# Uganda Economic Update

**Sixth Edition, August 2015**

# Searching for the "Grail": Can Uganda's Land Support its Prosperity Drive?

**World Bank**

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# Abbreviations and Acronyms

| | |
|---|---|
| BoU | Bank of Uganda |
| BOP | Balance of Payments |
| BRT | Bus Rapid Transport |
| CBR | Central Bank Rate |
| CEDP | Competiveness and Enterprise Development Project |
| CLAs | Community Land Associations |
| DSA | Debt Sustainability Analysis |
| EAC | East African Community |
| EU | European Union |
| FDI | Foreign Direct Investment |
| DRC | Democratic Republic of Congo |
| GDP | Gross Domestic Product |
| HIPC | Highly Indebted Poor Countries |
| ICT | Information and Communications Technology |
| IDP | Internally Displaced People |
| IFC | International Finance Corporation |
| IFPRI | International Food Policy Research Institute |
| IMF | International Monetary Fund |
| KIIP | Kampala Institutional and Infrastructure Project |
| LIBOR | London Interbank Offered Rate |
| MDRI | Multilateral Debt Relief Initiative |
| MFPED | Ministry of Finance, Planning and |
| NDP | National Development Plan |
| NLP | National Land Policy |
| NEER | Nominal Effective Exchange Rate |
| ODA | Official Development Assistance |
| OECD | Organization of Economic Cooperation and Development |
| PIMS | Public Investment Management System |
| REER | Real Effective Exchange Rate |
| SMEs | Small and Medium-sized Enterprises |
| SSA | Sub-Saharan Africa |
| SSATP | Sub-Saharan Africa Transport Policy Program |
| UEU | Uganda Economic Update |
| UNHS | Uganda National Household Survey |
| UGX | Uganda Shillings |
| USA | United States of America |
| URA | Uganda Revenue Authority |
| USMID | Uganda Support to Municipal Infrastructure Development |
| UWA | Uganda Wildlife Authority |
| VAT | Value Added Tax |
| WB | World Bank |
| WDI | World Development Indicators |

| | | |
|---|---|---|
| | Economic Development | |
| MoLG | Ministry of Local Government Economic Development | |

## Foreword

I am pleased to introduce the sixth edition of the Uganda Economic Update series. Following the structure of earlier editions, the Economic Update discusses recent macroeconomic developments, as well as a special topic – "Can Uganda's land support its prosperity drive?"

Over the past year, Uganda has managed to grow above five percent continuing the modest recovery started the previous year. This benefitted from a stable macro environment characterized by low inflation and modest interest rates, and from favorable weather. The authorities continue to pursue an ambitious public investment program meant to remove the country's long standing deficiencies in physical infrastructure and to prepare the country to start the extraction of long-awaited oil. The near term growth is glazed with many uncertainties, including from the external shocks and from uncertainties and speculation related to upcoming national elections. Indeed, the country's currency has recently depreciated heavily, helping the economy to adjust to the shocks, but also generating inflationary pressures that have to be managed. Beyond 2016, the economic strategy promises to lay the foundation for an acceleration of economic growth in the medium term, to help Uganda to reach middle-income status over the next decade. However, the Government will have to implement its ambitious investment program and raise more domestic revenues to ensure debt and fiscal sustainability, and to avoid crowding out the domestic private investment.

From a longer term perspective of growth, the Uganda's economic performance has been less stellar, compared to what the country was able to achieve in the 1990s and early 2000. In spite of the adverse impact of the successive exogenous shocks, the deceleration in the rate of Uganda's economic growth can primarily be explained by the failure to achieve productivity improvements that sustain long term growth. These improvements would drive long-term growth and make the country more resilient to exogenous shocks. The country is already making the right choices to address the key binding constraints in infrastructure and to build human capital. Alongside this, another fundamental factor of production that must be managed appropriately to raise productivity and promote shared prosperity is land.

Land is a finite asset and as population increases, land becomes scarcer and density increases. Yet, as demonstrated by many of the prospering countries around the world, land can be managed appropriately to generate rapid and sustainable growth, even in the context of high population densities. Good management of land use is fundamental to the processes of agricultural transformation and urbanization which two processes enable the country to raise its level of productivity

Making land in Uganda a more productive asset can be a big challenge. The vested interests, suspicion, and fear of disruption to livelihoods, sensitivities related to the location of investment projects and the resulting perverse incentives to local governments, can all fuel activism against any form of land reforms. But the land disputes and conflicts seen today are some of the indicators of the need for a better process. Ugandan policy makers must therefore formulate and implement smart policies to ensure that land serves as a more productive asset that facilitates positive economic transformation and diversification. These policies should aim to: (i) promote the security of land tenure and reduce the rate of occurrence of conflicts and disputes caused by overlapping rights; (ii) promote the healthy development of rental markets for land; and (iii) strengthen the capacities of institutions responsible for management of land administration.

I hope that this update is useful and will inform the debate and agenda for this important aspect of Uganda's development.

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# Key Messages

Over the past twenty years, Uganda's population density has been increasing rapidly, placing significant pressure on the use of land. Uganda now has a population density of 194 persons per square kilometer of arable land, compared to 80 in Kenya and 116 in Ghana. At present, the majority of Uganda's population still lives in rural areas, where the main source of livelihood is agriculture. However, the proportion of the population living in urban areas has increased significantly and will continue to increase into the future, with urban centers being the main driver of economic growth and transformation into higher value added activities. The highest rates of growth in population density are recorded in Uganda's central region.

If appropriately managed through the implementation of systems to promote efficient land use, increasing population density can actually support accelerated economic growth. However, in Uganda, despite the increasing population density, it has remained difficult to facilitate the transformation of land use to enable the achievement of higher levels of productivity. One of the main causes of this is the difficulties involved in transferring ownership of land from one entity to another. On the one hand, the Government has failed to address the issue of overlapping and conflicting land rights mainly in the central region and the lack of effective institutions capable of managing land transactions. On the other hand, land markets are either weak, non-existent, or do not facilitate the transfer of land at the appropriate price.

With these failures, land is failing to optimally support the transformation process in both rural and urban areas. Land transactions are often highly speculative, especially in urban areas and in areas with significant public infrastructure developments. In the rural areas, a large proportion of land transfers involve exploitative transactions, due to lack of information or unequal power relations between buyers and sellers, especially in post-conflict regions and in regions with significant oil or other mineral resources. Land rental markets have failed to develop in a healthy and constructive fashion due to tensions between landlords and tenants arising from overlapping rights and conflicting interests, especially on *mailo* land. All these factors have contributed to an increase in the rate of occurrence of conflicts and disputes. The result has been increased difficulty in transferring land from one owner to another or from one type of economic activity to another.

It is essential that Uganda changes the manner in which it manages its land if the majority of its population is to achieve a higher level of prosperity through the healthy transformation of the agricultural sector and a shift towards higher value, more productive economic activities more generally. In addition, more efficient land use will drive equitable economic growth, with the process of urbanization resulting in functionality in the form of descent housing for urban dwellers; connectivity without congestion; and an improvement in the quality of infrastructure. Development experiences across the world, especially in countries with significant densely populated areas, such as China and India, indicate that when land rights became secure and more readily transferable, more flexible land use opened the gateway to positive economic transformation. More generally, transformation of land use is a key characteristic of economic transformation, with a trend towards an increasing proportion of the land being used for higher productivity activities and towards an increasing proportion of the labor force moving away from low productivity activities in subsistence agriculture. Within rural areas, economic activity would remain fairly widely distributed, with productivity differences determined by soil fertility, climate and access to technology and market infrastructure. In urban areas, the level of economic development is determined by the extent to which land is adaptable to changing market demand. In this context, Uganda can learn from global patterns of development.

Through the formulation and implementation of smart policies, Uganda can ensure that its land serves as a more productive asset that facilitates positive transformation and a diversification of the economic base. The achievement of these goals will require a comprehensive set of actions that will promote security of land tenure and reduce the rate of occurrence of conflicts and disputes caused by overlapping rights; promote the healthy development of rental markets for land; and strengthen the capacities of institutions responsible for the management of land administration. Failure to unlock the potential of land may result in a deceleration of growth and lack of progress towards prosperity as a result of a failure to facilitate the transformation of the economy towards higher value, more productive economic activities both within agriculture and outside.. In addition, rather than driving equitable economic growth, the process of urbanization will result in dysfunctionality in the form of the proliferation of slums; increased congestion; and a deterioration in the quality of, or a failure to develop, infrastructure due to an escalation in the costs of construction and payment of compensation. Implementation of relevant up to date laws and policies has to be accelerated to make land in Uganda genuinely secure, transferable, marketable and supportive of economic development.

### Part 1: State of the Economy

Since the national elections (including presidential and parliamentary) of 2011, the Ugandan economy has recovered to a significant extent, but has not been able to come close to realizing the high levels of growth that it had recorded over recent decades. During FY 2014/15, the Ugandan economy grew at the rate of five percent per annum, with this growth driven by an acceleration in public and private investments. During this year, the value of public investments reached the equivalent of 6.3 percent of GDP. While this was lower than the targeted level of 8.6 percent of GDP-, it was 0.7 percentage points higher than the figure of 5.6 percent recorded in FY 2013/14. The total value of private investments also increased significantly during FY 2014/15, largely due to the increased availability of credit. This also compensated for the declining contribution of net exports resulting from a combination of lower regional demand for Uganda's produce and the high level of demand for imports to support construction. However, for the fifth consecutive year, Uganda's overall rate of growth remained below that achieved by Tanzania, Kenya and Rwanda.

While the services sector continues to contribute the largest proportion to overall GDP growth, the recent recovery of the manufacturing and agriculture sectors was nonetheless impressive. The services sector grew at a rate of 4.6 percent, with the financial and insurance services sub-sector being the most significant contributor to this growth. Starting from a low base, the industrial sector made only a minimal contribution to overall GDP, despite the fact that it recorded an impressive rate of growth of 6.4 percent. This growth was supported by the strong recovery of the manufacturing sub-sector, following its contraction three years ago, when it was affected by power shortages and higher electricity prices; financing constraints resulting from tight liquidity; and decreases in demand from global markets. The rate of growth of the agricultural sector stood at 4.4 percent in FY 2014/15, significantly higher than the figure of 1.5 percent recorded in the previous year, driven by strong recovery of cash crops and fish exports. Construction did not achieve the expected levels of performance, with this sector's rate of growth declining to 2.0 percent, from 5.7 percent in FY 2013/14, and from 10 percent in FY 2012/13.

The low rate of inflation and neutral monetary policy made a positive contribution on economic activity during FY 2014/15. The rate of inflation averaged 2.4 percent during FY 2014/15, with this low rate partially resulting from increased domestic supply and reduced external shocks throughout most of the year. Food inflation was negative for most of the year, with agriculture output increasing as a result of good weather. Non-food inflation was also subdued on account of the decline in the cost of imports, particularly due to the decline in the global cost of oil, even though the spillover effect on domestic prices occurred only gradually. In response to the low rate of inflation, the Central Bank implemented a neutral monetary policy throughout most of the year. This resulted in an increase in the availability of credit to private sector, with the total value of this credit growing at an average rate of 15 percent per annum for the 10 months of FY 2014/15, compared to eight percent in the same period during FY 2013/14.

However, the positive contribution to growth is likely to be negated as inflationary pressures increase and policy is tightened. Since April 2015, inflationary pressures have increased, with the most significant factor being the fast depreciation of the exchange rate. The Central Bank's response was to raise its policy rate aggressively to the level of 16 percent per annum by August 2015 and to impede access to funds by commercial banks by increasing the margin between the Central Bank Rate and rediscount rate from three to four percentage points. This measure triggered an increase in interest rates on lending, which together with the strong growth of government borrowing, may curtail further growth in private sector credit.

The external position weakened due to the combined impact of a deterioration in the values of flows into the current and financial accounts during the FY 2014/15. While the value of exports to regional markets grew at a slower rate than in previous years due to the decline in demand from South Sudan, the total value of all exports of goods increased by 3.1 percent, mainly as a result of a growth in the value of non-traditional exports, including metal and plastic products, bottled water, and rice. The traditional export commodities, such as coffee and tea, which still accounted for 30 percent of the total value of exported goods, did not perform well due to weak global demand resulting from the incomplete recovery in the global economy. However, with the total value of imports of merchandise goods declining to the equivalent of 18.4 percent of GDP, the trade balance improved to a value equivalent to 5.7 percent of GDP. The modest improvement to the trade account was more than fully offset by increases in net outflows for services and income and the decline in the value of transfers, all of which contributed to an increased deficit on the current account, from a value equivalent to 7.9 percent of GDP in FY 2013/14 to 8.8 percent in FY 2014/15.

In the same period, the financial account deteriorated due to a decline in the value of foreign direct investment of 3.2 percent to US$ 1,186 million. Reserves declined too. In response to the weaker external position, the local currency has steadily depreciated in value since January 2014. Thus, in FY 2014/15, the value of the shilling declined by 24 percent relative to the dollar, and by 17 percent in real terms. The depreciation continued into the first two months of FY 2015/16, with the exchange rate standing at Shs 3500 to the dollar, which means that the currency has lost 35 percent of its value since August 2014. The shilling also suffered due to increases in the value of the US dollar as the American economy strengthened and due to the uncertainties and speculative tendencies in anticipation of the forthcoming election activities.

In FY 2014/15, the collection of domestic revenues was slightly above target, easing pressure on fiscal operations. However, for the third consecutive year, the under-execution of the budget continued to undermine fiscal objectives. The Government estimated that during FY 2014/15, it had collected tax revenue to a value equivalent to 12.8 percent of GDP, which is slightly above the target of 12.7 percent for the year. In particular, good performance was recorded in the area of the collection of corporate and withholding taxes, which are direct domestic taxes. The Government's total expenditures were lower than the budgeted target by the equivalent of 2.1 percentage points of GDP. A major factor in this was the slow progress in the construction of the Karuma dam, which accounted for 25 percent of the approved development budget (excluding donor projects), with negotiations for more than 80 percent of funding for the project not reaching a conclusion during the year. Consequently, the fiscal deficit reached a level equivalent to 4.5 percent of GDP, almost two percentage points lower than planned, but with more than 75 percent being financed through domestic borrowing.

Establishment of supplementary budgets undermined the credibility of the budget in the past. However, during FY 2014/15, this instrument was mainly used to reallocate resources saved during a clean-up of the government pay and pension system to ensure the validity of the government payroll. The savings from this clean-up exercise enabled the Government to establish a supplementary budget amounting to a value of Shs 1,122.4 billion, and equivalent to about seven percent of the total value of the approved budget. The bulk of this supplementary budget was indeed a reallocation to pay pensions and gratuity arrears and to outstanding wages after the payroll clean-up.

Uganda's economic outlook continues to be characterized by a high level of uncertainty in the context of the upcoming elections in 2016 and with the pressure on the local currency that may be exacerbated by the devaluation of the Chinese currency in August. With little room to increase its level of revenue collection to offset increased expenditure, which is expected to increase beyond the 2010-11 levels, the authorities will have to overcome constraints to the management of public investments to ensure that the expansive fiscal policy adopted for FY 2015/16 stimulates growth rather than contributing to instability.

The World Bank forecasts that during FY 2015/16, the Ugandan economy will grow at a rate between five and 5.5 percent, with uncertainties created by the upcoming elections; the need to tighten monetary policy in response to increasing inflationary pressures; and a weak external position acting as possible constraints on the growth momentum. The ongoing recovery will depend heavily on the achievement of macro-stability, with the most significant factor being the achievement of a lower, less volatile rate of inflation. With the increase in inflationary pressures recently, the tightening of monetary policy may inevitably need to be intensified, possibly resulting in a higher cost of credit and a decrease in the availability of credit to the private sector. Under these circumstances, fiscal policy will remain critical to attaining the growth forecast. With the bulk of the increase in expenditure during the year intended to finance huge investment projects that have been shifted from one year to the next over the past three years, both the conclusion of financing arrangements for these projects and their accelerated implementation will be critically important.

Looking to the medium term future, investments intended to address constraints on growth, particularly constraints related to energy supply and transport infrastructure, should revive private investments; boost agricultural production; and energize the light manufacturing sector. The new oil economy will dramatically change Uganda's economic outlook, enabling significantly increased investment in productive infrastructure. In future years, when production facilities become active, actual oil revenues could double the value of the country's current level of fiscal revenues. The experience of other countries shows that the oil development preparation phase is often characterized by a high level of foreign investment that significantly impact economic performance, at least in the regions implementing those investments. This is another area where the implementation of the Public Finance Management Act 2015 will play a critically important role in developing institutions that ensure transparency and the prudent management of revenue to facilitate the optimal utilization of the country's oil resources. The increase in expenditure required to finance investment in infrastructure will result in an expansion of the fiscal deficit, which is expected to decline by about 2020.

The downside risks are significant, particularly in the area of fiscal management. Closely related to pressures resulting from the elections, parliament has been considering to create new administrative units including sub-counties, municipalities, and districts. In addition, poor performance in the area of domestic revenue mobilization; and the uncertainty regarding the date of commencement of oil production and the subsequent flow of revenues, there is a considerable degree of risk associated with the financing of investments in the country. These are exacerbated by a failure to release, sequence and plan infrastructure investments in accordance with absorptive capacity and the availability of financing. Furthermore, a more expansionary fiscal policy will also result in higher levels of debt, the sustainability of which largely depends on whether the public investment program generates a strong private sector response that in turn results in increased growth and increased domestic revenues. Without this response, increasing deficits may increase the cost of borrowing for the private sector and increase the build-up of debt, exacerbating debt financing risk.

In addition to these internal risks, Uganda faces a number of exogenous risks. While low oil prices are beneficial to Uganda's balance of trade, it has increased the risk to investment plans in the oil sector. If oil prices take longer to recover from the current levels of US $ 40 per barrel, compared to the estimated break-even price of US $ 60 per barrel for its production in Uganda, it may even require different choices with respect to the phasing of refinery and pipeline investments. A prolonged low economic activity in China will make Uganda's imports from there cheaper, but its impact on global demand could increase volatility in global commodity prices, including oil prices, which may further reduce the value of the country's exports; exacerbate pressure on the currency; and increase inflationary pressures. All of these factors may contribute to a slowdown in economic growth. The country's trade prospects are also influenced by the security situation in neighboring countries, Burundi, the Democratic Republic of Congo (DRC), and South Sudan, although the recently signed peace accord between Government of South Sudan and the rebel factions, may reduce the threat of conflict in that part of the region.

Beyond these risks, Uganda's growth and development is constrained by the low levels of productivity of both agricultural and non-agricultural sectors; inappropriate urban development; the slow development of infrastructure; and the limited availability of credit. This type of growth can neither shield the economy from shocks nor accelerate its rate of economic growth to higher levels of prosperity. Secure property rights and better functioning land markets can generate productivity improvements in agriculture, allow better urban development and overall infrastructure investments, while improving access to finance. The second section of this update addresses these issues in greater detail.

## Part 2: Proper land administration and management: A Key to productivity improvements, but how should it be done?

Failure to register a greater proportion of Uganda's land and the weak institutional capacities of land administration agencies have resulted in illiquid land markets and have acted as constraints on the development of the country's financial systems, both of which factors are negatively affecting the country's ability to transform its agricultural sector; to build efficient cities; and to achieve higher levels of productivity more generally.

