within the national plan for all sectors, with a push to mainstream their inclusion across every programme (GOU, 2020b). Promisingly, Uganda’s agricultural sector strategic plan has a specific budget line to ensure that its implementation targets these groups (GOU, 2014). Some of our respondents, however, were sceptical about the degree to which targeting was implemented in reality.

The vast majority of our interviewees expect the crisis prompted by Covid-19 to reinforce the government's focus on agriculture in the short term. At the time of this research, Uganda had 889 cases of Covid-19 (as of 29 June 2020), with no deaths reported (IMF, 2020). The government had introduced social and economic restrictions in response to the pandemic, which are likely to have dampened domestic economic activity. The global impact of the pandemic has also had an impact on Uganda's foreign direct investment and lowered revenues from both exports and tourism.

Some of our interviewees, however, raised concerns that the economic impact of the crisis could reduce public spending to the sector in the medium term – an expectation supported by the government's initial policy responses. These focused primarily on strengthening the health sector and enhancing social protection but did include some measures to support agriculture production as a way to ensure food security and maintain exports, given that the sector is a vital source of foreign exchange (IMF, 2020).

Financing rural development

Public finance

Public revenues are unable to keep pace with the government's ambitious spending plans. Uganda's public expenditure increased from 18% of GDP in 2014 to 24% in 2019 (World Bank, 2020), as the government embarked on its investment plans to boost economic growth and jobs and prepare for oil extraction (IMF, 2019). Public revenues, while increasing over the same period, still lagged behind public spending,⁸ resulting in a significant and growing fiscal deficit that was projected to stand at 7.2% of GDP in 2019/2020, up from 4.9% in 2015/2016 (IMF, 2019).

Uganda's public spending on agriculture is low, with the government allocating 3.6% of its public expenditure to agriculture in 2018/2019

– a share that was expected to remain the same in 2019/2020. This is far below the government's commitment under the Maputo Declaration to allocate 10% of its public spending to the sector (GOU, 2020a). Historically, Uganda has spent less of its public expenditure on agriculture than the average for the East African Community (EAC).⁹ This low level of funding is not commensurate with the importance of the sector to Uganda's economy (World Bank, 2019a).

The government's budget for agriculture is significantly lower than what is required from the public sector to finance the NDP III's agro-industrialisation plan. The full cost of the programme for the public sector is estimated at UGX6.9 billion (\$1.8 billion) between 2020/2021–2023/2024 (GOU, 2020b), but the medium-term national budget (GOU, 2020a) provides only UGX 4.8 billion (\$1.3 billion) to the agricultural sector. The private sector is expected to cover just under half of the costs of the programme (UGX6.2 billion, or \$1.6 billion).

Donors are expected to cover on average 20% of the government's agricultural budget between 2020/2021 and 2022/2023, a fall from the 30% share they covered in 2018/2019 (GOU, 2020a). Some interviewees noted real concerns that the public budget for agriculture could be reduced in the medium term as a result of the impact of the Covid-19 pandemic on government resources. This would make the financing gap even larger.