As can be seen from the experience of other countries, the ability of Uganda to leverage land use to promote positive economic development will depend greatly on the level of security of land tenure and the ease with which land rights can be transferred between different entities, including individuals, households and firms and government, with systems in place to ensure that government acquisitions are conducted in the public interest and with fair and full compensation. At present, approximately 20 percent of Uganda's land is registered as *mailo*, freehold and leasehold tenure, which is higher than the average level of 10 percent for Sub-Saharan Africa as a whole. Despite these better than average figures, security of land tenure in Uganda remains weak due to unclear property rights and a high rate of occurrence of disputes and conflicts. A relatively small proportion of land in Uganda is marketable, which limits the flexibility of its usage. Even where they exist, land markets are highly segmented and inefficient. According to the Uganda National Household Survey of 2005/06, while approximately 60 percent of households own land, only 39 percent of individually-owned rural land was purchased. Because of the lack of clearly defined land rights, 37 percent of such land cannot be sold; 34 percent cannot be rented; and 44 percent of land cannot be used as security for a loan.

With this state of affairs, both rural and urban transformation has been constrained. Land disputes are estimated to reduce the level of agricultural growth in Uganda by between 5 and 11 percentage points, with the availability of secure land being a significant factor in farmers' decisions to move from subsistence into commercial agriculture. On the other hand, the limited fluidity of land markets, compounded by the lack of sufficient land for formal development projects and the lack of enabling site and building standards, has contributed to the low economic density of most urban centers in Uganda. At present, such centers are characterized by inefficient horizontal expansion, rather than more efficient vertical expansion achieved through the construction of high-rise, multipurpose buildings. Moreover, urban authorities do not have access to the land required for the necessary public works and social infrastructure and have to purchase it at exorbitant cost. This is a result of the high compensation rates involved in the acquisition of such land due to highly inflated land prices caused by the lack of available alternative investment opportunities and the need in many cases to pay compensation not only to registered land owners, but also to *bona fide* occupants. The government's infrastructure program has also faced major challenges related to compensation and inflated costs on account of irregular transactions and land acquisition.

Ugandan policy makers must formulate and implement smart policies that will ensure that land serves as a more productive asset that facilitates positive transformation and a diversification of the economic base. These policies should aim to: (i) promote the security of land tenure and reduce the rate of occurrence of conflicts and disputes caused by overlapping rights; (ii) promote the healthy development of rental markets for land; and (iii) strengthen the capacities of institutions responsible for management of land administration. Economically, such reforms would promote the development of a virtuous circle, as they would facilitate the achievement of higher levels of productivity, which in turn would enable the Government to increase the value of collected revenues, which in turn would provide it with the means to acquire additional land to promote further development and to compensate those who may have been negatively impacted by the process of economic transformation. However, vested interests, suspicion, fear of disruption to livelihoods, activism against any form of land reforms, sensitivities related to the location of investment projects and the resulting perverse incentives to local governments, all need to be taken into account if the tensions that may arise as a result of land reforms are to be managed appropriately.

The Ugandan authorities have made important strides in creating a policy framework and devising initiatives geared towards achieving a smart policy framework for land management. In addition to the National Land Use Policy of 2007 and the National Land Policy of 2013, the Government of Uganda is in the advanced stages of developing the complementary National Resettlement Policy, National Urban Policy and a National Housing Policy. The Government has also embarked on a process of rehabilitating and modernizing land institutions, including through the computerization of the land information systems. Consistent with the Land Act 1998, the Uganda Land Commission operates a Land Fund, the objective of which is to provide funds to bona fide and lawful occupants to buy out land lords and also to finance resettlement of those made landless by disasters. There are also initiatives to organize communal land owners in Northern Uganda into legal entities and to register their land, while also accelerating the systematic registration of individual land rights. Implementation remains crucial in order to ensure that land in Uganda is secure, transferable, marketable, and plays a constructive role in the achievement of economic development. Drawing on global lessons, particularly from those countries in Africa that share many of the same characteristics as Uganda, this report recommends four points of action to hasten the process of implementation. The first two of these actions build on initiatives that have already been commenced by the Government, while the other two are intended to bridge unaddressed gaps.

*Accelerating the Systematic Registration of Land*: The first point of action is to accelerate processes already in place to systematically register land to significantly increase the proportion of land that is registered, including land owned by individuals; communally-owned lands; and state-owned land.

*Redesigning the Land Fund*: The second point of action is to redesign the Land Fund to enhance its efficiency and equity. This will require the promotion of the principle and practice of land sharing between the *mailo* landlord and tenant (lawful and bona fide), with free negotiations between the two parties to enable one party to buy out the rights of the other.

*Strengthening Institutions for Land Administration Management*: The third point of action is to strengthen the institutions responsible for land administration management, including to: (i) improve dispute resolution systems to fill the institutional vacuum in areas where such capacities are particularly lacking, especially in northern Uganda and the Albertine region, by fully staffing zonal and district land offices; build competent formal institutions by providing adequate staff, budget and training to the judiciary throughout the country; and strengthen the Local Council Courts and their interface with traditional institutions; (ii) further strengthen land administration systems, including through the application of new technologies to improve documentation, information storage and retrieval, and valuation. The issue of valuation is particularly critical for urban areas, where a credible system for documenting and valuing land will go a long way towards streamlining transactions and eliminating speculation; and (iii) strengthen the management of local urban authorities' finances to acquire land and pay for infrastructure improvements.

*Reviewing Policy Commitments to Close Critical Gaps*: The fourth point of action is to review and prioritize the many existing policy commitments to identify and close critical gaps. The key aim of this process should be to: (i) amend the laws to remove restrictions on rental markets on *mailo* and freehold land to improve landlord-tenant relations; (ii) create disincentives (including through the imposition of taxes) to discourage speculative holding of land unused for extended periods of time; (iii) clarify policies for the use of urban land, including through the provision of incentives to promote vertical expansion and multi-purpose usage of structures to promote density and sustainable urban development; (iv) adopt innovative instruments for land pooling, financing and development to achieve economies of scale and equitable urban land development; and (v) address the issue of expropriation and compensation, to promote the principle of fairness and equity. The current market-based practice normally underestimates the value of future income from the investment for which the land is being acquired, and often does not provide payment for the movement of people into new areas of settlement and the restoration of livelihoods to at least the level that existed before the expropriation. This action also requires for the policy framework to strengthen regulations and the enforcement of those that already exist.

# PART 1: The State of the Economy

- *Supported by moderate inflationary pressures and a subsequent strengthening of bank lending to the private sector, the Ugandan economy grew at the rate of 5.0 percent during FY 2014/15, continuing on the path of moderate recovery that began in the previous year. In the same way it was able to create space for faster private sector credit growth during FY 2014/15, monetary policy has recently adopted a tighter stance aimed at ensuring that the rapidly depreciating local currency, and any increased spending pressures during the election year does not increase fuel inflation further. Fiscal policy has remained almost blunt as tax revenues collected remain less than 13 percent and the public investment program is not significantly executed for three consecutive years.*
- *With the volatile external environment and uncertainties related to the upcoming national elections likely to constrain acceleration in private investments, the public sector will need to implement its investment program more effectively, in order for the country to sustain a positive economic growth trajectory in the near and medium term. This will involve fully implementing the Public Finance Management Act 2015 and to 'invest in the capacity to invest' for fiscal policy to be a more salient instrument of economic management.*
- *During FY 2015/16, the Ugandan economy is forecasted to grow at a rate in the range of 5-5.5 percent, with uncertainties created by the upcoming elections; the need to tighten monetary policy in response to increasing inflationary pressures; and a weak external position acting as possible constraints on growth. However, growth is expected to increase into the medium term as the Government's infrastructure program, including for oil production, materializes and eventually realizes economy-wide efficiency and productivity improvements.*
- *A number of downside risks, particularly those related to fiscal management and a volatile external environment threaten sustainability of high growth rates. However, a more fundamental risk relates to inability of the Ugandan economy to raise from the low levels of productivity of both agricultural and non-agricultural sectors; of rural and urban locations. Secure property rights and better functioning land markets and institutions can help land become a more productive factor of production and hence generate productivity improvements across the economy.*

# 1. Recent economic developments

**At the end of FY 2014/15, Uganda completed its first five-year development plan and commenced on the second of such plans. A series of five-year plans are intended to facilitate the achievement of a vision for the economic and social transformation of the country by 2040.** During the period of the recently completed plan, Uganda embarked on a number of projects intended both to address the infrastructure deficit and to prepare for the production of oil. The commencement of the second five-year plan is taking place in the context of the upcoming presidential and parliamentary elections, which are held every five years. According to this schedule, elections are planned to take place during the first quarter of 2016. During the previous elections, held in 2011, a number of tensions in the area of economic management arose. In the context of the upcoming elections, it is possible that similar tensions will recur. In this context and that of a volatile external environment, economic management will need to be delicately managed to sustain the efforts that have recently begun to be implemented to address longer term structural issues. Such efforts remain vital for the achievement of overall growth and economic development.

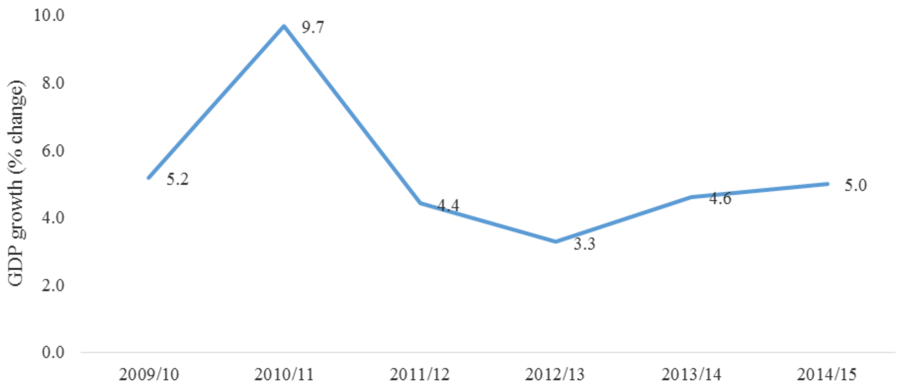
**Over the past five years, a series of internal and external shocks; slippages in fiscal and monetary policies; disruptions to aid flows due to corruption cases, and a volatile external environment, have affected Uganda's macroeconomic performance.** From a peak of 9.8 percent in FY 2010/11, the rate of growth has declined steadily, reaching a low of 3.3 percent in FY 2012/13. However, as shocks abated and policy stabilized, the economy begun to recover, growing by 4.6 percent during FY 2013/14. This acceleration in the rate of growth has been supported by a benign economic environment, characterized by low rates of inflation, good harvests, and favorable global commodity prices. However, the high level of volatility has negatively impacted living conditions of Ugandans. In addition, Uganda's economic growth must be viewed in the context of the rapid expansion in the size of its population. With a high rate of population growth, per capita income is estimated to have grown by only 2.4 percent over the past five years, which is much slower than the rate of 5.2 percent achieved in the previous two decades. With these lower rates of growth, it may take at least eight years for Uganda to achieve an increase in its average per capita income from the current level of US$ 660 to US$ 1000, thus fulfilling its goal of achieving middle income status. As has been emphasized in our earlier economic updates, the passive acceptance of low rates of growth is not an option for the country's policymakers. Rather, policymakers need to actively address constraints on the achievement of higher rates of growth.

## 1.1 Modest recovery in economic growth

**Uganda's economy is showing modest signs of recovery following a slump that began in the 2011 post-election period** (see Figure 1). In the early period of FY 2014/15, most of the country's economic sectors contracted, with an overall decrease in the rate of economic growth of 1.4 percent during the first quarter of the year. However, performance improved significantly during the subsequent quarters, largely due to the increased availability of private sector credit and positive business sentiments. By the end of the second quarter, the Business Tendency Indicators[1] improved to 53.5; and the Fitch credit rating agency upgraded Uganda's long term rating from B to B+. Overall, the economy is estimated to have grown by 5.0 percent during FY 2014/15, a higher rate than achieved in the previous year, when the figure stood at 4.6 percent.

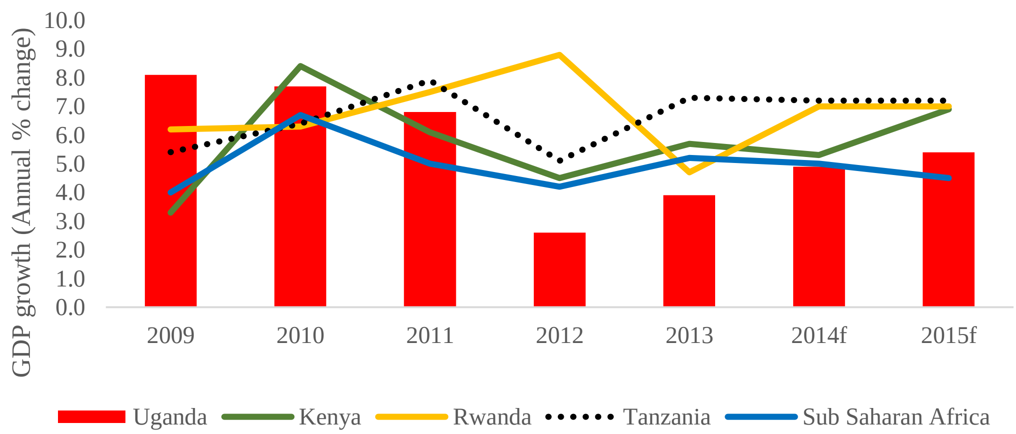
[1] The Business Tendency Indicator (BTI) is published by Bank of Uganda. This index collects business community perceptions about the future of the Uganda

Figure 1: Gradual Recovery in Uganda's Economy through FY 2014/15




**With this modest recovery, Uganda's rate of growth was still lower than expected and considerably lower than that recorded by neighboring EAC countries**. Uganda's economy had been projected to grow at the rate of 6.1 percent during FY 2014/15, with this strong rate of growth expected to be driven by a construction boom resulting from the large public sector infrastructure program and from investments made in preparation for the exploitation of the country's oil resources. Uganda also recorded lower rates of economic growth than Kenya, Tanzania and Rwanda, recording the lowest rate of growth amongst these countries for the fifth year in a row.

Figure 2: Uganda's Economic Growth is the lowest in the East African region



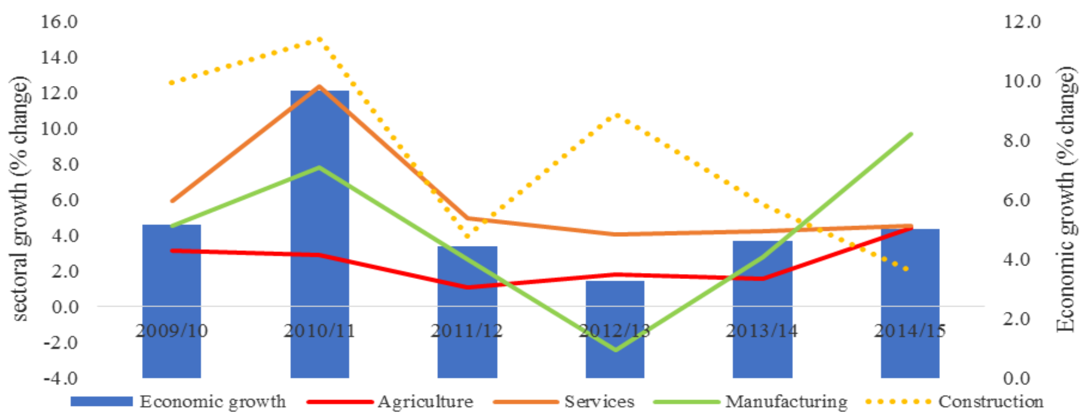

Source: World Bank database

**The recovery in the rate of growth achieved over the previous year was the result of both exogenous factors and domestic policy.** In line with the investment strategy that has been implemented over the past three years, the value of the public sector's capital investments continued to increase gradually. During FY 2014/15, the value of public investments reached the equivalent of 6.3 percent of GDP. While this was lower than the target of 8.6 percent of GDP, it was 0.7 percentage points higher than the figure of 5.6 percent recorded in FY 2013/14.

**The total value of private investments also increased significantly during FY 2014/15, largely due to the increased availability of credit and to the increased activities of the services and manufacturing sectors**. The declining regional demand for exports, combined with increases in the value of imports to support construction, led to a decline in the contribution of net exports to GDP growth. However, this was partially compensated for by increased domestic demand, with monetary conditions facilitating an increase in the availability of private credit. As a result, the total value of private investments is estimated to have grown by two percentage points, reaching a level equivalent to 25 percent of GDP. This is a remarkable improvement, with this increase sustaining the recovery that begun in FY 2013/14.

**During the year, the services sector grew at a rate of 4.6 percent. With this growth, the sector contributed 2.3 percentage points of the country's total annual growth**. Within the service sector, the real estate, public administration and education sub-sectors grew particularly strongly, with each of these sub-sectors recording rates of growth in excess of five percent. Most significantly, the financial and insurance services sub-sector grew at the rate of 14.5 percent, maintaining the high rate of growth achieved over recent years. In fact, this sub-sector alone contributed to approximately 31 percent of the total growth of the services sector.

Figure 3: Uganda: Manufacturing recovered, but construction decelerated during FY 2014/15




Source. World Bank database

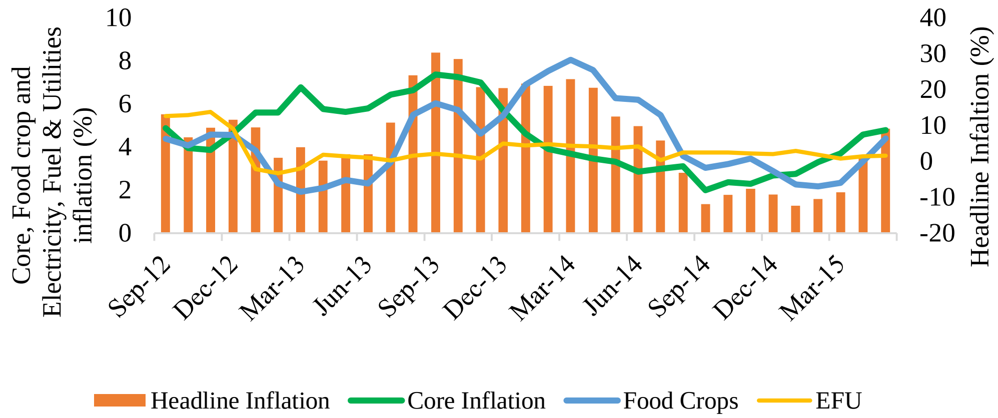
**The industrial sector grew by 6.4 percent, a significant increase over the figure of 4.3 percent recorded in the previous year.** The manufacturing sub-sector grew by 9.7 percent in FY 2014/15, compared to the figure of 2.8 percent recorded in FY 2013/14. These figures indicate the ongoing recovery of this critical sector following a significant contraction three years ago, when this sector was affected by power shortages and higher electricity prices; financing constraints resulting from tighter liquidity; and decreases in demand from global markets. Growth in this sector was largely driven by increased activities related to electricity generation and water supply, processing and preservation; pharmaceutical production; and iron and steel production. As a result, the contribution of the manufacturing sub-sector to GDP increased to approximately eight percent, up from the figure of 7.6 percent recorded in the previous year. The rate of growth of the construction sector decreased to 2.0 percent, down from the figure of 5.7 percent recorded in FY 20013/14. This rate of growth is significantly lower than that of the figure of 10 percent recorded two years ago.

**The rate of growth of the agricultural sector stood at 4.4 percent in FY 2014/15, significantly higher than the figure of 1.5 percent recorded in the previous year**. The performance of cash crops recovered strongly, largely due to favorable commodity prices and overall terms of trade, and particularly strong performance in the vanilla, cotton and flower sub-sectors. The strong performance of these sub-sectors helped offset the relatively weak performance of the coffee sub-sector, which suffered on account of unfavorable climatic conditions. With improved regulation and better supervision of Lake Victoria and other lakes, fish stocks have started to increase. As a result of this and of increases in prices, the fishing sector recovered strongly during FY 2014/15, with the volume of exports of fish and fish products outside the region growing by close to 40 percent.

## 1.2 Before recent volatilities, inflation remained stable, allowing monetary policy to remain neutral, both of which stimulated private sector credit

**The rate of inflation averaged 2.4 percent during FY 2014/15, with this low rate partially resulting from increased domestic supply and the reduced impact of external shocks throughout most of the year. However, towards the end of the year, the level of volatility began to increase, with this increased volatility continuing into the first quarter of FY 2015/16.** With the level of agricultural production increasing dramatically on account of good weather, the price of food declined to levels lower than recorded during the previous year. This implies a negative rate of annual food crops inflation through the first nine months of the year. At the same time, the decline in the cost of imports, particularly due to the decline in the global cost of oil, mitigated the impacts of the inflationary pressures during that period, even though the spillover effect on domestic prices occurred only gradually. However, starting in April, food prices started to rise gradually; the value of the shilling began to depreciate; and monetary policy had to be adjusted to control inflation. The annual rate of food crop inflation rose to 6.4 percent, from the negative rate of -0.1 percent recorded in April. The core inflation rate also rose modestly, from 2.7 percent at the beginning of the year to 4.8 percent in April. At the same time, by May 2015, the value of the local currency relative to the dollar had declined by 21 percent compared to its position at the same point in the previous year. Therefore, the rise in the core inflation rate was partially driven by the pass-through effects of the depreciation in the value of the shilling on the prices of imported goods. According to Bank Uganda,[2] a one percent depreciation in the value of the shilling is expected to result in price increases of approximately 0.5 percent over the next three to six months. Therefore, the annual overall (headline) inflation rate increased to 4.9 percent, from the average annual rate of 3.3 percent that had been recorded through the year up until April (see Figure 4).

Figure 4: Uganda: Inflation remained low through FY 2014/15, but upward pressure started towards end of year




Source: Uganda Bureau of Statistics

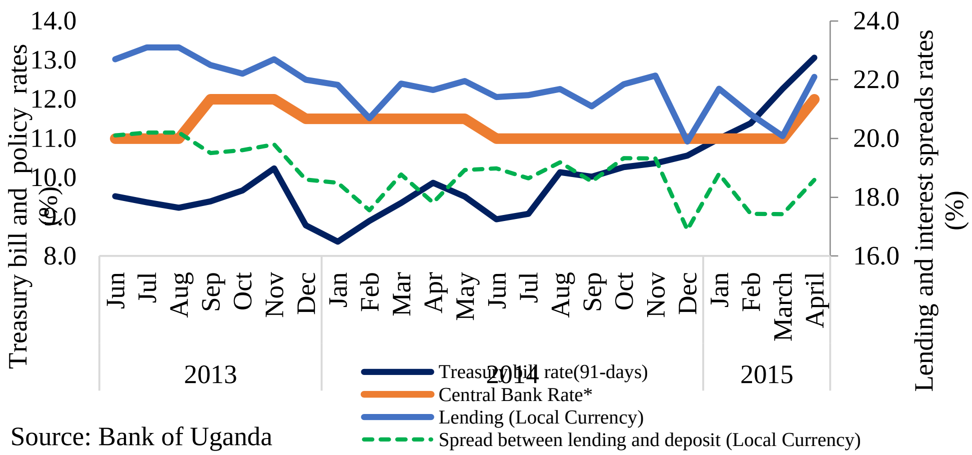
**Across the region, other countries also recorded low, stable inflation rates during FY 2014/15, but similar upward trends have been recorded during early part of FY 2015/16**. For example, Kenya recorded an average annual inflation rate of 6.6 percent during FY 2014/15, with this being the highest recorded rate in the region. Tanzania sustained a downward trend throughout most of the year, as a result of which

[2] Okello, A. J. and Brownbridge, M., (2013) Exchange Rate Pass-through and its Implications for Monetary Policy in Uganda. Bank of Uganda Working Paper No. 10/2013.

it recorded an average rate of 5.3 percent over the year. Rwanda continued to record the lowest rate of inflation within the EAC, with an average rate of 1.3 percent for FY 2014/15.

**The neutral monetary policy was not sufficient to create confidence in the market during FY 2014/15.** In spite of the fluctuating food prices, the sustained depreciation in the value of the currency and the moderate increase of international oil prices, the prospects for further increases in inflation were minimal during most of FY 2014/15. In consideration of these factors, the Bank of Uganda took the decision not to ease monetary policy to further stimulate the economy. By keeping the Central Bank Rate (CBR) at the same level through the year, the Bank of Uganda maintained a neutral monetary policy stance throughout most of FY 2014/15. In spite of this stance, market interest rates were quite volatile: following declines in the previous year, lending rates increased in the first quarter, before declining again later. The yield on government securities maintained an upward trend throughout this period. This could have been on account of market uncertainty in the context of the forthcoming national elections, with investors concerned regarding the possibility of a surge in public expenditure, as was the case in the period preceding the 2011 elections. The 91-day Treasury bill rate had risen to 13.3 percent by April 2015, up from 9.1 percent at the beginning of the financial year.

Figure 5: Uganda: Market rates were not as stable as the Central Bank Rate during FY 2014/15




Source: Bank of Uganda

**With all factors pointing to further inflationary pressures, the Bank of Uganda tightened its monetary policy stance in April 2015, before implementing even more aggressive measures to tighten this policy in the first quarter of FY 2015/16. This led to an increase in market interest rates and to the cost of credit.** With additional indications of higher rates of inflation in the near future, the Bank of Uganda raised the CBR to 12 percent in April 2015. By the end of August 2015, the Bank of Uganda had raised the CBR three times, to reach 16 percent. It also widened the band around the CBR to 3 percentage points and the margin between the CBR and the rediscount rate (the cost to commercial banks to access funding from the Central Bank by selling back their securities). Consequently, at this point, holders of securities would rediscount them at a rate of 20 percent, while the rate at which commercial banks could obtain credit from the Central Bank (i.e. the Bank rate) had increased to 21 percent.[3] Commercial banks also raised

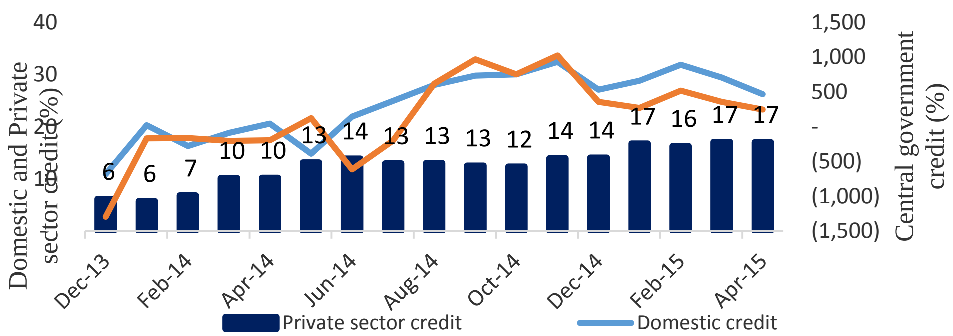
[3] The Bank rate and Rediscount rate directly related to the Bank of Uganda's key policy rate, the Central Bank rate. Until July 2015, the Bank and rediscount rates were automatically set at 3 and 4 percentage points higher than the Central Bank rate. Since then, this margin has been increased to 4 and 5 percentage points.

their lending rates from the beginning of April 2015, a departure from the trend towards a gradual decline from the high point of 23.1 percent in August 2013 to 22.7 percent in May 2015.

**The neutral monetary policy implemented throughout most of the year contributed to an increase in economic activity during FY 2014/15, as the cost of borrowing from banks declined slightly**. Private sector credit grew at an average rate of 15 percent per annum during the 10 months to April 2015, up from 8 percent in the same period during FY 2013/14. This momentum is expected to have had a positive impact on growth and on the level of private investment, as lending shifted away from personal and household consumption. The share of lending to the personal and household sector declined to 16 percent of the total value of private sector credit, on account of a much slower increase of loans to this sector of only 17 percent during FY 2014/15, which was half the rate of growth recorded in the previous year. The agricultural sector's share stood at 10 percent, with the volume of loans increasing by 37 percent. Lending to the manufacturing sector was characterized by low rates of growth for a large part of the year. However, these rates increased significantly during the second half of the year, with loans to the sector recording an average annual rate of growth of 33 percent by April 2015. Lending to the trade sector declined throughout the year. Its year-on-year growth, which peaked at an annual rate of 33 percent in December 2014, was down to an annual rate of 3 percent by April 2015. This is in line with the trend towards the depreciation in the value of the shilling, which makes imports more expensive and, more critically, reflects on the impact of political instability in southern Sudan on the Ugandan economy, as trade in that region comes to a standstill.

**The share of shilling denominated loans continued to decline during FY 2014/15**. By contrast, the proportion of loans denominated in foreign currencies has expanded at a steady rate since November 2012. In the 10 months up until April 2015, loans denominated in foreign currencies averaged 41 percent of the total value of credit, compared to an average of 39 percent during FY 2013/14. The proportion of loans denominated in foreign currencies increased significantly in the building, mortgage, construction and real estate sectors; the trade sector; and the manufacturing sector, with these sectors together accounting for more than 69 percent of total credit denominated in foreign currency.

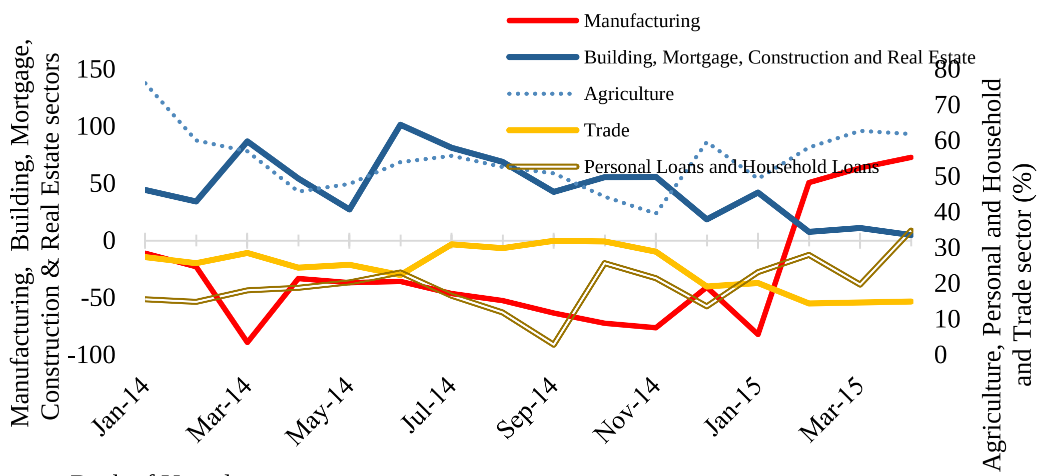
Figure 6: Uganda: Domestic credit picked up strongly, led by government




Source: Bank of Uganda

**The value of public sector credit continued to grow strongly during FY 2014/15, albeit at a slower rate than the rate of growth for private sector credit**. As with the case of private sector credit, growth in the value of Government credit was strong during FY 2014/15, at the rate of 24 percent for the 10 months to April 2015. This represents an increase from the figure of 22 percent recorded during the same period in FY 2013/14. The strong government demand for credit, combined with relatively high yields for government paper, has led to banks holding a relatively higher proportion of assets in government paper, rather than developing long-term financing options. This has contributed to the high cost of credit to private sector.

Figure 7: Uganda: Credit to agriculture and manufacturing picking, albeit from a small base

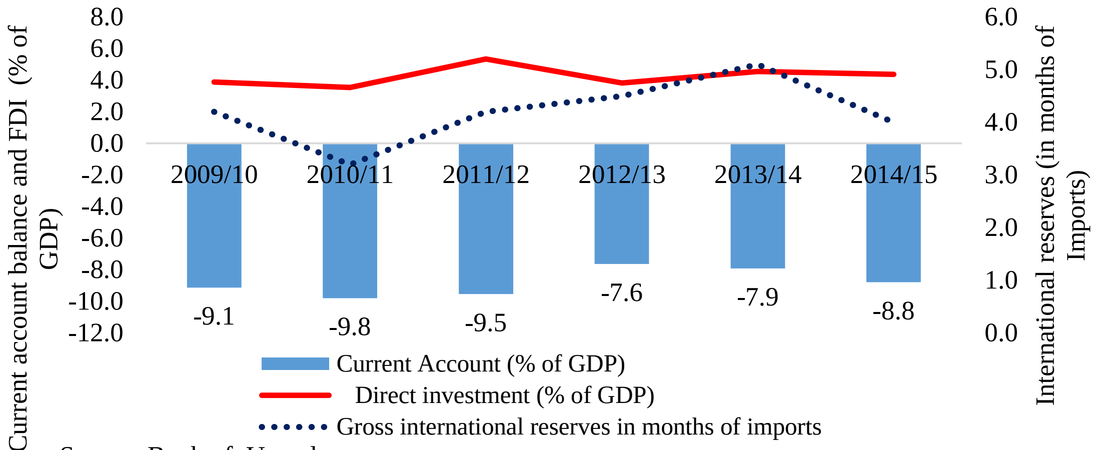



Source: Bank of Uganda

## 1.3 A weak external position, provided ground for a depreciating local currency

**Uganda's overall external position deteriorated during FY 2014/15 as a result of a decline in the value of transfers and FDI, despite modest improvements in the trade balance.** According to Bank of Uganda, the current account deficit increased from a value equivalent to 7.9 percent of GDP in FY 2013/14 to 8.8 percent in FY 2014/15. The value of exports of goods increased by 3.1 percent, with this increase being mainly due to a growth in the value of non-traditional exports, including metal and plastic products, bottled water, and rice. However, the proportion of such exports to regional markets grew at a slower rate than in previous years, mainly because of the decline in demand from South Sudan. Despite this increase, traditional commodities, including coffee and tea, are still Uganda's most significant exports, accounting for 30 percent of the total value of export earnings during the fiscal year (see Figure 9). However, with the slow growth of the global economy, the value of coffee exports remained almost unchanged in FY 2014/15 compared to the previous year, with this value reaching US$ 402 million. The total value of import of goods declined by one percentage point to reach the equivalent of 18.4 percent of GDP. These two factors resulted in an improvement to the trade balance by the equivalent to 5.7 percent of GDP. In the area of services, there was a detrioration in the balance of trade, with the value of net service imports doubling to reach the equivalent of 1.8 percent of GDP. The income account also declined by 13 percent due to higher income on equity payments, while the value of current transfers declined by 5.7 percent. The increase in the value of service imports was a result of increased investments by the government in infrastructure, with these investments requiring the increased import of transport and insurance services.

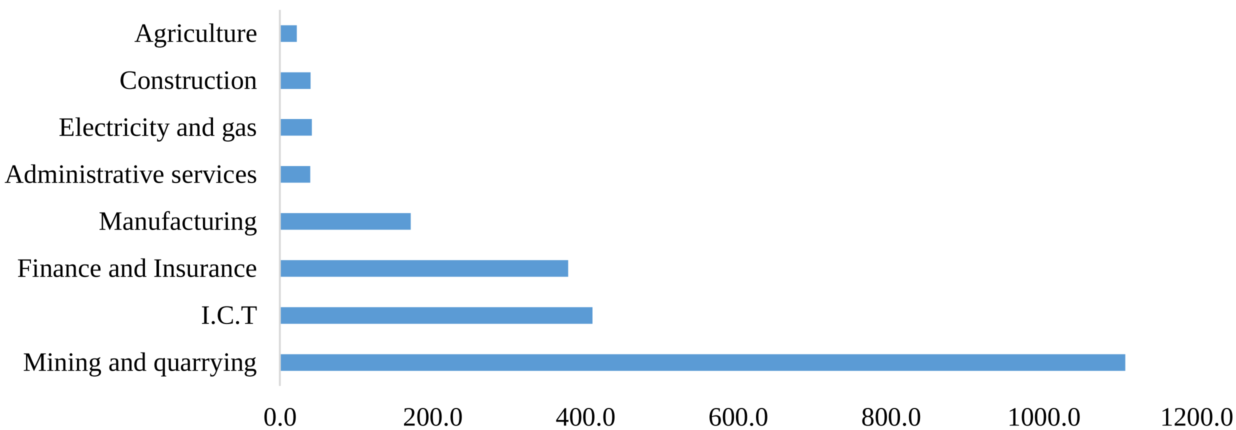
Figure 8: The external position deteriorated as Current account worsened




Source: Bank of Uganda

**The financial account deteriorated by 10 percent in FY 2014/15 as the value of foreign direct investments (FDI) reduced**. During FY 2014/15, the value of FDI declined by 3.2 percent, declining from the figure of US$ 1,225 million in FY 2013/14 to US$ 1,186 million in FY 2014/15. With most FDI being allocated for investments in the mining and quarrying sector,[4] the low global price of oil could explain the decline in the overall value of FDI. The situation was exacerbated by further increases in portfolio outflows, with the value of net outflows standing at US$ 45 million in FY 2014/15, compared to a net inflow to a value of US$ 6 million in FY 2013/14. The increase in the value of portfolio outflows, despite the relatively high yields on government securities, reflects the high level of uncertainty in currency markets, which in turn is partially driven by the depreciation in the value of the shilling.

Figure 9: Foreign direct inves6ment was for the mining and quarrying sector




Source: Bank of Uganda

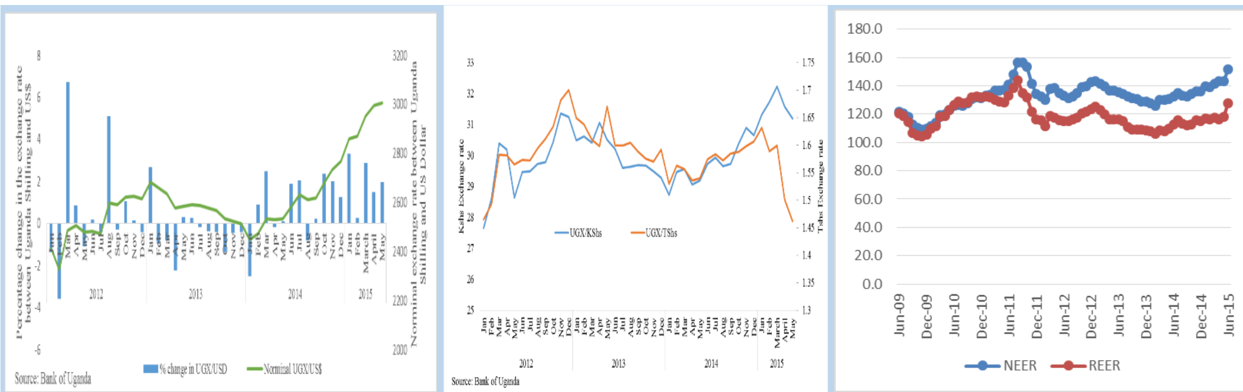
**The overall balance of payments was in deficit, with the value of the deficit amounting to US$ 475 million**. At the same time, the value of international reserves declined from US$ 3,394 million to US$ 2,912

[4] According to a private sector investment survey conducted by Bank of Uganda (2014), despite the declines in the value of FDI, these investments remain strong and are driven by investments in the mining, ICT, finance and insurance and manufacturing sectors, among others.

million. However, this level of reserves is sufficient to provide for four months of import cover, which is considered an adequate level to provide a cushion against external shocks.