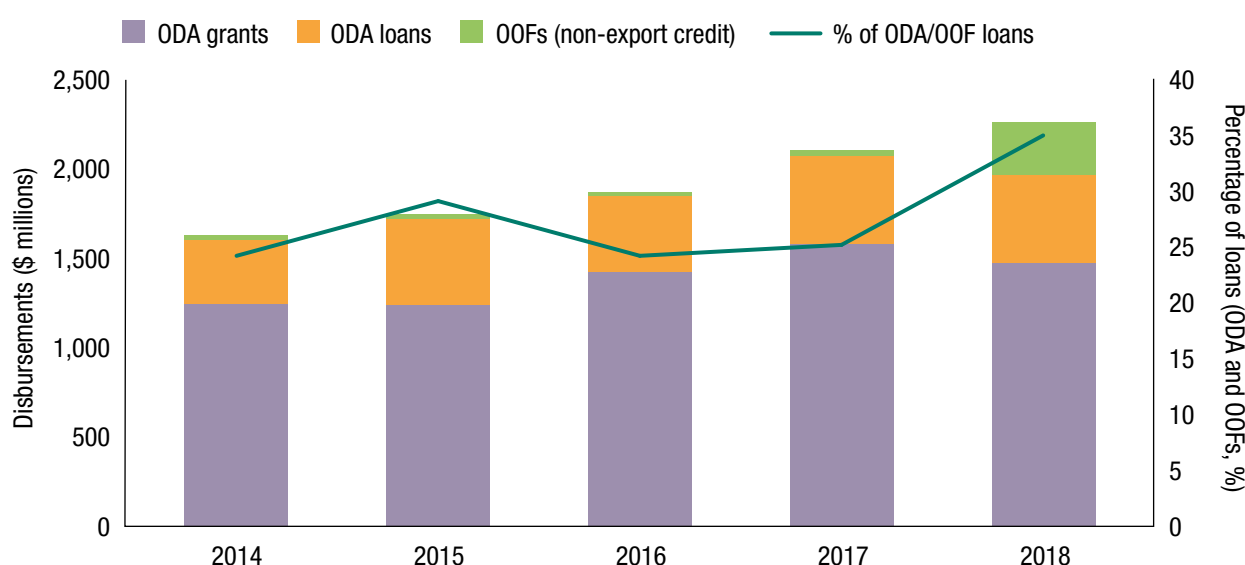
External development assistance

The volume of ODF received by Uganda has risen by over a third, from \$1.6 billion in 2014 to \$2.2 billion in 2018 (constant prices) (see Figure 1). The overwhelming majority of the external official finance received (95% on average) over this period was concessional and came in the form of grants, which accounted for an average of 72% of all ODF. The share of ODF that is non-concessional remains relatively small, but grew from 2% in 2014 to 13% in 2018.

8 Domestic revenues increased from 13% of GDP in 2014 to 17% in 2019 (World Bank, 2020c).

9 The World Bank notes that the 3.6% of public spending allocated by the government, on average, to agriculture between 2013/2014–2015/2016 is only one-third of that allocated by Burundi (9.7%) and about two-thirds of that allocated by Rwanda (5.3%) and Kenya (5.7%) over the same period.

Figure 1 Official development finance to Uganda across all sectors



Note: constant 2018 prices. ODA, official development assistance; ODF, official development finance; OOF, other official flow. Source: OECD (2020)

The largest providers of overall ODF between 2014 and 2018 were (in order of volume) the United States, the World Bank’s IDA, the United Kingdom and the ADB. The ADB and the Islamic Development Bank (IsDB) are the two largest providers of non-concessional finance to Uganda. The ADB provided non-concessional finance primarily for infrastructure projects (road, energy), but also for projects in the agriculture sector, following changes to the bank’s lending policy in 2011 that allow for greater flexibility to provide non-concessional lending under certain criteria to LICs that are at low risk of debt distress (ADB, 2011). The IsDB, meanwhile, provided non-concessional finance for financial credit.

It should be noted that these ODF figures do not reflect the country’s full access to concessional and non-concessional external finance as they do not account for official financing from China’s Export-Import Bank (EXIM). According to the IMF (based on the Government of Uganda’s own statistics), this accounts for 25% of Uganda’s external loan portfolio and 75% of Uganda’s non-concessional borrowing (termed semi-concessional by the IMF). Lending from the EXIM Bank has financed the building of the Karuma and Isimba dams, as well as the Kampala–Entebbe Expressway (IMF, 2019).