**In line with the weakened external position, the value of the shilling has depreciated strongly over the recent past.** Even With the level of reserves declining in response to the deterioration in the balance of payments, there has been an even stronger impact on the value of the local currency, the value of which has reduced steadily since January 2014. Over FY 2014/15, the value of the shilling relative to the dollar declined by 24 percent. The real effective exchange rate also depreciated by 17 percent over the same period. Most of this depreciation occurred during the second half of the year, with Uganda's currency coming under additional pressure from a bullish US dollar as the USA economy strengthened. Other factors that contributed to the downward trend in the value of the shilling were the relatively high cost of imports to support the construction sector; dividend payments; and uncertainty in the context of the forthcoming election. Indeed, as a result of these factors, since January 2015, the Ugandan shilling has declined not only against the dollar, but against both the Kenyan and Tanzanian currencies.

Figure 10: Uganda shilling depreciated more than regional currencies during FY 2014/15




Source. Bank of Uganda

## 1.4 Slow pace of public investment results in lower fiscal deficit and a greater proportion of the budget being utilized for recurrent expenditure

**Between FY 2011/12 and FY 2013/14, there has been a sustained effort to increase the relative proportion of the budget allocated for capital expenditures, with this increased capital expenditure being intended to address the infrastructure deficit. However, this goal has not yet been fully achieved.** The shortfall in expenditure during this period amounted to a value equivalent to three percentage points of GDP. This shortfall constrained an expansionist fiscal policy that had the potential to stimulate growth in the short term as construction related to the development of infrastructure commenced.

**Similarly, in line with a policy to address the infrastructure deficit and to stimulate growth, the Parliament approved an expansionary budget for FY 2014/15. This budget projected an increase in total expenditure of 25 percent in nominal terms**. As a share of GDP, total expenditure was budgeted to increase from a value equivalent to 16.7 percent of GDP in FY 2013/14 to 21.5 percent in FY 2014/15. Of this expenditure, 30 percent was to be allocated for the development of transport and energy infrastructure. Intended to develop social and human capital, the allocation to the education and health sectors constituted a large share of Government expenditure, at 15 percent and 9 percent respectively. Domestic revenues were projected to increase from a value equivalent to 11.9 percent of GDP to 13.3 percent, as a result of the implementation of a series of tax measures intended to simplify the tax regime;

to remove distortions; and to broaden the tax base. This increase in revenue would have been supplemented with a modest increase in the value of external grants from a value equivalent to 1.0 percent of GDP to that of 1.7 percent anticipated in that year. Therefore, in the approved budget, the overall fiscal deficit was projected to increase from a value equivalent to 3.8 percent of GDP in FY 2013/14 to 6.9 percent. This was expected to be partially funded by external loans to a value equivalent to 3.5 percent of GDP and by domestic loans to a value equivalent to 3.4 percentage points of GDP.

**With the value of collected revenues coming closer to targeted levels, the implementation of the FY 2014/15 budget was under less pressure than in the previous two years.** The collection of domestic revenues was on target, after overcoming several months of shortfalls during the first half of the year. The Uganda Revenue Authority collected revenues, which reached a value of Shs 9.3 trillion. At this level of performance, the value of collected revenues would have increased to a level equivalent to 12.8 percent of GDP, which is slightly above the target of 12.7 percent for the year. In particular, good performance was recorded in the area of the collection of corporate and withholding taxes, which are direct domestic taxes, and of import duties. On the other hand, performance was less impressive in the area of the collection of indirect domestic taxes, mainly due to short falls in the collection of excise duty on beer and on international telephone calls, with the latter being caused by a reduction in taxes on regional international calls rates. This sluggish collection of revenues leaves Uganda far worse off than neighbouring countries within the EAC.[5]

**In terms of expenditure, the under-execution of public investments continued to undermine fiscal policy objectives**. For the third consecutive year, the failure to achieve targets was mainly due to delays in executing infrastructure projects (see Table 2). Total expenditures were below the budgeted target by the equivalent of 2.1 percentage points of GDP. This was fully reflected in the development budget, with the construction of the Karuma dam, which accounted for 25 percent of the approved development budget (excluding donor projects), reached a level of execution of only two percent as a result of delays in concluding the financing arrangements for this project. The negotiations between the Exim Bank of China and the Government for loans to finance 80 percent of the project progressed, but these negotiations did not reach a conclusion during the year. Therefore, construction progressed only slowly, with financing from domestic funds. It was also expected that the development of an oil refinery would commence during the year. However, decisions related to the public component of the financing for this project also failed to reach a conclusion. Other components of the budget involving development expenditure performed well during FY 2014/15. In particular, the works and transport sector, which accounts for 33 percent of the domestic development budget, had reached a level of execution of 55 percent of its planned expenditure by December 2014. Overall, the development and investment and lending expenditure is expected to have reached a value equivalent to 8.4 percent of GDP, compared to 10.5 percent in the approved budget. The persistent implementation challenges affecting public investment projects continue to indicate the need to '*invest in the capacity to invest*' if public expenditures are to have a positive impact on growth and development.[6]

**Recurrent expenditure remained almost as budgeted, in spite of a huge 'supplementary' budget and some pressure due to the requirement to meet interest payments**. At a value equivalent to 3.5 percent of the total value of the budget, expenditure on wages remains below the budgeted figure. This was a result of a clean-up of the government pay and pension system to ensure the validity of the government payroll. The savings from this clean-up exercise allowed for additional expenditure. Hence, the

[5] In FY 2011/12 domestic revenue as a share of GDP stood at 23 percent in Kenya, 17.6 percent in Tanzania, 14.3 percent in Rwanda and 14.8 percent in Burundi.
[6] A better PIM system increases productivity growth and thus should have a continuing impact on growth, in contrast to reforms that yield a one-off increase in the level of output (Brahmbhatt and Canuto, 2012).

Government had requested parliamentary approval for a supplementary recurrent budget to a value of Shs 1122.4 billion, equivalent to 5.6 percent of the total value of the approved budget, to pay pensions and gratuity arrears (68 percent of the total) and to pay outstanding wages after the payroll clean-up. Therefore, rather than increase expenditure, the supplementary budget reallocated the savings to other areas within the recurrent budget.

Table 1: Central Government Revenue and Expenditure Framework(% of GDP, unless otherwise specified)

| | Outturn | Outturn | Outturn | Outturn | Approved Budget | Projected Outturn | Projection |
|---|---|---|---|---|---|---|---|
| | **2010/11** | **2011/12** | **2012/13** | **2013/14** | **2014/15** | **2014/15** | **2015/16** |
| **REVENUE & GRANTS** | **15.5** | **13.1** | **12.9** | **13.0** | **14.8** | **14.1** | **15.1** |
| Domestic Revenue | 13.6 | 11.2 | 11.4 | 11.9 | 13.3 | 13.0 | 13.6 |
| o/w Tax Revenue | 10.9 | 10.1 | 11.0 | 11.4 | 12.7 | 12.5 | 12.9 |
| Grants | 1.9 | 1.9 | 1.5 | 1.0 | 1.5 | 1.1 | 1.6 |
| | | | | | | | |
| **EXPENDITURE** | **19.1** | **15.6** | **16.5** | **16.7** | **21.7** | **18.6** | **22.1** |
| Recurrent Expenditure | 12.7 | 9.4 | 9.1 | 9.8 | 10.3 | 10.0 | 10.4 |
| Development & Investment | 6.1 | 5.8 | 6.6 | 7.0 | 11.1 | 7.9 | 11.3 |
| External | 3.1 | 2.9 | 3.4 | 2.4 | 3.6 | 2.2 | 4.0 |
| Domestic | 3.0 | 3.0 | 3.2 | 4.5 | 7.6 | 5.8 | 7.3 |
| Arrears and contingencies | 0.4 | 0.5 | 0.1 | 0.0 | 0.1 | 0.3 | 0.2 |
| | | | | | | | |
| OVERALL DEFICIT | | | | | | | |
| Including grants | -3.6 | -2.5 | -3.6 | -3.8 | -6.9 | -4.5 | -7.0 |
| Excluding grants | -5.5 | -4.5 | -5.0 | -4.8 | -8.4 | -5.6 | -8.6 |
| | | | | | | | |
| **FINANCING** | **3.9** | **2.0** | **3.3** | **3.6** | **6.9** | **4.5** | **7.0** |
| External Financing (net) | 1.5 | 2.0 | 2.2 | 1.3 | 3.5 | 1.1 | 5.0 |
| Budget Support Loans | 0.5 | 0.2 | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| Project Loans (Concessional) | 1.4 | 1.8 | 2.0 | 1.6 | 2.2 | 1.5 | 1.6 |
| Project Loans (non-concess.) | 0.0 | 0.3 | 0.0 | 0.0 | 1.5 | 0.0 | 3.9 |
| Amortisation | -0.3 | -0.3 | -0.3 | -0.3 | -0.2 | -0.3 | -0.4 |
| Domestic financing (net) | 2.3 | 0.0 | 1.0 | 2.3 | 3.4 | 3.4 | 2.0 |
| Bank of Uganda | -- | -2.0 | -0.1 | -0.3 | 1.8 | 1.5 | 0.3 |
| Domestic Borrowing | -- | 2.0 | 1.2 | 2.6 | 1.6 | 1.8 | 1.7 |
| Errors and omissions | 0.3 | -0.5 | -0.3 | -0.2 | 0.0 | 0.0 | 0.0 |
| | | | | | | | |
| Memoranda items: | | | | | | | |
| GDP at market prices (U Shs billions) | 47,078 | 59,420 | 63,905 | 68,407 | 75,183 | 75,183 | 83,596 |
| Public debt stock (% of GDP) | 25.7 | 22.0 | 26.2 | 29.0 | 31.9 | 33.8 | 36.0 |
| o/w External | 11.4 | 8.8 | 11.0 | 12.9 | 13.7 | 14.9 | 14.2 |

Source: Ministry of Finance, Planning and Economic Development

**As a result of under-execution in the public investment budget, the fiscal deficit was lower than budgeted by a value equivalent to almost two percentage points of GDP**. The overall deficit is estimated to have reached a value equivalent to 4.5 percent of GDP. This would be 1.9 percentage points lower than the approved budget deficit of 6.4 percent of GDP. However, this level of deficit is still one of the largest fiscal deficits in more than a decade.

**The fiscal deficit was mainly financed using resources drawn from domestic sources**. With a large component of the development budget failing to be implemented due to the delayed conclusion to the financing arrangements, this resulted in targeted external financing to a value equivalent to up to 1.5 percent of GDP not materializing. The value of loans from domestic sources amounted to Shs 2.7 billion, which is a value equivalent to 3.4 percent of GDP. Hence, the value of these loans remained within the limits established by the approved budget. However, this kind of financing maintained the upward trend observed over the past three years. As would be expected with increasing reliance on this form of financing in a thin financial market, it comes at a significant cost. Since July 2014, yields on government paper have maintained an upwards trend, which eventually has an impact on the cost of credit to the private sector.

# 2. Economic Outlook

## 2.1 Public investment to underpin economic growth in near term as uncertainties increase

**Uganda's economic outlook for the near future is characterized by a high level of uncertainty, particularly in the context of the upcoming national elections in 2006, low international oil prices, and increasing pressure on its currency.** In this context, the World Bank forecasts that the rate of growth of the Ugandan economy in FY 2015/16 will be in the range of 5.0 to 5.5 percent. With contradictory developments during the first quarter of the year and anticipated election activity, a modest increase in the rate of growth of GDP should be expected to be achieved.

**The ongoing recovery will depend heavily on the achievement of macro-stability, with the most significant factor being the achievement of a lower, less volatile rate of inflation**. With demonstrated limited success to increase its collection of revenue to offset increased expenditure, there is an urgent need for the authorities to address constraints to the management of public investments and thereby to ensure that the expansive fiscal policy adopted for FY 2015/16 stimulates growth rather than contributes to instability. The protracted depreciation in the value of the Ugandan shilling is consistent with the weak external position and should improve Uganda's competitiveness. However, it has resulted in increased inflationary pressures. Even if international energy prices increase only gradually over the next two years, the pass-through effects may exacerbate these inflationary pressures. These pressures may be further exacerbated by unfavorable climatic conditions, especially poor rainfalls that may affect the supply of food to domestic markets. However, the tightening of monetary policy by the Central Bank is expected to mitigate these inflationary pressures to some extent. At the same time, a tightening of the monetary stance will come at a cost, as shown by the impact of the increase in interest rates at the beginning of this year.

**Beyond the high interest rates, uncertainties on account of elections and a bumpy external environment, could constrain private sector investments.** If intensified, tight money policies will continue to reduce the level of credit available to the private sector. The increase in expenditure on large infrastructure projects, such as the Karuma and Isimba dams, may also result in lower access to credit by the private sector, if delays in accessing external loans continue and if these delays necessitate further increases in the use of domestic resources. The total value of government securities issued during FY

2014/15 amounted to Shs 1.4 trillion, which does not exceed targeted levels. However, the total value of credit provided to the public sector is rising faster than that of the value of credit provided to the private sector. If the Government maintains its commitment to reducing domestic debt to moderate upward pressure on the cost of credit, then the crowding out of private investment will be curbed. Such policies will need to be implemented in the context of the upcoming 2016 elections. Experience in various parts of the world demonstrate that these electoral cycles have an impact on economic performance. Similarly, private investors may be reluctant to make firm commitments in the period prior to the 2016 election.

T**he contrasting developments on the global economy could worsen the already weak external position, as the current account is forecast to deteriorate,** reaching a level equivalent to 11 percent of GDP, from the figure of 8.8 percent recorded in FY 2014/15. In particular, the increase in the value of imports relative to exports may be exacerbated unless the situation in South Sudan improves following the signing of the peace accord in August 2015; and boosts the growth of exports. And while commodity prices are currently forecast to decline throughout much of 2016, which may lower the inflationary pressures, the overall deterioration of the global economy may lower global demand and hence continue to exert negative pressure on the performance of Uganda's export sector and on the value of remittances and income flows. Contrasting these will be the impact of the devaluation of the Chinese Yuan, which could lower Uganda's import bill by some points, given China accounts for 11 percent of Uganda's imports (see Box 1).

### Box 1: China's devaluation – Can Uganda's fortunes offset the misfortunes?

Following a weakening of the Chinese economy explained by reduced industrial production, investment, retail sales and export growth, China recently devalued its currency, the Yuan, by 2 percent. This decision by the Central Bank of China is expected to have some implications to countries including those in Africa that trade with China, as the country has become one of the strongest trade partners of Africa.

While its exports (including leather, coffee, fish and food products) to China remain insignificant, Uganda's imports from China represented about 11 percent of its total imports in 2012. Products imported from China include among others light manufacturing products, farm tools, textiles, pharmaceutical products, garments, and ceramics. Moreover, China has also made significant investments in Uganda, especially in roads construction, hospitals, railway, electrical power and ICT. Uganda's non-concessional borrowing, mainly from China, has increased in recent years to finance the country's ambitious infrastructure program including the construction of the Kampala-Entebbe Highway, and two major power dams (Karuma and Isimba). In 2013, China's investment in Uganda was estimated at $596 million including a loan of $350 million from Exim Bank China, repayable over 40 years at 2 percent to finance the Kampala-Entebbe Highway. The Government of Uganda also eyes China for the upgrade of its railways system into standard gauge and the construction of the 600MW Karuma dam for a loan estimated at $9.7 billion.

The recent devaluation of the Yuan, although limited in size, to some extent will further deteriorate Uganda's current account balance due to cheaper imports from China. Meanwhile, this current account deterioration could be offset by far reaching effects to the Uganda's economy through its impact on domestic activities including retail trade, construction and other productive activities (manufacturing and agriculture) due to favorable input prices.

Another implication of a devalued Chinese currency may concern the service of the debt vis a vis China. Uganda's debt is termed in US$, so a devalued Chinese currency will mean little to Uganda's debt service to China.

More than a devalued Chinese currency, a weaker Chinese economy will have far more adverse effects on African economies including Uganda. While china's imports from Uganda represent 5 percent of its total exports to Uganda, a weaker economy will mean that the recent impetus to China's investment to Uganda will be dampened. Thus, compromising planned infrastructure development projects and therefore affecting growth.

**Source: Compiled by World Bank staff**

**In these circumstances, private investment is not expected to grow to a value significantly in excess of 25 percent of GDP during FY 2015/16, almost the same level recorded during FY 2014/15**. The potentially positive impact of low oil prices on economic activity has so far been dampened by the rapid depreciation in the value of the shilling. And yet more critically, low oil prices continue to delay decisions related to investments to facilitate oil production. Thus, public investments are expected to be the main driver of growth.

*Table 2: Summary Assumptions for the Medium Term Outlook, Baseline Scenario*

| | 2014 | 2015f | 2016f | 2017f |
|---|---|---|---|---|
| GDP, at constant market prices | 4.5 | 5.0 | 5.4 | 6.2 |
| Private Consumption | 0.3 | 1.5 | 1.9 | 4.3 |
| Government Consumption | 13.9 | 9.6 | 9.2 | 10.0 |
| Gross Fixed Capital Investment | 3.5 | 18.8 | 9.5 | 8.5 |
| Change in Inventories, % contribution | 0.0 | 0.0 | 0.0 | 0.0 |
| Exports, Goods and Services | 5.6 | 7.2 | 6.0 | 6.1 |
| Imports, Goods and Services | -3.8 | 10.7 | -0.5 | 3.7 |
| GDP, at constant factor prices | 4.5 | 5.0 | 5.4 | 6.2 |
| Agriculture | 1.5 | 2.7 | 3.5 | 4.0 |
| Manufacturing | 2.8 | 6.5 | 6.8 | 7.2 |
| Services | 4.2 | 6.4 | 7.1 | 8.1 |
| Inflation (Household Consumption Deflator) | 4.6 | 1.4 | -0.8 | -2.7 |
| Inflation (Consumer Price Index) | 4.3 | .. | .. | .. |
| Current Account Balance,% of GDP | -6.6 | -6.5 | -4.5 | -3.5 |
| Fiscal Balance, % of GDP | -3.8 | -4.8 | -5.0 | -4.0 |
| Poverty rate ($1.25 a day, PPP terms) | 28.2 | 27.6 | 27.0 | .. |
| Poverty rate ($2.50 a day, PPP terms) | .. | .. | .. | .. |
| Poverty rate ($5.00 a day, PPP terms) | .. | .. | .. | .. |

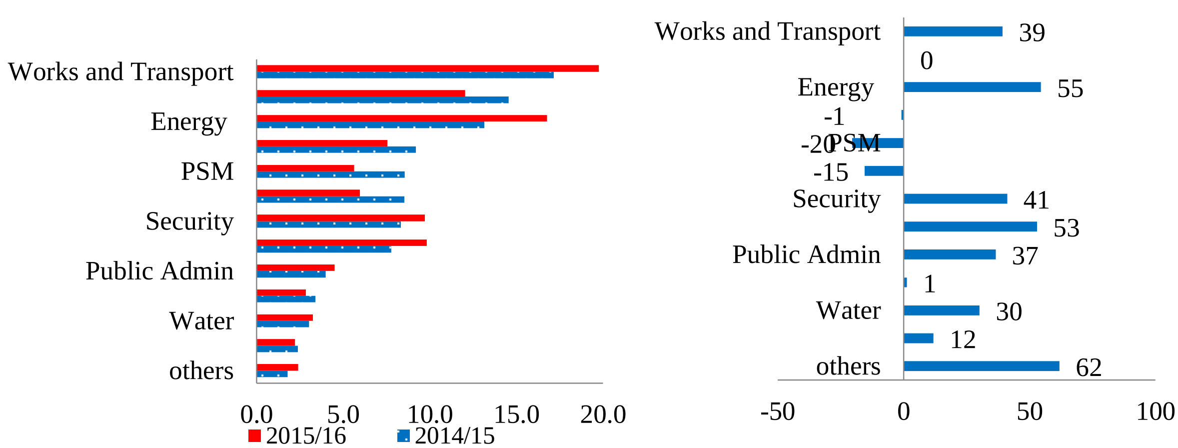
**Source: World Bank**

**As has been the case over the past several years, the services sector will continue to be a major driver of growth, with this sector growing by approximately 8 percent per annum.** Within this sector, the information and communication sub-sector will continue to be the most significant driver of growth. The contribution of the tourism sub-sector will most likely increase, benefiting from the depreciation in the value of the shilling, which makes Uganda a cheaper, more attractive destination. However, this sub-sector remains highly sensitive to security developments within the East Africa and wider Great Lakes region. Within the industrial sector, the rate of growth of the construction sub-sector is projected to accelerate to approximately 10 percent per annum, as public investments take off and FDI in extractive industries boosts construction activities. The manufacturing sub-sector is expected to grow at an annual rate of approximately 5 percent, a rate similar to that recorded in FY 2014/15. The annual rate of growth of the agricultural sector is expected to reach approximately 4 percent in FY13, with long-term weather forecasts continuing to point to favorable climatic conditions, similar to those experienced in FY 2014/15.

**Fiscal policy remains critically important for the achievement of the growth forecast for FY 2015/16 and subsequent years**. Total expenditure is envisaged to increase from a value equivalent to 18.6 percent of GDP in FY 2014/15 to 22.1 percent in FY 2015/16. This figure is consistent with the budget in amounts of Shs 24.5 trillion that was presented to parliament, but higher than the figure of Shs 18.34 trillion presented in the budget strategy. This increase was a result of adjustments to the budget to capture the planned roll-over of securities, the value of which amounted to Shs 4.79 trillion, and of external grants, the value of which amounted to Shs 1.5 trillion.

**This increase will be the result of net lending and investments in hydro projects yet again being shifted to the subsequent year, necessitating an increase in the allocation to capital expenditure from 7.9 percent to 11.3 percent in FY 2015/16.** According to the FY 2015/16 National Budget, 30 percent of the budget will be allocated for the development of roads and energy structure (see Figure 11), in line with the Government's strategy to prioritize measures to address Uganda's infrastructure gap. The Government has increased the allocation to roads infrastructure by 39 percent and to energy infrastructure by 55 percent. At the same time, the proportion of the budget allocated for public sector management and for accountability sectors has been reduced, with this proportion declining to 11.9 percent, down from the figure of 13.3 percent that had been budgeted in FY 2013/14. The proportion of the budget allocated to the health sector will be 8.4 percent. Even with new measures aimed at widening the revenue base and at improving tax administration, only meager improvements in collections have been recorded, with the total domestic revenue forecast to reach a value equivalent to 13.6 percent of GDP. As a result, the fiscal deficit will widen from the equivalent of 4.5 percent of GDP in FY 2014/15 to 7 percent in FY 2015/16.

Figure 11: Infrastructure sectors getting the largest allocation of the budget




**Source. Ministry of Finance**

**With the Government's expressed resolve to use external resources to finance large infrastructure projects, more than 80 percent of the fiscal deficit will be funded through external borrowing**. The value of net external financing is projected to reach the equivalent of 5 percent of GDP. With the decline in the value of concessional donor inflows, the value of loans from commercial sources (non-concessional loans) will reach the equivalent of 3.9 percentage points of GDP. Domestic financing is forecast to reduce to about 2 percent of GDP, but will be at relatively high cost as demonstrated by recent auctions

**The increased emphasis on capital expenditure over the past three years has been intended to address existing infrastructure deficits, which continue to be a major constraint to the development of the private sector.** Unfortunately, key public investment projects have not been executed on time because of procedural and financial delays. The construction of two hydro power projects (Karuma and Isimba) is two years behind schedule, while the construction of the infrastructure required to facilitate the production of oil is yet to commence, making the date for the commencement of oil production highly uncertain. The FY 2015/16 Budget Framework Paper acknowledges that project appraisal is weak and promises to "institutionalize a rigorous appraisal system" for screening investment projects to improve their implementation. However, in addition to building capacity in the area of project appraisal, it is also necessary to complete work to strengthen the entire public investment management system, with this work already having commenced with support from World Bank (see Box 2).

Box 2: Strengthening Public Investment Management in Uganda for Improved Efficiency

**Public Investment Management Index (PIMI)**

| | PIMI | Appraisal | Selection | Implementation | Evaluation |
|---|---|---|---|---|---|
| **Uganda** | **0.36** | **0.20** | **0.70** | **0.38** | **0.18** |
| EAC | 0.38 | 0.30 | 0.45 | 0.53 | 0.23 |
| SSA | 0.38 | 0.33 | 0.45 | 0.48 | 0.28 |
| LIC | 0.47 | 0.21 | 0.28 | 0.30 | 0.20 |
| MIC | 0.57 | 0.21 | 0.30 | 0.28 | 0.22 |

Source: IMF and World Bank PIMI database.
Note. Parameterized indicators initially between 0-4 with 4 being best to 0 and 1

Uganda ranks 46th out of 71 countries in the IMF's public investment efficiency index (PIMI). Its scores are particularly poor with respect to project appraisal, implementation and evaluation (Box 2). The Country Economic Memorandum (CEM 2015) argues that improved efficiency in public sector spending would lead to higher GDP growth rates. In other words, higher growth would be achieved using fewer resources. Public Investment Management (PIM) systems need to improve, in terms of strategic guidance for public projects (alignment to NDP priorities and adoption of minimum technical and financial standards), project selection, budgeting and implementation (integration into the budget cycle and medium-term expenditure frameworks), project audit and evaluation. Improving the efficiency of public investment management (PIM), in terms of project appraisal, selection, implementation and evaluation, would increase the fiscal space available to developing countries, like Uganda, to invest in vital infrastructure projects much needed for growth and development.

The Government of Uganda has already taken steps to address the shortcomings in the area of PIM. The restructuring of the Ministry of Finance to create a department in charge of Project Analysis and PPP is already a positive step forward. The World Bank is providing a technical assistance for strengthening PIM to the Government of Uganda through a DfID trust fund. The aim of this technical assistance is threefold: (a) developing public investment guidelines and manuals; (b) capacity building; and (c) establishing an institutional organization, framework and arrangements to improve PIM

System. The following activities are being prioritized in the context of the TA: (i) Simplified Manual for Public Investment Appraisal; (ii) PIM Framework with recommendations on how the Government can improve the public management process to select better projects; (iii) Training activities in Log Frame Approach, Cost Benefit Analysis and Cost Effectiveness for public officials; and (iv) Action Plan with recommendations to establish an institutional organization, framework and arrangements to improve PIM System.

**Source: World Bank, 2015. Uganda Country Economic Memorandum**

**If implemented in accordance with its stated aims, the Public Financial Management (PFM) Act 2015 should result in significant improvements in the area of fiscal policy management**. The PFM Act covers many aspects of fiscal policy management, ranging from measures to improve transparency to the development of systems for the management of petroleum revenues (See Box 3). Already, the realignment of the budget timetable has enabled the budget to be passed by Parliament before the beginning of the financial year. This has removed uncertainties resulting from government entities spending on 'vote of account', an allowed spending of a portion of the approved budget, before it is approved by parliament. For the FY 2015/16 budget, the preparation, processing and approval processes need to be shifted forward. This enables budget implementation to proceed immediately at the beginning of the financial year, one factor that is expected to improve the absorption and implementation of the budget. For the first time, the budget has also included a contingency allocation, with clear conditions on usage. This is meant to facilitate emergency spending, the need for which may emerge during the course of year. Hence, it eliminates the need for supplementary budgets and in-year budget shifts between sectors. This is a significant measure, given that these two factors have negatively impacted the credibility of the budget in recent years. In addition, with the PFM Act mandating measures to improve transparency, the budget approved by the Parliament now has to include all securities and expenditures related to external grants.

Over the medium term, if the public investment program takes off to remove constraints to growth; if the new Public Financial Management Act is implemented in a manner that improves financial management systems; and if activities related to oil intensify to drive the level of private investment, Uganda's rate of economic growth should increase gradually, again reaching and perhaps even exceeding recent historical average rates of 7-8 percent. With domestic revenues improving only marginally, the increases required for infrastructure investments will result in an expanding fiscal deficit, which is expected to decline by about 2020. The forecast also assumes that inflationary pressures will be minimal beyond 2016 national elections and that the ongoing weakness of the global economy will have a disinflationary effect into the medium term. This increased rate of private investment will largely be driven by the exploitation of the country's oil resources and associated activities. It may also be driven by the removal of constraints affecting land markets to bolster access to credit; by the development of infrastructure, especially within urban centers; and by more efficient and effective rural development.

*Box 3: Uganda Public Financial Management (PFM) Act, 2015*

The PFM Act was enacted in March 2015. It is a major milestone that consolidates earlier existing laws on the management (collection, allocation and utilization) of public finances. It also updates existing PFM laws to accommodate emerging challenges. The PFM Act 2015 aims to streamline and ensure efficient management of public resources. The salient points of the PFM act include:

- *A Charter of Fiscal Responsibility that is aimed to ensure sound fiscal and macroeconomic management*.

This Charter requires that an elected government will, within three months following elections, be required to prepare and submit to Parliament a Charter of Fiscal Responsibility that will: (i) provide measureable objectives for the fiscal policy for the next 3 years; (ii) explain the methodology that will be used to measure government against set objectives; (iii) list sources of data; (iv) demonstrate how the fiscal objectives are consistent with prudent macroeconomic management; and (v) consistently provide an economic and fiscal update on the set objectives.

- *The Budget calendar should ensure that the budget for each financial year is effective as of the start of that financial year*.

This is aimed at ensuring predictability and timely availability of budget resources, thereby reducing budget implementation challenges. The budget for the subsequent year is required to be approved by Parliament on May 31, before the resumption of the fiscal year. This budget becomes effective on July 1, at the start of the fiscal year. This replaces the system where budget would be read to parliament in June and became effective on September 1, allowing spending agents to depend on 'vote on account' funding for the first quarter of the year.

- *Strict alignment of the budget with the National Development Plan*.

The annual budget shall be consistent with the NDP, the Charter of Fiscal Responsibility and the Budget Framework paper. As such, the annual budget shall be accompanied by a certificate of compliance with the annual budget of the previous financial year, with this certificate to be issued by the National Planning Authority. This is expected to limit in-year budget deviations that are inconsistent with approved budgets and NDP.

- *Strict reporting requirements in PFM and budget cycle*.
- *The establishment of a contingency fund to accommodate unforeseen emerging budget priorities*. This is intended to limit in year budget cuts for 'weak' sectors.
- *Removes flexibility of accounting officers to accumulate budget arrears*.
- *A vote shall not take any credit from a local company or body unless it has unpaid domestic arrears from debt incurred in a previous financial year.* In addition, it has capacity to pay for expenditure from the approved estimates as appropriated by Parliament for that financial year.
- *Provides legal and regulatory framework for the collection, allocation and management of petroleum revenue*

The PFM Act 2015 provides for the establishment of a Petroleum Fund in which all petroleum revenues that accrue to Government will be paid. Further, the Act provides for guidelines for collection, deposits, withdrawals, and transfers to the consolidated fund of petroleum revenues into and from the Fund; the reporting and accountability modes, including requiring that reports of the petroleum fund are presented to Parliament semi-annually by April 1 and December 31 every year. Amongst other matters, these reports should cover flows, volumes and sources of revenues in the fund. The Act also provides for the establishment of a Petroleum Revenue Investment Reserve under Parliamentary oversight, as well as guidelines and management for investments under the petroleum revenue investment reserve.

Source: Ministry of Finance

## 2.2 Internal risks are the most significant, but external risks also exist

**The economic outlook faces a number of risks, with the majority of these risks relating to fiscal management. The immediate risk relates to fiscal management in the context of pressures to increase spending during the election year.** With inflationary pressures already threatening stability, any unwarranted increases in expenditure may result in increases to the rate of inflation and to lower than expected levels of economic activity. This occurred during the 2011 election period, when inflationary pressures resulting from exogenous causes were exacerbated by the excessive use of government savings to finance expenditures driven by electoral pressures, pushing the rate of inflation to double digit figures. This pressure can come in different modes. For example, in complete disregard of a moratorium on creation of districts which became effective three years ago, parliament is considering to create four new districts. This move will increase the public administration budget for FY 2016/17 by Shs 236 billion, before consideration is made for the additional 22 districts planned to be created over the next five years, all of which will increase the total number of districts from the current 111 to 137. Yet creation of other administration units, including sub-counties, constituencies, and municipalities, will expand the size of parliament, and have major budgetary implications. In addition, the elections may result in increased anxiety and uncertainty, particularly if the political climate deteriorates and/or civil unrest occurs. This may have a negative impact on business and economic activity, especially in urban areas, thereby undermining the projected economic recovery.

**With poor performance in the area of domestic revenue mobilization and considerable uncertainty regarding the commencement of oil production and the subsequent flow of revenues, there remains considerable risks to the financing of investments in the country.** With Government plans to invest in a number of hydro projects, oil refineries, oil pipe lines and numerous transport infrastructure projects, the total value of the required investments is significant. Thus, there is a significant potential for financing risks if these investments are not properly managed and sequenced.[7] In the short to medium term, use of domestic resources will be limited by the shallow capital market, as undersubscription of auctions for government securities.

**A more expansionary fiscal policy will also result in higher levels of debt, the sustainability of which largely depends on whether the public investment program generates a strong private sector response that results in increased growth and increases to the value of domestic revenues**. Even with the anticipated investments, the risk of debt distress is still low for Uganda. The most recent Joint IMF-World Bank Debt Sustainability Analysis (DSA), conducted in June 2015, indicates that Uganda remains at a low level of risk of debt distress. The risk level remains low because the bulk of the debt derives from loans made on concessional terms, meaning that the debt will be paid back over a period of at least 30 years and at an interest rate not higher than three percent per annum. The Government's ambitious plan to scale up public investment remains consistent with the achievement of debt sustainability. Nonetheless, the debt service-to-revenue ratio is high owing to the relatively low revenues and the short maturity of domestic debt. In addition, there has been a recent shift towards increased domestic borrowing, with the share of domestic loans increasing to 50 percent by FY 2014/15. If this trend continues, it could crowd out private sector investments. While the period of maturity of government securities has been expanded to 15 years, with shallow capital markets, securities with maturity periods of less than one-year constitute 48 percent of the total. This short term maturation period, together with the Government's low levels of domestic revenue collection, creates a significant financing risk. Another critical factor affecting sustainability is the economic viability and appropriate cost recovery of the new projects, which will

[7] See discussion in the Fifth World Bank Economic Update, February 2015

continue to require a careful sequencing of execution that would be compatible with the economy's absorptive capacity and the Government's implementation capacities.

**Uganda remains vulnerable to a number of external shocks, including shocks related to fluctuations in the prices of its main exports and imports and to regional security.** As has been clearly demonstrated over the past few years, volatile commodity prices and financial distress in industrialized countries can affect Uganda's economy to a significant degree. In particular, variations in world food and energy prices can have adverse effects on the country's external position, and cause or exacerbate domestic inflation, as occurred in early 2010. While low oil prices are beneficial to Uganda's balance of trade, it has increased the risk to investment plans in the oil sector. If oil prices take longer to recover from the current levels of US $ 40 per barrel, compared to the estimated break-even price of US $ 60 per barrel for its production in Uganda, it may even require different choices with respect to the phasing of refinery and pipeline investments. A prolonged low economic activity in China will make Uganda's imports from there cheaper, but its impact on global demand could increase volatility in global commodity prices, including oil prices, may further reduce the value of the country's exports; exacerbate pressure on the currency; and increased inflationary pressures, all of which may contribute to a slowdown in economic growth. It could also result in lower capital inflows, including inflows from remittances and in the form of aid. This might result in significant additional pressures on the balance of payments, which would require the local currency to depreciate further to maintain competitiveness, rather than a depletion of foreign currency reserves or reduction in the value of the local currency. While depreciation in the value of the shilling would ensure that exports remain competitive, it could also lead to increased inflationary pressures. The country's trade prospects are also influenced by the security situation in neighboring countries, Burundi, the Democratic Republic of Congo (DRC), and South Sudan, although the recently signed peace accord between Government of South Sudan and the rebel factions, may reduce the threat of conflict in that part of the region.

## 2.3 Accelerating growth requires drilling deeper for productivity improvements

**Uganda's economic performance in the period from 1992 to 2010 was very impressive, with high rates of growth of income, poverty reduction and increased consumption levels for the poorest.** During those two decades, the annual rate of growth of GDP averaged 7.5 percent. The proportion of households living under the national poverty line stood at 19.5 percent in 2013, from 52 percent in 1992. Consumption by the bottom 40 percent grew at an average of around 3 percent over the twenty year period from 1993 to 2013, which is higher than most countries in the region. Strong performance was driven first by the reconstruction effort, and then by the gradual build-up of human and physical capital, following the wide ranging reforms starting in the 1990s. During that time, per capita income grew at an average annual rate of 3.7 percent. Over the same period, the number of new jobs in the formal sector increased by an average annual rate of 6 percent. If Uganda had continued to grow at that same rate, it would currently have a level of per capita income that is 7.7 percent higher in real terms than its actual realized level.

**In the past five years, economic performance has deteriorated in terms of a number of indicators.** The actual average rate of economic growth since 2010 has been two percentage points lower than in the previous period, standing at 5.4 percent. Hence, with the population continuing to grow at a rate in excess of three percent, the average per capita income has grown by just 2.4 percent per annum. With significant FDI inflows; the confirmation of recoverable reserves of oil in 2006; and plans for its production announced soon after, this period should have been associated with an increase in private investment, particularly in the period during which the infrastructure for the exploitation of oil resources should have been developed. Instead, the average annual rate of growth of private investment has declined from 11.2

percent in the two decades prior to 2010, to only 4.7 percent over the past five years. Across sectors, while services remained the largest contributor to GDP, the rate of growth for that sector has decelerated from 7.8 percent to 6.3 percent. Over the same periods, the rate of growth of the manufacturing sector decelerated from 9.8 percent to 3.0 percent. The rate of growth of the previously booming construction sector also declined from 10.3 percent to below 8.4 percent between these two periods. Agriculture grew at the slowest rate of 1.9 percent per annum over, which was also lower than the average rate of growth of 3.1 percent reached in the earlier decade.

**In spite of the adverse impact of the successive exogenous shocks, the deceleration in the rate of Uganda's economic growth can primarily be explained by the failure to achieve productivity improvements that sustain long term growth. These improvements would not only drive long-term growth, they would also make the country more resilient to exogenous shocks.** Successive shocks, both internal and external, including a global economic slowdown, regional disturbances, macroeconomic instability characterized by double digit inflation, and disruption in aid due to corruption cases, have all affected Uganda's macroeconomic performance. These shocks occurred in the context of the form of growth that is not fundamentally robust enough to sustain long term economic growth. At the aggregate level, the changes to the structure of production from agriculture to services have not been matched by a corresponding change in the structure of the labor force. Consequently, while the relative contribution of agriculture to total output has more than halved over the past two decades, sinking to around 25 percent of GDP over the past five years, it continues to be the primary source of employment for more than 75 percent of the labor force. At the micro level, growth has been underpinned by a proliferation of small low productivity firms, both within agricultural and non-agricultural sectors. Uganda's business growth has primarily involved low value-added products, as households divest away from agriculture and small-scale entrepreneurs occupy themselves in low-value retail services. With the bulk of new firms being established in sectors characterized by low value production, the transformation of production into manufacturing and higher value-added products has been slow. Businesses that have recorded increased levels of productivity have done so through the deployment of new technology which partially replaced labor, as has been the case in the financial services sub-sector. As stated in the Second Uganda Economic Update, the overall shift in production and employment patterns has not been growth enhancing because resources are shifting away from high productivity sectors to low productivity sectors. This could at least partially explain the overall slowdown in the rate of economic growth.