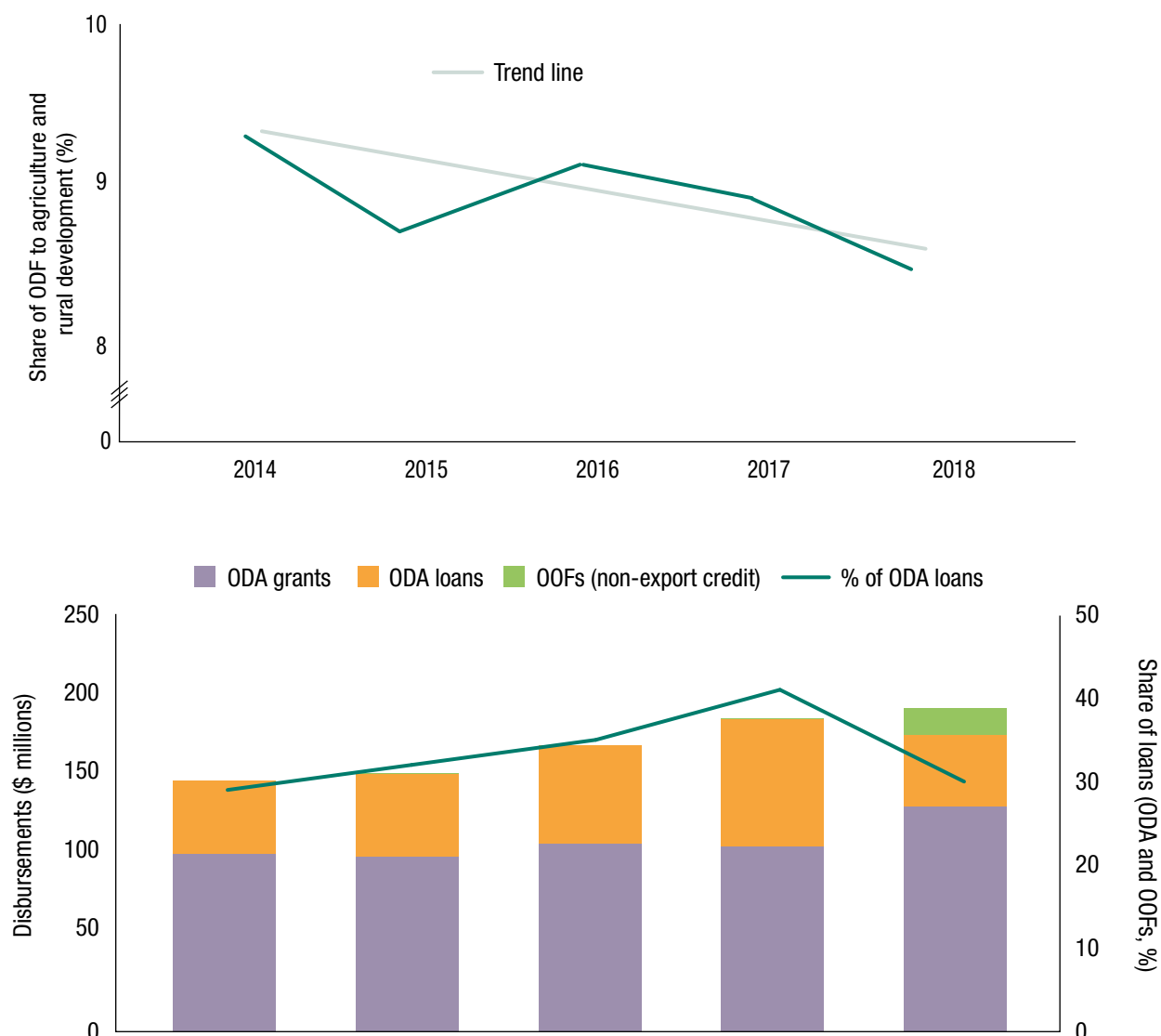
Uganda’s aid dependency is rising. ODA accounted for 7.1% of gross national income in 2018, up from 6.1% in 2014, but still below the 10% threshold that is considered to signal aid dependency by the OECD (OECD, 2003). In 2017, the volume of ODA Uganda received was equivalent to 58% of government expenditure (World Bank, 2020c). This high and increasing trend in recent years reflects Uganda’s large public investment drive for major infrastructure projects that are funded, in part, by external resources.

The share of ODF received by Uganda for agriculture and rural development is high: amounting to 8.5% in 2018, or \$194 million (Figure 2). This is above the global average, which stands at 5%, and reflects the importance of the sector for national development. While the share has declined marginally from 9.3% in 2014, the volume has increased as the overall ODF envelope has expanded.

The vast majority of ODF to agriculture and rural development is in the form of concessional finance (ODA), with grants accounting for 66% of ODF to agriculture and rural development on average between 2014 and 2018. This is, however, slightly lower than the grant average for ODF to all sectors.

The main providers of ODF to agriculture and rural development between 2014 and 2018 were (in order of total volume) the United States,

Figure 2 Share and composition of official development finance to agriculture and rural development



Note: ODA, official development assistance; ODF, official development finance; OOF, other official flow.
Source: OECD (2020)

the World Bank and the ADF. Non-concessional finance has been limited, but rose steeply to account for 8% of all ODF to the sector in 2018. This was due to an exceptional non-concessional loan from the ADB for farm income enhancement and trade improvement projects.

The government expects an increase in external financing between 2018/2019 and 2023/2024 to support its ambitious national development plans (GOU, 2020b). External financing is projected to increase from 3.2% of GDP in 2018/2019 to 3.6% in 2023/2024 with a peak of 5% in 2020/2021. While the government expects the majority of external

finance over this period to be concessional, non-concessional finance is projected to more than double, from 1.2% of GDP in 2018/2019 to 2.9% in 2023/2024 and to account for most of the external financing the government will receive in 2023/2024 (GOU, 2020b). It should be noted that the government characterises non-concessional finance as being loans with a minimum grant element of 25% (GOU, 2018d).

According to the IMF (based on the government's own data), the vast majority of external finance to the government between 2020/2021 and 2023/2024 will support work and transport, followed by energy and

mineral development, and then water and the environment projects (IMF, 2020). The IMF's calculations do not specify the concessional nature of external finance. Funding for agriculture is, it seems, a relatively low priority for future external finance.

At the same time, however, most of our interviewees and survey respondents also expect increased government demand for external finance for agriculture and rural development over the next five to 10 years, particularly in light of the negative economic impact of the Covid-19 pandemic. Respondents noted that the strongest demand is expected to be for concessional loans, followed by grants. There was less agreement amongst respondents on whether there would be demand for less concessional loans, and they expected only limited government demand for commercial loans to the sector. This reflects Uganda's extremely limited use of external commercial loans for any sector to date (World Bank, 2020b).

The government is perceived to value external assistance for the access it provides to below market-rate finance, with most of our interviewees (government officials and development partners) noting that external assistance provided the government with access to cheap resources. However, they had mixed opinions over whether the government placed an equal value on the policy advice that can accompany external assistance. Many noted that this was also highly appreciated, but others raised the government's past concerns around the tied nature of some donors' technical assistance and the perception that such assistance was sometimes expensive and not always pertinent. These past experiences had led to some wariness on the part of the government about the policy advice that can accompany technical assistance from development partners.

Borrowing for rural development

Debt trends and composition

Uganda is classified as being at low risk of debt distress (IMF, 2019). The country remains comfortably below the 70% debt-to-GDP thresholds set by the World Bank and IMF, despite

some deterioration in recent years. General government debt increased from 31% of GDP in 2014 to 44% in 2019 (World Bank, 2020c) as the government has ramped up borrowing for public investments in infrastructure to support broad-based growth and to prepare for oil exports. This includes a significant proportion of borrowing from China, through its EXIM Bank, which has, as noted earlier, accounted for 75% of Uganda's total non-concessional financing since 2015/2016 (IMF, 2019).

Uganda's low-risk assessment by the IMF and the World Bank is, however, based on several assumptions: that the government's extensive public investment in infrastructure will support growth in the near future; that revenue collections will increase in line with national plans; that oil exports will start in 2023; and that public investments will reduce in the near term. The IMF notes that the uncertainty around oil exports is one of the most significant risks to Uganda's debt sustainability, both in terms of the amount of revenue the exports could produce and the effective use of these revenues by the government (IMF, 2019).

Two-thirds of Uganda's public debt is external, with the other third resulting from domestic debt (predominantly from Treasury bonds) (World Bank, 2020b). Multilateral concessional borrowing still makes up the majority of external public debt for Uganda, but its share has decreased over time from 85% in 2014 to 62% in 2018 (ibid.).

In contrast, non-concessional bilateral borrowing has increased over this period, from 11% in 2014 to 31% in 2018 (ibid.). Much of this increase is the result of the non-concessional borrowing from China's EXIM Bank for the three key infrastructure projects mentioned earlier: the Karuma and Isimba dams, and the Kampala–Entebbe Expressway (IMF, 2019).

Uganda did not take out any commercial loans until 2018 (World Bank, 2020b). These included loans for buyers' credit for electricity equipment provided by the China EXIM Bank and the Japan Bank for International Cooperation, and loans from other commercial actors for the Inland Port at Bukasa and for Kabaale International Airport (IMF, 2019).