**For Uganda to sustain a high rate of economic growth, the country has to either raise the level of productivity in sectors where the largest proportion of its labor force is employed; to move people out of low productivity sectors; or both**. The approaches adopted to identify the most binding constraints to the productivity improvements in both rural and urban areas, and to implement policies that can address these constraints, are commendable. Indeed, efforts to build both physical and human capital by investing in infrastructure and social services can yield impressive results, if appropriately implemented. However, if other fundamental factors of production, such as land, are not managed appropriately, increases to productivity either within agriculture or within the non-agricultural sectors will be limited. Across space, this will apply to activities in rural areas, and within urban areas, which have and will continue to be the main platform for raising productivity across the country[8]. At present, current investments in infrastructure, particularly those involving road construction, face a number of challenges, including persistent delays and high costs resulting from issues related to land acquisition.

**Land is a vitally important factor in any country's production functions. Land is a vital prerequisite for the implementation of almost all economic activities, except the most sophisticated of virtual services.**

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[8] World Bank 2015, Uganda Economic Update, 5th Edition. *"The Growth Challenge: Can Ugandan Cities Get to Work?"* Washington DC.

In particular, land is required as the geographical base for agricultural and manufacturing activities. Land serves as one of the most significant forms of collateral for access to finance. Land provides stability for its owners, who can leverage land ownership to facilitate involvement in productive economic activities. Combined with labor and capital, land forms one of the most significant factors of production. Land usage determines how economic activities are re-structured as demographic patterns evolve; how urban areas develop; how governments source revenues for their operations; and how people live and interact. With its fundamental importance in all these areas, land use has a significant impact on a country's economic output; on its level of productivity; and on the degree of inclusiveness of its growth processes.

**Uganda's rapidly expanding population is placing increasing pressure on land usage. This has significant implications for the country's productivity.** The Uganda Bureau of Statistics has estimated that by August 2014, Uganda's population had reached 34.7 million, with an average annual rate of population growth of 3.0 percent. Based on these figures, Uganda has a population density of 194 persons per square kilometer. This compares to the figure of 80 persons per square kilometer in Kenya, and 116 in Ghana. With the majority of the population still living in rural areas, where the main source of livelihood is agriculture, land has been absorbing the rapidly expanding labor force without corresponding increases to the level of productivity. As the population continues to increase, patterns of land use and ownership are expected to change. If the appropriate policies are not implemented and the appropriate institutions are not developed, then these changes may result in a decline in the overall productivity of the land, and possibly the increased occurrence of social conflict. At the same time, a significant and increasing proportion of the population now lives in urban areas. These areas will continue to be the drivers of growth, facilitating economic transformation through a shift towards higher value added activities. So far, the highest rates of growth in population density are recorded in the central region, where the country's major urban centers are located. These areas have also been the sources of growth and off-farm job creation.

**As global experience demonstrates, Uganda can raise productivity even with rising densities if a significant proportion of the increasingly large labor force is engaged in higher value economic activities.** While countries such as Belgium, the United Kingdom, and Switzerland have population densities comparable to or indeed far greater those of Uganda, their economic output, both in per capita and absolute terms, is many times greater. With its population density of 194 persons per square kilometer, the total value of Uganda's economic output in 2014 amounted to US $ 26 billion. By contrast, Belgium, with a population density of 371 persons per square kilometer, generated an economic output equivalent to a value of US $ 533 billion of GDP in the same year. Similarly, the United Kingdom, with a density of 267 persons per square kilometer, generated an economic output equivalent to a value of US $ 2,941 billion of GDP. Similar experiences across the world demonstrate that land can be managed appropriately to generate rapid and sustainable growth, even in the context of high population densities.

**The Government's focus on agricultural transformation is intended to raise productivity in rural areas. However, for this transformation to occur, land must be utilized appropriately.** Currently, Uganda is a low income country whose labor force is predominantly employed in the agricultural sector. With the bulk of those involved in agriculture operating in subsistence farming operations, the agricultural sector has not responded effectively to changes in the terms of trade. The persistently low rates of growth achieved by the agricultural sector are largely due to low productivity growth. With 58 percent of agricultural output being derived from small farms of less than one hectare, and another 38 percent from farms of not more than five hectares, achievement of a structural transformation involving the smooth implementation of smallholder agricultural commercialization[9] makes good economic sense. For these

[9] World Bank 2012, Uganda Promoting Inclusive Growth: Transforming Farms, Human Capital and Economic Geography, Washington DC.

farms to thrive, land rights must be secure and further fragmentation of farmland avoided to ascertain availability of minimum sizes that can support commercialization, in addition to provision of rural connectivity, rural finance accessibility, and agricultural services. Larger scale agricultural investments, on the other hand, require access to a secure land market which can provide the land in appropriate size and no encumbrances.

**For the process of urbanization to take place rapidly and efficiently, proper land use is critically important to ensuring that these areas drive growth in productivity and productive employment.** The economic benefits of urban growth come from exploiting economies of scale; from agglomeration effects; and from effective substitution between land and non-land inputs. One of the most important pillars of an efficient city is appropriate land use, which in turn is determined by land policies and institutions that support urban efficiency. Increasing the density of economic activities is one of the key features of successful urbanization, enabled by using land for higher value activities over time.

**The Government's ambitious program to develop infrastructure has faced major implementation challenges. The bulk of these challenges relate to lack of proper land use policy; weak land administration and management systems (including for valuation, information storage and retrieval); and corruption.** In a country where most land is privately owned, public projects that require land face major costs related to compensation, especially where new roads are being constructed or existing ones are extended. By June 2015, 18 major road upgrading projects, with a total budget of Shs 4.65 trillion, required payment of compensation for land estimated to reach a value equivalent to between 3 to 24 percent of the budget, depending on the location of the road. In addition to the cost of compensation, these projects face major delays caused by the need to resolve issues related to land acquisition, with these delays further increasing the cost of construction. As a result of these factors, all but one of the Government's major road construction projects have been subject to significant delays.[10]

**If land is used efficiently, it can support the processes of agricultural transformation and urbanization, enabling the country to raise its level of productivity and achieve the economic transformation to which it aspires.** As in many other successfully developing regions around the world, transformation of land use is a key characteristic of economic transformation. As a general rule, the greater the extent to which land is used for higher productivity activities and the labor force moves away from low productivity activities in subsistence agriculture, the more rapid the rate of economic transformation. Within rural areas, economic activity will remain fairly widely distributed with productivity differences determined by soil fertility, climate and access to technology and market infrastructure. In urban areas, the level of economic development is determined by the extent to which land is adaptable to changing market demand. This raises two questions:

1. Is the manner in which land is managed in Uganda promoting productivity improvement and supportive of the transformation process?
2. What can Uganda do to ensure that this fundamental factor of production supports economic transformation?

As can be seen from the experience of other countries, the ability of Uganda to leverage land use to promote positive economic development will depend greatly on the level of security of land tenure and the ease with which land rights can be transferred between different entities, including individuals, households and firms and government. Part 2 of this Economic Update discusses these issues to identify opportunities for leveraging land to becoming a major driver of productivity improvements in the country into the future.

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[10] Uganda National Roads Authority, June 2015, Status report on Road Development Projects, Kampala, Uganda

## PART 2: Proper land administration and management: A Key to productivity improvements, but how can it be done?

- *Uganda is characterized by a high level of land tenure insecurity, with weak institutions for land administration management, which factors are constraining the country from exploiting land to accelerate the pace of agricultural transformation; to plan and build effective cities; and to generally shift the economy to higher productivity levels. The cost of insecurity is high. For instance, It is estimated that land related disputes result in a loss of agricultural productivity of at least 5 to 11 percent of the total value of agricultural output. In addition, failure to manage land appropriately means that urban areas are failing to reach the level of density necessary to exploit economies of agglomeration.*
- *Improving the land tenure security and developing land markets requires a multi-pronged approach. On one hand Government can adopt measures to accelerate the registration of individually, including use of innovative, cost efficient technology such as that used in Rwanda. On the other the institutions responsible for land administration, including its valuation must be strengthened. Yet in spite of the many policies pertaining, there are critical policy gaps to close to promote security and marketability of land.*
- *Only 20 percent of land in Uganda is registered, the bulk of which under the mailo land tenure system. Special attention ought to be given to the remaining 80 percent, which holding a huge is also more complicated to register as it is mainly land in northern and north-eastern Uganda and is communally owned, unregistered, and illiquid. In addition to establishing communal land owning groups as legal entities whose land can be registered, linkages between communally owned land groups and investors should be established to negotiate legally binding stakes in promising investments.*
- *Improving land use should not be restricted to private land, which could be taxed to discourage the practice of the acquisition of land as a non-productive investment, but also make better use of land owned by Government by registering the land and rectifying processes for its allocation. In addition, development of the National Urban Policy and National Housing Policy must be accelerated to guide the use of land in urban areas to promote more efficient and effective land usage*

# 3. Faster economic transformation calls for better land management?

**The extent to which the use of land supports economic growth and overall development depends to a significant degree on the level of security of land rights. It also depends on the degree to which these rights can be transferred between individuals, households, and firms and/or acquired by government institutions acting in the public interest, with fair and full compensation paid to the owners of the land in such cases**. While Sub-Saharan Africa is endowed with half of the world's uncultivated usable land, it is vulnerable to land grabbing and expropriation without adequate compensation, as about 90 percent of its rural land is undocumented.[11] In fact, in the last 10 years, investors have claimed millions of hectares of agricultural land in violation of the principles of responsible agro-investment in an environment that neither protects the land rights of local communities nor secures long term interests of investors.[12] Thus, despite the extent of the land available for agriculture, a large proportion of Africa's population is affected by food insecurity and productivity gaps;[13] land degradation; and the proliferation of slums. It is no coincidence that much of the continent remains mired in poverty. Is Uganda much different from comparable countries on the continent? The next section attempts to address this question by exploring the state of tenure security and the state of land markets that enable or constrain the transfer of land rights from one entity or individual to another in Uganda. It then attempts to analyze how these factors affect productivity, investments and growth.

## 3.1 Rights to land ownership in Uganda remain insecure

**The three most important factors determining the level of land tenure security are: (i) the existence of legally binding rights to an area of land; (ii) the existence of a system to document, store and retrieve information regarding this land and the nature of the rights to it; and (iii) the degree of efficiency and integrity of a system or mechanism for resolving disputes related to those rights**. In terms of the first of these factors, the legal rights to an area of land are ordinarily established by a formal system of tenure, the nature of which is determined by the existing laws and regulations in the country. In terms of the second and third of these factors, the management of information and the resolution of disputes are determined by the existence of institutions with a legal mandate and the capacities to enable them to manage these issues.

**The current land tenure system in Uganda has evolved over a long period, with good progress being made in terms of formulating and promulgating legislation to form a basis for security of land tenure. However, additional progress needs to be made to improve this legislation and to ensure that it is actually implemented appropriately**. A number of acts of legislation were promulgated and implemented during the colonial period to establish the foundations for a system for the management of land and land rights. However, in the postcolonial period, the most significant act of legislation in these terms has been Uganda's 1995 Constitution (see Annex 1). The 1995 Constitution vests *radical title*, the ultimate ownership of land, in the people of Uganda, enabling rights to a particular piece of land to be held in accordance with the freehold, leasehold, *mailo* land and customary land tenure system. It is estimated that 2 percent of land is held under freehold, 4 under leasehold, 14 percent under *mailo, and* 80 percent under customary ownership, and (see Figure 12). However, in all these cases, the Government has residual authority to control land use in public interest. Thus, under laws enacted by parliament and in accordance

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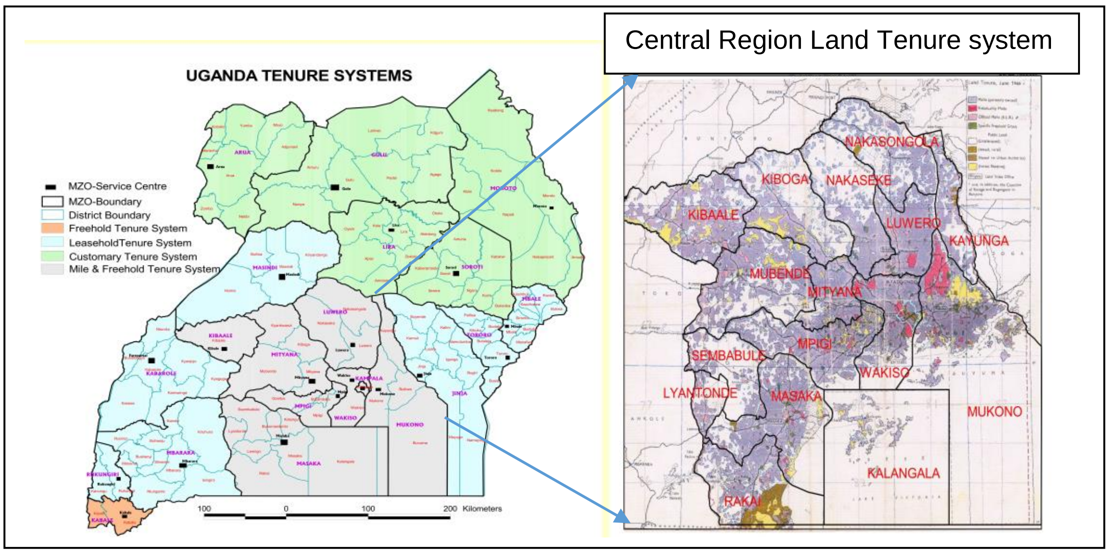
[11] Byamugisha, F. F. K. 2013. "*Securing Africa's Land for Shared Prosperity: A program to Scale up Reforms and Investments"*. Africa Development Forum Series. Washington DC. World Bank.

[12] Cotula, L. 2013. "*The Great African Land Grab? Agricultural Investments and the Global Food System*". African Arguments.

[13] Deininger, K., D. Byerlee, J. Lindsay, A. Norton, H. Selod, and M. Stickler. 2011. "*Rising global interest in farmland: Can it yield sustainable and equitable benefits?"* Washington, D.C.: World Bank.

with evolving government policies, the Government may regulate the use of land in the public interest. Uganda's land tenure system is characterized by three positive aspects that conform to good practice. Firstly, unlike in many other countries, where radical title is vested in the *state*, in Uganda, radical title is vested in the *people*. Secondly, customary tenure is legally recognized. Thirdly, the residual interest of the state to control land use in public interest is tightly defined in law to ensure that public interest does not include investment for private gain. These characteristics give Uganda's land tenure system a solid legal foundation for the efficient and effective management of land. However, its *mailo* land tenure system, which is a specific form of freehold tenure with strong historical roots, results in overlapping land rights between the landlord and the tenants of the land, with the latter being legally recognized as lawful or *bona fide* occupants with inheritable and transactable rights similar to those of landlords. In addition, while the legal framework for the management of land is relatively strong, its implementation has often been uneven.

*Figure 12: Uganda's diverse systems of land tenure with that in the central region even more complex*




Source: Ministry of Lands, Housing and Urban Development

**At least until recently, Uganda's system for the documentation of land rights and the management of related information has been extremely dysfunctional. This dysfunctionality often resulted in inefficiencies and created opportunities for corruption, with the land rights of many landowners undocumented and access to information even for the documented owners being severely constrained**. In total, only approximately 20 percent of Uganda's land is formally registered. While this is in fact significantly higher than the average for Sub-Saharan Africa, which stands at only around 10 percent, it still means that approximately 80 percent of Uganda's land is undocumented and informally administered. This compares poorly to Western European countries, where on average more than 95 percent of land is documented.[14] With the limited extent of registration in Uganda, a significant proportion of land remains vulnerable to land grabbing and expropriation without compensation.[15] The recent initiatives to accelerate registration of land; to store related information in an easily accessible electronic format; and

[14] Schmid, H. C. U and C. Hertel, 2005. Real Property Law and Procedure in the European Union: General Report, Final Version. European University Institute Florence/European Private Law Forum Deutsches Notarinstitut Wurzburg.
[15] Byamugisha, F. F. K. 2013. Securing Africa's Land for Shared Prosperity: A program to Scale up Reforms and Investments. Africa Development Forum Series. Washington DC. World Bank.

to improve access to this information, are highly commendable. These initiatives aim to register one million rural land parcels (out of a total of approximately 7 million rural parcels) within five years. If achieved, this will increase the proportion of registered land to more than 30 percent. This will bring Uganda close to the level achieved by Kenya, where the figure stands at approximately 40 percent. However, even greater efforts will be needed if Uganda is to reach the level achieved by the top performers within Sub-Saharan Africa. For example, in Ethiopia, more than 50 percent of land is titled. Similarly, Rwanda has increased the proportion of land with formal titles from less than 10 percent to more than 60 percent over a period of five years and fully digitalized information related to land records.[16]

**Given the overlapping land rights and the poor state of documentation related to these rights in Uganda, cases of conflict related to land have been common, particularly in cases of land involving *mailo* tenure and in post-conflict and oil exploration areas**. The frequent occurrence of such conflicts has heightened the state of insecurity of land tenure, with frequent illegal displacement of tenants and stalled investments, all of which have significant negative implications for the economy. According to the Uganda National Household Survey of 2005/06, it is estimated that land disputes affect 6.5 percent of agricultural landholdings. It must be acknowledged that this situation is not unique to Uganda, with a similar situation prevailing in other countries in the region. While there are no accurate data to assess and compare the prevalence of land disputes in Africa, anecdotal evidence from caseloads in judicial systems indicates that land disputes are common throughout the region. For example, in Ghana, it is estimated that 50 percent of all new civil cases relate to land disputes, with this proportion increasing if land-related criminal matters are taken into account.[17] In Ethiopia, one-third to one-half of all cases within the formal judicial system are related to land disputes,[18] while in Uganda, the proportion reaches more than 50 percent of cases.