Table 1 Uganda's debt sustainability and risk benchmarks

Benchmarks	Benchmark value (%)	Value at June 2018 (%)
Present value of external debt stock to GDP	<30	17.6
Present value of domestic debt stock to GDP	<20	13.3
Present value of government debt stock to GDP	<50	30.9
Total domestic debt interest payments as a share of total revenues (excluding grants)	<12.5	13.3
Total domestic debt interest payments as a share of total expenditure	<10	9.6
Foreign currency-denominated debt as a share of total debt	<80	67.9

Source: GOU (2018d)

Policies and preferences for borrowing and debt management

Uganda has a set of detailed laws and policies in place to manage public debt, and these follow international best practices. At its foundation is the 1995 Constitution, which requires all borrowing by the government to be approved by Parliament, enabling an important oversight mechanism.¹⁰ Uganda also has its Public Financial Management Act (2015), which sets out the roles and responsibilities for debt management. Its public debt management framework (GOU, 2018b) and charter for fiscal responsibility (GOU, 2017) contain key thresholds for the management of public debt. Finally, Uganda's medium-term debt management strategy (GOU, 2018c) operationalises the framework over a fixed budget period.

Key benchmarks are in place for debt management to keep debt at a sustainable level (Table 1). The government has set a benchmark whereby the net present value of government debt must not exceed 50% of GDP, in line with the EAC Monetary Union Protocol. Other benchmarks exist for domestic and external debt, including the share of domestic debt service interest payments to total revenues and expenditure, and the share of foreign currency borrowing. The fiscal charter also includes a limit on the fiscal deficit of 3% by 2020/2021.

Nearly all of the benchmarks were being adhered to as of June 2018 (GOU, 2018b). However, many are being approached or were projected to be broken in the near future, even

before the Covid-19 crisis. For example, the benchmark to maintain domestic debt at 10% of total government expenditure is close to being broken, with a current rate of 9.6%, and the IMF projects that borrowing will surpass 50% of GDP in 2021/2022 (IMF, 2019).

Non-concessional finance is prioritised for productive sectors that deliver clear economic returns. The government's debt management policy highlights a clear preference for concessional borrowing in the pursuit of external financing and allows the use of non-concessional finance for productive services only. The policy notes, for example, that social service projects will only be financed on concessional terms (GOU, 2018d).

Non-concessional loans (which must include a grant element of at least 25%) are only intended for projects where the economic rate of return is greater than the interest rate, with the primary focus on productive services. This should, in theory, include the agriculture sector. To date, however, most of Uganda's non-concessional borrowing has been for transport and energy projects. Highly non-concessional loans (such as Eurobonds) and commercial loans are only an option if they produce a higher economic rate of return than the interest rate and generate sufficient financial returns to repay the loan within five years.

Most of our interviewees and survey respondents expect the government to consider borrowing only on highly concessional terms for most areas within agriculture and rural development. Only a few expected the government

10 Other important laws include the Treasury Bills Act (1969), Bank of Uganda Act (2000) and the Local Government Act (1997).

to be willing to borrow on less concessional terms and, if so, only for agriculture value-chain development and rural basic infrastructure, which can generate economic returns.

Our research revealed a clear government preference for loans that have low interest rates and long maturities – a reflection of the government’s preference for concessional finance. The public debt management framework specifies that, where possible, the government should try to get fixed interest rates (GOU, 2018d). Another characteristic that was seen as important to the government was the presence of a grant element to accompany the loan, reflecting the government’s high threshold for non-concessional lending, which requires a grants element of at least 25%. The size of the programme was also deemed important, and this is in line with the government’s policy that no external borrowing can be undertaken for projects below \$10 million.

Preferences and instruments for rural development

Uganda’s aid management policy is based on international development effectiveness principles. The country has been an active participant in the Global Partnership for Effective Development Co-operation (GPEDC) and its partnership policy (GOU, 2013) is centred on the international development effectiveness principles at the heart of the GPEDC. The policy has a strong focus on driving external assistance to deliver outcomes and long-term impact. It also emphasises the importance of external assistance that is founded on dialogue, aligned to national priorities, mutually accountable and channelled through government systems.