**Land disputes have historically been concentrated in the densely populated central region, an area which has been characterized by relatively unclear land rights. However, increasingly, such disputes are also taking place in areas experiencing speculative economic booms and where institutions have been weakened by prolonged conflict.** The hot spots for land-related disputes have mainly been located in the central region and in Kibaale, with many of these disputes involving *mailo* land.[19] In recent years, the number of disputes between investors and local communities in the Albertine region, West Nile, Acholi, Karamoja and other oil and mineral-rich regions has escalated due to frictions arising from conflict of interest and speculative land buying.[20] In the northern region and Teso sub-region, where a significant proportion of land is communally owned, demand for land has increased dramatically as a large number of internally displaced people have returned to their natal districts at the same time as investor interest has also increased significantly due to the cessation of conflict.[21] Similarly, in a number of areas in the Acholi, Elgon and Karamoja sub-regions, members of local communities have contested the gazetting of land by the Uganda Wildlife Authority (UWA), especially where they have not been effectively engaged in

[16] World Bank 2015, Logistics Performance Index, Washington DC (forthcoming)

[17] Ghana Judicial Service, 2010. "*Impact analysis of the automated Land Courts in Accra*." Draft Working Paper

[18] Deininger, Selod and Burns 2012. "The Land Governance Assessment Framework: Identifying and Monitoring Good Practice in the Land Sector." World Bank, Washington, DC

[19] Deininger, K and D. A. Ali, 2008. "*Do Overlapping Land Rights Reduce Agricultural Investment? Evidence from Uganda"*. American Journal of Agricultural Economics, Vol. 90, No. 4, pp. 869-882, November 2008

[20] Otim and Mugisa 2014. "Beyond the Reach of the Hoe: The struggle for land and minerals in Northern Uganda", A Report for Safer World, Preventing Violent Conflict, Building Safer Lives, UK Aid, April 2014

[21] Human Rights Focus 2013. "Land Conflict Monitoring and Mapping Tool for the Acholi Sub-Region", Final Report, March 2013. Research conducted under the United Nations Peacebuilding Programme in Uganda. World Bank 2009. *Uganda: Post-Conflict Land Policy and Administration Options*. The World Bank, AFTAR Report 46110-UG, Washington, D.C.

the policy change processes.[22] Regions with a significant proportion of immigrants, especially in Bunyoro, have also faced conflicts as a result of the influx of non-indigenous people, with this influx weakening and challenging traditional systems of land administration.[23]

**The lack of effective institutions and resolution mechanisms has exacerbated land disputes, particularly in the areas where long periods of conflict have eroded or even erased the authority of the responsible institutions**. Formal institutions with a mandate to resolve land disputes are supervised by the Land Division of the High Court. As with many other areas of the judiciary, this division is seriously understaffed and under-budgeted. Before 2006, the division was supported in the implementation of its duties by District Land Tribunals, which though recognized under the law, have ceased to exist. The system was also intended to incorporate sub-county land tribunals, which would have eased the pressure on higher level entities by operating at the sub-county level. However, these sub-county land tribunals were abolished by the Land Amendment Act of 2004, which aimed at among other things, to streamline the institutional arrangements for implementation of the Land Act. Their duties were assumed by the magistrates' courts. The Local Council Courts, at the bottom of the hierarchy, are the institutions with which members of the public generally have the most frequent contact. Given that they are supposed to handle cases without imposing costs on litigants, they are the court of choice for most ordinary members of the community. However, the very lack of formal remuneration which is their main attraction creates perverse incentives and opportunities for corruption.

Thus, the formal institutions with a mandate for the resolution of land disputes are generally weak, under-resourced, and lacking in credibility. At the same time, traditional institutions, which used to play a significant role in areas of northern and north eastern Uganda where communal land ownership systems dominate, have been weakened by many years of conflict, especially in the Acholi and Lango sub-regions.[24] Recent efforts by the Government to improve and modernize both the formal institutions responsible for land dispute resolution and their interface with the informal customary institutions that administer undocumented land, are commended and should be accelerated and expanded upon.

## 3.2 Land markets exist, but are still narrow, segmented, and inefficient

**As is the case with all forms of assets, the market plays a significant role in facilitating the achievement of efficiency, enabling the transfer of land from less efficient users to more efficient users. In essence, the market provides a means to facilitate a transformation from low to higher productivity activities and to narrow the productivity gap between farms and among firms.** To a large extent, the level of access to land for households and investors is determined by the existence and operations of land markets on the one hand, and that of credit markets to supply funds to facilitate land market transactions on the other. If financial markets are developed and work efficiently, even residents of rural areas engaged in agriculture will be able to access finance, using loans to buy or rent land, and using that land to move out of poverty by achieving higher levels of productivity and/or consumption. However, when credit markets are underdeveloped, the ability of the poor to access credit to purchase land is limited.

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[22] Rugadya, Nsamba-Gayiiya and Kamusiime 2014. *"Tenure in Mystery: The Status of Land under Wildlife, Forestry and Mining Concessions in Karamoja Region, Uganda*", Paper prepared for presentation at the "2014 World Bank Conference on Land and Poverty*".* The World Bank - Washington DC, March 24-27, 2014.
[23] Mwesigye and Matsumoto 2014. "*Rural-rural Migration and Land Conflicts: Implications on Agricultural Productivity in Uganda*", Paper prepared for presentation at the "2014 World Bank Conference on Land and Poverty*".* The World Bank - Washington DC, March 24-27, 2014.
[24] World Bank 2009. *Uganda: Post-Conflict Land Policy and Administration Options*. The World Bank, AFTAR Report 46110-UG, Washington, D.C.

**To some extent, Uganda does have active land markets, with these markets operating at various levels of efficiency and effectiveness in different regions and serving different clientele across the various sectors.** However, as in the case of financial markets, the level of effectiveness of land markets in Uganda varies considerably both between rural and urban areas, and between different regions. In the central region, where a system of individual land ownership predominates, land markets function very differently from the north and north east, where a significant proportion of land is collectively owned. Indeed, with formal titles existing for most land in central Uganda, this region is characterized by a significantly more active market, without the constraints resulting from overlapping rights on *mailo* land. According to the Uganda National Household survey for 2005/06, up to 59 percent of cases of acquisition of agricultural land in the central region involved purchases through formal markets, compared to 47 percent in the western regions; 39 percent in the eastern region; and 6 percent in the northern regions. Except for the central region, where it accounts for 40 percent of the land acquisitions, the most dominant mode of acquisition is inheritance, which accounts for 49 percent of the acquisitions in western region; 60 percent in eastern region; and 91 percent in northern region. The low level of participation in the market in the Northern region is mainly because the majority of land in this region is communally owned. The Human Rights Watch Report of 2013 states that more than 90 percent of land in the Acholi sub-region is communally owned. There are considerable defects in the land markets in these regions. For example, according to the National Household Survey of 2005/06, due to the lack of clear and secure rights to land, 37 percent of the land cannot be sold; 34 percent cannot be rented; and 44 percent cannot be used as security for a loan.

**Even when land markets exist, the acquisition of land for public investment has been problematic due to the weakness of institutions involved in the valuation of land and to the related high levels of corruption.** As most land used for such investments is privately owned, the public sector is normally required to compensate land owners for the development of public projects such as the construction of roads and other infrastructure. This requires an assessment of the required compensation and the raising of funds for this compensation. Unless there is a strong capacity and clear processes for land valuation to determine the appropriate level of compensation, it will not be possible to acquire land for public projects in a timely manner, even if a budget for the payment of compensation is available. The limited level of capacity to conduct assessments of the value of land and the limited availability of funds to pay the appropriate level of compensation for the acquisition of this land have been major constraints to the implementation of public investments, as shown by the case of the construction of the Kampala-Entebbe Expressway.[25]

**Land markets in Uganda are also characterized by high transaction costs**. For projects to be attractive or even feasible for investors, the process of acquiring and registering land must be cost efficient and time efficient. In Uganda, it takes an average of 43 days to facilitate the transfer of land titles, with the average financial cost amounting to 2.6 percent of the value of the property. This is still better than some other countries in the region, with it taking an average of 190 days to facilitate the transfer of land titles in Angola and with the associated financial costs of facilitating such a transfer in Lagos, Nigeria, amounting to up to 21 percent of the value of the property. However, the figures in Uganda compare unfavorably to the average time for transferring property in OECD countries.[26]

**Costs associated with corruption also raise the overall transaction costs for the transfer of land in Uganda.** In Uganda, the average *recorded* financial cost for transferring property is far lower than the average of 4 percent of the value of the property in OECD countries. However, in reality, in Uganda, the

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[25] Uganda Daily Monitor Newspaper, July 11, 2015. “Pending claims holding works on Entebbe Expressway – UNRA”.

[26] World Bank 2014., Doing Business 2015: Going beyond efficiency. Washington, DC: World Bank.

*actual* cost is far higher due to the requirement to pay bribes to land administration services to facilitate transactions. In some cases, these costs may be even higher than the formal costs. In fact, according to Transparency International's 2013 Global Corruption report, land administration services were regarded as the third most corrupt public institution, after the police and the judiciary, with one in five people involved in transactions with institutions responsible for the provision of these services reporting that they had paid a bribe.[27] Similarly, the East African Bribery Index states that in Uganda, in 2013, the average value of a bribe paid by households for land administration services was about US$ 90 (equivalent to UGX 218,722).[28] The value of such bribes was the third highest in a list of the average value of bribes paid to a total of 10 institutions, being slightly less than the value of similar bribes in Kenya, where the value stood at slightly more than US$100 in 2012, or KShs 9,842.[29] Given the high formal and hidden costs associated with transferring land, measures to improve the functioning of land markets must include actions to reduce these costs. This is necessary to ensure that land transfers from less efficient producers to more efficient producers take place fast and at minimum cost, thereby enhancing productivity.

**In addition to markets for the sale of land, Uganda has historically had rental markets, with these markets providing access to land for those who cannot directly buy it. However, the efficiency and effectiveness of these markets has been declining in recent times.** Contrary to popular belief, Uganda has historically had active land rental markets. In a cross-country comparative study[30] of land markets in Sub-Saharan Africa, with a specific focus on Eastern and Southern Africa, it was found that land markets, particularly informal land rental markets, are more widely spread and active than had generally been believed. The study found that land rental markets played a significant role in improving the level of access to land for the land poor and provided rent income for those with land that they could not use productively. This finding mitigated fears raised earlier by a number of researchers that the development of land markets could cause landlessness and an unhealthy concentration of land ownership.[31]

**The benefits that could accrue from the efficient functioning of rental markets have been corroborated by experiences in other countries.** The ability of such markets to enhance efficiency and equity has also been noted in West Africa, where land rental markets have a long history and often provide a means to facilitate access to land for commercial crop production, such as for cocoa farming in Ghana,[32] and to provide improved opportunities and better access to resources for farming activities across gender and level of education.[33] Evidence from the Republic of Sudan indicates that land rental markets facilitate the transfer of land to smaller producers, thereby promoting a more equitable distribution of land.[34] In Malawi and Zambia, participation in the rural land rental market is strongly conditioned by the degree of land scarcity. Thus, the ability of rental markets to facilitate the transfer of land from less efficient producers

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[27] Transparency International 2013. Global Corruption Barometer 2013

[28] Transparency International 2013. Global Corruption Barometer 2013.

[29] Transparency International Kenya 2012. East Africa Bribery Index 2012

[30] Holden, S. T., K. Otsuka and F. Place (eds.). 2008. *The emergence of land markets in Africa: Impacts on poverty, equity and efficiency*. Resources for the Future Press, Washington DC.

[31] Sjaastad, E. 2003. "Trends in the emergence of agricultural land markets in Sub-Saharan Africa". *Forum Development Studies* 30 (1), 5-28.

[32] Amanor, K. S., and M. K. Diderutuah. 2001. "Share contracts in the oil palm and citrus Belt of Ghana." London: International Institute for Environment and Development

[33] Estudillo, J. P., A. R. Quisumbing, and K. Otsuka. 2001. "Gender differences in land inheritance and schooling investments in the rural Philippines." *London Economics* 77 (1): 130-43.

[34] Kevane, M. 1996. "Agrarian structure and agricultural practice: Typology and application to Western Sudan." *American Journal of Agricultural Economics* 78 (1): 236-45.

to more efficient producers was higher in land scarce Malawi than in land abundant Zambia, despite the significant transaction costs which may hamper efficiency gains from the transactions.[35]

**Despite the benefits derived from efficient rental markets, recent acts of legislation intended to streamline the relationship between landlords and tenants under the *mailo* land system may have adversely affected these markets.** The 1998 Land Act and its amendment in 2010 introduced legislation that aimed to protect tenants from the obligation to pay excessive rent for the land and from eviction. This legislation granted tenants fully transactable and inheritable land use rights while maintaining nominal rents at abnormally low levels and protecting tenants from eviction except with a court order. This development generated conflicts and acted as a strong disincentive for landlords to participate in land rental markets. While the proportion of agricultural households renting land had increased from 13 percent in 1992 to 36 percent in 1999,[36] this figure declined to 17 percent by 2007 following the implementation of this legislation.[37] The share is estimated to have declined even further following the promulgation of amendments to the Land Act (1998) in 2010 to check the rapid eviction of tenants by landlords.

**Historically, land markets in Uganda have operated without a strong institutional framework to monitor and regulate their operations.** Land markets require the presence of the state to ensure they operate within the terms defined by the legal framework. Thus, in addition to developing this legal framework, the state must develop the institutional infrastructure, systems and personnel for registering, valuing and taxing land transactions and for regulating land use.[38] In Uganda, such interventions are administered through the Ministry of Lands, Housing and Urban Development and its associated agencies. These land-related agencies register land transactions such as sales, mortgages and inheritances. They also directly conduct or facilitate the valuation of land and facilitate state acquisition and taxation activities and other land-related transactions. Furthermore, they are mandated with the responsibility for establishing standards for and regulating the activities of real estate professionals, including surveyors, valuers, physical planners and real estate agents.

**In the context of the issues addressed in this section, it is clear that in Uganda, the role of the formal land markets is still limited, particularly in areas where a large proportion of land is communally owned, where such markets are often almost non-existent.** Without proper markets to facilitate the reallocation of this vitally important production asset, it is unlikely that an efficient distribution of land will be achieved. Unless this issue is addressed, it will continue to serve as a significant constraint on the achievement of higher levels of productivity in both rural and urban areas.

## 3.3 What is the cost of land tenure insecurity and inefficient land markets?

**Around the world, it has been increasingly recognized that a failure to manage and utilize land well can act as a major obstacle on the achievement of economic growth and on poverty reduction.** Land plays a critically important role in the social, political and economic life of Uganda. In the rural context, land is a key determinant of livelihoods, with access to land facilitating residents of rural areas' ability to engage in

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[35] Chamberlin, J. and J. Ricker-Gilbert. 2014. "Rural land rental markets in Southern Africa: trends, drivers, and impacts on household welfare in Malawi and Zambia". Selected paper for presentation at the Agricultural and Applied Economics Association 2014 Annual Meeting in Minneapolis, Minnesota, July 27-29, 2014.
[36] Deininger, K. and P. Mpuga, 2003. "Land markets in Uganda: Incidence, impact and evolution over time". Discussion Paper. World Bank, Washington DC. Working Paper No. 4454.
[37] Baland, J. M., F. Gaspart, J.M. Platteau, and F. Place. 2007. "The distributive impact of land markets in Uganda." *Economic Development and Cultural Change* 55(2): 283-311.
[38] Williamson, I., S. Enemark, J. Wallace, and A. Rajabffard. 2010. *Land Administration for Sustainable Development*. ESRI Press Academic, Redlands, California

agriculture and to exploit natural resources, with these activities providing the main means of achieving food security and generating incomes and employment. For many Ugandans, land also has major cultural and spiritual significance. In urban areas, good land management plays a vital role in the achievement of efficient urban development, with a significant effect on building densities, mobility, and the provision of decent housing to the urban population. As De Soto states, without secure rights, land is dead capital.[39]

**Economic development in Uganda has been constrained by a lack of tenure security and by the inefficient operation of land markets, both in rural and in urban areas**. Many activities that could facilitate accelerated economic development, including the commercialization of agriculture; the production of higher value products; the construction of vitally necessary infrastructure; and the implementation of measures to improve connectivity and mobility within and between cities and to improve housing, require secure land rights and fluid land markets to ensure efficient exchanges between those who own land and those who need to acquire it for these purposes.

### (i) Slow transformation of agriculture

**Uganda has failed to facilitate a transformation of the agricultural sector, with this sector growing at a much slower rate than that of the overall economy. This has been largely the result of the low rate of productivity growth, with poor land management being a major contributing factor**. In spite of its huge potential, agriculture in Uganda has been growing at an average rate of less than two percent per annum over the past decade, recording one of the lowest rates of productivity improvement in the world. Various interventions have been implemented to eliminate credit market failures; to address information related failures, particularly related to inputs and advisory services; and to rectify goods market failures to ensure farmers produce gets to the market. However, the failure of these interventions to achieve their intended outcomes may be due to the fact that they have not effectively supported the adoption of innovative technology and the intended development of markets.

**In Uganda, as a result of fragmentation and prevailing land management practices, most agricultural activities are conducted on small farms. This acts as a constraint on the sector, preventing it from adopting technological innovations that may result in improved productivity.** In fact, the evidence shows that in Uganda, farms of a size of less than five hectares use resources more efficiently and hence are more productive, with these farms contributing to more than 94 percent of agricultural output.[40] However, smallholder farming is characterized by inherent personalization and informality. This acts as a constraint against economies of scale in skills and technology; finance and access to capital; and the organization and logistics of trading.[41] Small farms do not have the potential to internalize the costs of technological innovation adoption and adaptation, which would enable them to achieve higher levels of productivity as well as to internalize institutional costs.

**However, larger farms in Uganda also record relatively low levels of productivity.** On the one hand, farmers who already have land have not used it effectively, while those who would like to access land for large scale farming have faced challenges, especially if their targeted investments is in the land abundant north, where at the same time markets are not functioning properly, yet. Therefore, the country has ended up with large scale farmers operating like “big peasants” because they are cultivating 20 acres of a particular crop with family labor and producing a yield of five bags per acre. The term ‘big’ is being used relative to the larger number of farmers who may be cultivating one acre using modern technology and

[39] De Soto, Hernando, 2000, The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else (New York: Basic Books).
[40] World Bank 2012, Uganda Promoting Inclusive Growth: Transforming Farms, Human Capital and Economic Geography, Washington DC.
[41] Collier and Dercon (2014), African Agriculture in 50 years: Smallholders in a Rapidly Changing World?

generating a yield of 20 bags per acre. These co-exist with a number of promising commercialization and agro-industry sectors failing to expand due to a number of major challenges, a large proportion of which relate to availability of land[42]. The sugar sector, for instance, is the largest organized agriculture sector in the country, which is also based on sustainable development activities. However, expansion of this industry has been constrained by land availability. Other examples include the flowers industries, whose investors would be interested in acquiring unencumbered land on leasehold terms. Upland rice on the other hand requires land consolidation to support a more sustainable production process.

**Insecurity of land rights has acted as a constraint against investments in agriculture, irrespective of the size of the farm**. In areas such as the northern and north-eastern regions of Uganda, where the system of communal land ownership predominates and where land administration institutions are particularly weak, investors have faced major challenges to buy or rent land and invest on a large scale. Such areas also have a large potential for large scale farming, but because the communal land owning groups are not legal entities and therefore can neither register their land nor enter into contracts with investors, this potential has not been realized.

**The impact of land disputes on the growth and transformation of the agricultural sector has been significant, with an estimated 5-11 percent of agricultural production being lost due to land conflicts**.[43] The impact is even larger in areas where the system of *mailo* land tenure predominates, such as in the central region and in Kibaale district. In these areas, it has been estimated that losses due to land conflicts increase to up to 25 percent of agricultural production.[44] Similarly, yields are on average 20 percent lower in conflict areas.[45] According to the private sector analysts, the new land policy still does not satisfactorily address the longstanding issues of land conflicts and land fragmentation.[46]

### (ii) Constraining business development, particularly in the industrial sector

**Except in cases involving the provision of the most sophisticated of virtual services (such as ship registration in Panama, the provision of domain names in Tuvalu, and similar services building on virtual networks), establishing or expanding a business requires physical space**. In some cases, it is theoretically possible to reduce the requirement for such space through vertical expansion, such as through the use of multistoried buildings. However, many activities, particularly those in the manufacturing, mining and other industrial sectors, require land both as a base for activities and for the production and extraction of raw materials. The bulk of Ugandan businesses continue to operate in the informal sector. Of those in the formal sector, more than 90 percent of those established in the first decade of the 21st century were small businesses with not more than five employees, with the vast majority of these businesses engaged in the services sector. Attempts to establish larger businesses have met with numerous challenges, with the difficulties involved in the acquisition of land being one of these. In fact this could be the reason why

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[42] Private Sector Foundation Uganda, 2012 "*Private Sector Plan for Action – A Synopsis of Private Sector Growth Challenges and Proposals for Policy Reform*". Kampala. Uganda

[43] Deininger, K. and R. Castagnini, 2004. *"Incidence and impact of land conflict in Uganda"*. Policy Research Working Paper. World Bank, Washington DC. Working Paper No.3248.