The government also has a strong preference for external assistance that is aligned to national priorities, flexible, long term and durable. Most of our interviewees and survey respondents identified these priorities for external assistance, which are very similar to those set out in the 2013 Partnership Policy. However, according to the OECD and the United Nation’s *2019 Global Monitoring Report* on development effectiveness, development partners were aligned to Uganda’s priorities only to an extent (56%) – below the average for LDCs (OECD and UNDP, 2019). The

OECD and UN also noted that the predictability of donor support in the medium term – the ability to have forward-looking data on funding flows for the next three years or more – was low, with only a quarter of cooperation provided in this way.

Our survey respondents indicated a strong preference for three different types of instruments: first, multi-phase programming to enable projects to go to scale and ensure durability; second, project preparation facilities to support project implementation, particularly as this is an issue, with projects often delayed; and third, results-based lending to help the government focus on clear outcomes. Finally, some interviewees noted a demand for instruments that support private sector interventions, including public–private partnerships but also direct financing to the private sector.

Conclusions

Our analysis of the experience and perspective of Uganda on financing public investment for inclusive and sustainable rural development, and particularly its demand for external assistance, is summarised as follows.

- Rural development and agriculture are high priorities within Uganda’s national development plan. This prioritisation is driven by the current importance of the agricultural sector to the economy and its significant potential to contribute to future economic growth. Our interviewees and survey respondents expect rural basic infrastructure and agricultural value chain development to be the top priorities for government public investment over the next five to 10 years.
- Despite being a high policy priority for the government, the agricultural sector receives a low level of public investment and the government’s medium-term spending plans indicate that future public funding for the sector will be below what is required to finance the national plan for agriculture.
- The government receives a relatively high share of official development finance for rural development and agriculture, compared to the global average. Most of the

financing received for the sector between 2014 and 2018 came in the form of grants, and non-concessional finance has been limited.

- The government expects an increase in overall non-concessional finance across all sectors to the country in the coming years as the economy grows. However, our interviewees and survey respondents had mixed opinions on whether the government is likely to demand more non-concessional finance for rural development and agriculture in the future, with most expecting demand to centre around concessional loans and grants only.
- Uganda's debt policy requires non-concessional lending to be used solely to support productive sectors that deliver economic returns. In theory, this makes it possible for the government to borrow at non-concessional terms for the agriculture sector. However, most of the government's non-concessional borrowing to date has been allocated to highly visible transport and energy projects outside the sector – a trend that most respondents expect to continue.
- The government's preference is for external development assistance that is aligned to national priorities, flexible, long term and durable.

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Annex 1 List of interviewees

Name	Institution
Ivan Asiimwe	Uganda Cooperative Alliance (UCA)
Josephat Byaruhanga	Netherlands Embassy
Gabriel Ddamulira	National Agricultural Research Organisation (NARO)
Martin Fowler	United States Agency for International Development (USAID)
Robert Kaukha	Ministry of Agriculture, Animal Industry and Fisheries (MAAIF)
Lakshmi Moola	International Fund for Agricultural Development (IFAD)
Pamela Nyamutoka	International Institute of Rural Reconstruction (IIRR)
Moses Ogwapus	Ministry of Finance, Planning and Economic Development
Joseph Oryokot	World Bank
Peter Engbo Rasmussen	African Development Bank (ADB)
Maris Wanyera	Ministry of Finance, Planning and Economic Development

Acknowledgements

This country case study on Uganda is part of a project that aims to map future demand from recipient country governments for external development assistance from official donors to support public investment in inclusive and sustainable rural development over the next five to 10 years. It also aims to explore the financial and non-financial terms and conditions of this assistance. Its analysis of this note is also included in the synthesis report for this project (Prizzon et al., 2020), which reviews the experiences of 20 low- and middle-income countries.

We are grateful to the interviewees who gave up their time to take part in this project, share their insights and provide feedback to this country case study, particularly during the challenging times of spring 2020. Their contributions were vital to corroborate and challenge our initial analysis.

We acknowledge the generous financial contribution from the International Fund for Agricultural Development (IFAD). We would like to thank Lakshmi Moola for her support in the preparation of this country case study.

We have taken care to validate the information included in this case study and any omissions, errors or misreporting are unintentional and the author's own. The views expressed in this study do not represent those of ODI or IFAD.

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