[44] Deininger, K and D. A. Ali, 2008. "Do Overlapping Land Rights Reduce Agricultural Investment? Evidence from Uganda". *American Journal of Agricultural Economics, Vol. 90, No. 4, pp. 869-882, November 2008*.

[45] Mwesigye, F. and T. Matsumoto, 2014. *"Rural-rural Migration and Land Conflicts: Implications on Agricultural Productivity in Uganda*", Paper prepared for presentation at the "2014 World Bank Conference on Land and Poverty*".* The World Bank - Washington DC, March 24-27, 2014.

[46] Private Sector Foundation, 2015 E-Newsletter July 2015

economic transformation in Uganda has involved the movement of economic activity away from agriculture towards services.

**Activities such as industrial operations that require large pieces of land are still few, but will increase as transformation continues. Currently such operations face enormous challenges acquiring land**. With respect to the development of the extractives industry, the private sector has already urged Government to urgently address the issue of land especially for upstream development of oil and mining activities. They note that a robust legislative framework needs to be established which secures land for upstream oil development , a refinery and pipelines in an efficient manner but also minimizes land take and accounts for community needs[47]. Although Uganda Investment Authority has programs to allocate land to investors, there are still difficulties with respect to industries that do not meet the criteria set for accessing this land. As discussed in previous sections, many of these difficulties relate to issues such as overlapping rights and to disputes regarding compensation claims. In terms of ease of doing business, in the area of the challenges involved in the transfer of property rights, Uganda ranks 125th out of 189 countries.[48] And in the enterprise survey[49] the difficulty of accessing land ranked among the six most significant constraints on facilitating the growth of enterprises.

### (iii) Constraining access of financial services

**The limited extent to which land is formally registered and the lack of security of tenure also acts as a constraint against accessing finance and to the overall development of financial services**. The ability to use land as collateral enables the mobilization of capital embedded in land, thereby expanding the deposit base and reducing the level of risk faced by lending institutions.[50] The existence of easily transferable land titles facilitates the use of these titles as collateral, reducing the cost of accessing credit. In developed countries, on average, more than two thirds of small business loans are secured on the basis of collateral in the form of land and real estate. In Eastern and Central Europe, the establishment of a comprehensive formal land titling system, especially in urban and peri-urban areas, played a significant role in the development of mortgage markets, which now provide a basis for a significant proportion of overall lending.[51] By contrast, in Uganda, a large proportion of the population remains excluded from accessing credit due to the lack of such collateral. At present, the total value of credit provided to the private sector in Uganda is equivalent to 13.5 percent of GDP. This is less than half the value in neighboring Kenya, where the figure stands at 32 percent. In more developed markets, such as in South Africa, the figure is in excess of 100 percent.

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[47] Private Sector Foundation Uganda, 2012 "*Private Sector Plan for Action – A Synopsis of Private Sector Growth Challenges and Proposals for Policy Reform*". Kampala. Uganda

[48] World Bank. 2014. *Doing Business 2015: Going beyond efficiency.* Washington, DC: World Bank

[49] World Bank. 2014. Uganda - Enterprise Survey 2013. Washington, DC: World Bank

[50] Byamugisha, FFK. 1999. The effects of land registration on financial development and economic growth: A theoretical and conceptual framework. Policy Research Working Paper 2240. Washington DC: The World Bank.

[51] Satana, S., M. P. Torhonen, A. Anand and G. Adlington. 2014. "*Economic impact of ECA land registration projects"*. Paper prepared for the presentation at the Annual World Bank Conference on Land and Poverty, March 24-27, 2014. Washington DC: World Bank.

*Box 4: Firms do not use bank credit to finance investments*

In line with Uganda's regulatory requirements for firm registration, up to 87 percent of firms hold bank accounts. This level is similar to the average for Sub-Saharan Africa, and only slightly lower than the World Average of 88 percent (Table B1). The value of collateral required to secure a loan also falls below the world average. However, firms in Uganda do not use bank credit to a significant extent, either for investments or for working capital. According to the 2013 enterprise survey, only 8 percent of Ugandan firms financed their investments with bank loans, compared to the global average of 27 percent. The majority of firms (80 percent) still financed their investments using internal sources, compared to the global average of 69 percent across the world, with some 13 percent securing financing through equity or stocks. To secure working capital, and even smaller proportion of firms use bank credit as the source of financing, with only 7 percent of businesses doing so, compared to the average of 10 percent across SSA.

**Table B1: Firms access to finance in remains lowly in Uganda**

| | Region | | |
|---|---|---|---|
| **Indicator** | **Uganda** | **SSA** | **World** |
| Percent of firms with a checking or savings account | 86.7 | 88.1 | 88.2 |
| Percent of firms with a bank loan/line of credit | 9.8 | 23.8 | 36.5 |
| Proportion of loans requiring collateral (%) | 86.4 | 79.7 | 77.3 |
| Value of collateral needed for a loan (% of the loan amount) | 159.4 | 175.2 | 182.2 |
| Percent of firms not needing a loan | 41.9 | 34.1 | 40.9 |
| Percent of firms whose recent loan application was rejected | 7.7 | 15.3 | 14.5 |
| Percent of firms using banks to finance investments | 8.2 | 18.0 | 27.3 |
| Proportion of investments financed internally (%) | 79.5 | 78.3 | 69.2 |
| Proportion of investments financed by banks (%) | 3.3 | 9.9 | 16.3 |

Source. World Bank, Uganda-Review of Financial Sector, 2015

**Financial institutions in Uganda generally insist that borrowers provide some form of collateral in order to mitigate the high risk of lending in an environment where information is scarce and unreliable**. Uganda's financial infrastructure remains underdeveloped, with one of the characteristics of this underdevelopment being a high level of risk aversion on the part of lending institutions. Uganda ranks relatively lowly in terms of the credit indicator of the Ease of Doing Business index. In terms of the depth of credit information, Uganda scores 0 points on a scale of 0 to 6. In terms of the strength of the legal rights of creditors, Uganda also ranks relatively lowly (6 points out of 12), primarily because there is no collateral registry and secured creditors are not paid first. An increase in the extent of easily transferable legal titles would unleash this "dead capital" so that it could be used as collateral to secure loans to fund new businesses or for other purposes.

### (iv) Constraining efficient urbanization

**Lack of land tenure security and undeveloped land markets have also prevented Uganda from fully benefiting from the economic benefits that could be derived from urban growth, with these potential benefits including economies of scale; agglomeration; and the effective substitution of land with non-land inputs**. The development of efficient cities is predicated upon an efficient system of land use, which in turn is determined by the promulgation of the appropriate policies and the development of the appropriate institutions to ensure their effective implementation. An increased density of economic activities is one of the key characteristics of successful urbanization, with this increased density being achieved through the use of a greater proportion of land for higher value activities. At present, land-related constraints create significant entry costs for businesses in urban areas. For instance, despite recent restructuring, it still takes an average of 154 days and costs the equivalent of 11 percent of the value of a warehouse for a business to obtain a construction permit in Kampala, while registering property takes 43 days.

**Planning for urban infrastructure has also been difficult given the current state of land management.** Following the promulgation of the 1995 constitution, which created private land ownership and either converted to freehold land leases vested with urban local bodies or transferred their management to the Uganda Land Commission or district land boards, fragmentation of land parcels and rapid suburbanization has ensued, with fiscally starved local governments unable to acquire land and protect rights-of-way for infrastructure improvements. On the other hand, unhealthy rural-urban migration could be exacerbated by the unclear property rights and related conflicts that adversely affect agriculture and have created disincentives for investment and are estimated to have reduced agricultural productivity by up to 25 percent. Yet customary tenure systems in the East and North restrict the sale and rent of land.

**The lack of fluidity of land as an asset acts as a constraint against the achievement of higher levels of productivity and economic integration as urbanization progresses.** For example, the existence of efficient land rental markets, made possible by secure land tenure, can facilitate the process of rural to urban migration, enabling residents of rural areas to participate in more rewarding off farm activities. The existence of such markets enables farmers to sell or lease out their land to secure the funds necessary to facilitate the migration process, with the possibility of their reacquiring their land if they later return to rural areas. A phenomena of this sort occurred in Thailand during the boom-bust period in the period from 1997 to 1999, when farmers sold or rented out their land to facilitate migration to urban areas to engage in non-agricultural activities, before returning to rural areas to again buy or receive back their rented land when non-agricultural opportunities diminished following the economic downturn.[52] In rural China, when the security of land tenure was strengthened through the elimination of the system of the administrative reallocation of agricultural land and through the introduction of long term land leases, landowners were able to rent out their land to migrate to the booming coastal areas and cities, where they were able to engage in more remunerative activities.[53] The degree of market fluidity depends on numerous factors, the most important factor being the level of land tenure security. As the previous section of this report has made clear, Uganda's land is still marred by insecurity of tenure, perpetuated by unclear property rights, disputes, and conflicts.

In Kampala for instance, there are a number of problems with respect to urban land policy. One, urban land in Uganda, and particularly so in Kampala, is characterized by ineffective and inadequate management systems. For instance, Kampala has multiple land administration organizations, such as, Kampala Capital Council Land Board, Uganda Land Commission, Buganda Land Board and so on, each pursuing its own interests irrespective of the urban development standards. Two, ineffective regulation

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[52] Brits, A.M., C. Grant, and T. Burns. 2002. "*Comparative study of land administration systems with special reference to Thailand, Indonesia and Karnataka (India).*" Paper presented at the World Bank Regional Land Workshop, June 4-6, Phnom Penh, Cambodia.

[53] Deininger, K. and S. Jin, 2007. "Land rental markets in the process of rural structural transformation: Productivity and equity impacts in China", a World Bank Policy Research Working Paper No. 4454.

of urban land has deterred access to land especially for investment and public use. Specifically, urban councils, responsible for controlling land use in a given administrative unit, have practically failed to override private interests. They have no leverage of power to control access and ownership of urban land. Three, the existing policy lays much emphasis onto tenure security rather than development. For instance, 7 percent of Kampala's land area is associated with Kabaka's unplanned settlements while 75 percent belongs to private mailo. It is mainly because of this type of land ownership structure that development control has not been affected in the city as expected. It also perpetuates land speculation which withdraws land from the market thereby causing artificial shortage which increases the cost of land. Four, multiple land tenure systems exist in Kampala which constrain the preparation and implementation of agreed physical plans. For example, transport and school development plans initiated by the central government or city councils are not being implemented because most of the schools and urban councils do not have land title. Especially revealing is the case of Makindye Division, where there are contradictions in land ownership policies between Mengo and KCCA because 60 percent of land is owned by the Kingdom (Ministry of Land Housing and Urban Development, 2013). In sum, Kampala's land policy should focus on the establishment of a special land tenure regime for an orderly and sustainable urban development and service delivery.[54]

### (v) Constraining infrastructure development

**The lack of fluidity in land markets has also constrained the development of public infrastructure and other services, both for central government and local urban authorities.** The public sector needs to acquire land to implement investments in infrastructure, including roads, highways and railways. This requires the expropriation of land and the payment of compensation, both of which require sound institutional capacities and effective systems to accurately identify the owners of the land; to conduct valuations; and to allocate funds for the payment of compensation from sources such as land taxes.

**With economic development, increased demand for land, together with public investment in infrastructure and roads tends to increase land values**. In many cases, however, lack of well-functioning mechanisms to tax land implies that the potential for society, especially local governments, to benefit from these increases is limited. Instead much of the gains fuel speculation or end up as bribes. Colombia illustrates the potential for quick increases in land taxes that can contribute significantly to local government revenue, thus helping to match decentralization of responsibilities for service delivery with the needed resources.

# 4 What should Uganda do to ensure land contributes rather than constrains productivity improvements?

**The discussion in the previous section shows that in Uganda, the limited ability to transfer land may be acting as a binding constraint on endeavors to improve productivity in both rural and urban areas**. The increasing population density in urban areas has been accompanied by increased difficulty in utilizing land for new purposes and for transferring ownership from one entity to another. In turn, this has acted as a constraint on investment and on the achievement of a transformation characterized by an increase in higher productivity activities. This situation is at least partly the result of a failure by the Government to address bad laws that have created overlapping rights and conflicting interests. The Government has also inadequately facilitated the development of institutions that can manage land transactions appropriately. In addition, in many regions, land markets are either non-existent or are dysfunctional, being characterized by a high rate of speculative transactions, especially in urban areas and in areas in which

[54] Goswami A. G. and S. Lall, 2015 *"Jobs in the City: Explaining Urban Spatial Structure in Kampala", forthcoming*

significant public infrastructure development projects are being implemented. In rural areas, these dysfunctional markets enable exploitative transactions, which result from a lack of information and/or unequal power relations between buyers and sellers. This dysfunctionality has resulted in an increased rate of occurrence of conflicts and disputes. If current patterns of land management continue, a significant proportion of Uganda's population will remain poor due to the failure to transform the agricultural sector and to facilitate a shift towards an increased emphasis on higher value production. In addition, this dysfunctionality means that, rather than driving equitable economic growth, the process of urbanization will exacerbate the proliferation of slums on the peripheries of cities; increased congestion; and a decline in the quality of infrastructure as the costs of construction and compensation escalate.

**Ugandan policy makers must adopt and implement smart policies that will ensure that land becomes a more productive asset that contributes to a more rapid positive transformation and diversification of the economic base**. These policies should aim to: (i) promote security of land tenure and reduce conflicts and disputes caused by overlapping rights; (ii) promote the marketization of land, including through rental markets; and (iii) strengthen institutions for the appropriate management of land. The implementation of these policies would facilitate the achievement of higher levels of productivity and hence generate a large surplus, enabling the Government to benefit from increased revenues, a portion of which could be used to compensate those who may lose out in the process of economic transformation. However, vested interests, suspicion, fear of disruption to livelihoods, activism against any form of land reforms, sensitivities around the location of investment projects, all need to be taken into account to manage the tensions that may arise through the process of land reforms. In particular, in certain areas, there are numerous cultural and political sensitivities, with historical conflicts that have resulted in serious conflict and animosity between landlords and tenants. These animosities are exacerbated by weaknesses within formal land administration institutions, which in turn are exacerbated by in-fighting over mandates for the adjudication of land cases and by the lack of funding for key institutions.

**The Government must strive to sustain the progress made in formulating policies related to land management and administration to close gaps and accelerate the achievement of its goals.** The Ugandan authorities have made important strides in the establishment of a smart policy framework for land management and administration. In addition to the National Land Use Policy of 2007 and the National Land Policy of 2013, the Government is currently in the advanced stages of developing a complementary National Resettlement Policy, National Urban Policy and a National Housing Policy. It has also embarked on the process of rehabilitating and modernizing institutions with a mandate for the management of land administration, including through the computerization of land information systems. According to the 1995 Constitution and the terms of the Land Act 1998, the Uganda Land Commission operates a Land Fund, the objective of which is to fund the purchase of land by lawful and *bona fide* occupants from landlords and to finance the resettlement of those made landless by disasters. There are also initiatives to establish communal land owners in Northern Uganda as legal entities for the purposes of land management and registration, while at the same time accelerating the systematic registration of individual land rights more generally. These policies should be informed by and be consistent with regional and global initiatives for land reform to which Uganda is a party, including the African Union's Framework and Guidelines on Land Policy in Africa, the Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security and the Principles for Responsible Investment in Agriculture and Food Systems.

**However, while the establishment of the appropriate legal framework is critically important, ensuring the appropriate implementation and enforcement of this framework is just as crucial in order to ensure that land in Uganda is secure, transferable, marketable, and thereby plays a significant positive role in the achievement of economic development**. Land policy is a highly political issue. It is not possible to disentangle its determinants and impacts from the material and political interests of the individuals and groups involved. However, despite the political challenges involved, the cost of inaction may cripple Uganda's economy. While it is impossible to avoid politically difficult actions, it is vitally important to develop a clear and transparent framework to avoid controversy and conflict. To prevent this, a wide range of stakeholders should be involved in the process of reform.

Drawing on lessons from global experience, particularly from countries in Africa that share many similar characteristics with Uganda, this report recommends four points of action to address critical issues related to land use and the transferability of land assets and to strengthen institutions responsible for the administration of land and land tenure. The first two of these actions build on the Government's prior achievements and involve: (i) accelerating the process of land registration; and (ii) redesigning the Land Fund to ensure that it operates more efficiently and equitably. The second two actions are intended to accelerate the implementation of land reforms and involve: (iii) strengthening institutions responsible for land management and administration; and (iv) strengthening systems for the valuation of land.

## 4.1 Accelerating the process of land registration

**Increasing the overall proportion of land in Uganda that is formally registered would ultimately result in significant improvements to productivity. Thus, the Government should take steps to develop and implement systems that accelerate the achievement of this goal.** The Government has already implemented a number of measures to systematically register land, with various measures intended to ensure registration of individually, communally and state owned land. The proper demarcation and registration of land is a first step towards improving the security of land tenure and raising the productivity of land. Global evidence suggests that land tenure security has a positive and significant impact on investment and productivity.[55] In China, the break-up of collective farming in 1978; the adoption of individual rights to use land in the 1980s; and the issuance to households long term leases even without registration, nearly tripled the rate of growth of the agricultural sector, from an average annual rate of 2.7 percent in the period from 1970 to 1978 to 7.4 percent in the period from 1979 to 1984. These reforms had considerable impact on China's agricultural production notwithstanding the weaknesses including a ban on land sales and mortgages, and inadequate compensation for land acquisition by local governments[56]. More recently, in the 2000s, the implementation of systems to facilitate the registration of land rights has resulted in improved land tenure security and increases in the value of investments in Ethiopia[57] and Rwanda.[58]

**Table 3: Improving land management can contribute to productivity growth**

| | Land Reform Type | Growth in the Agriculture sector |
|---|---|---|
| **Japan (1954-68)** | Redistribution & registration | 4.0 |

[55] Lawry, S., C. Samii, R. Hall, A. Leopold, D. Hornby and F. Mtero. 2014. "*The impact of land property rights interventions on investment and agricultural productivity in developing countries: A systematic review*". Campbell Systematic Review 2014:1

[56] Byamugisha, F. F. K. 2014. "*Land reform and investments in agriculture for socio-economic transformation of Uganda*", Paper presented at the National Development Policy Forum, Kampala, Uganda. July 2014.

[57] Deininger, K., D. A. Ali, and T. Alemu. 2011. "*Productivity effects of land rental markets in Ethiopia: Evidence from a matched tenant-landlord sample*." Policy Research Working Paper 5727, World Bank, Washington, DC.

[58] Ali, D., K. Deininger, and M. Goldstein. 2011. *"Environmental and Gender Impacts of Land Tenure Regularization in Africa: Pilot Evidence from Rwanda."* World Bank Policy Research Working Paper No. 5765, World Bank, Washington, DC.

| | | |
|---|---|---|
| **S. Korea (1954-63)** | Redistribution & registration | 4.0 |
| **Taiwan (1953-64)** | Redistribution & registration | 4.6 |
| **China (1979-84)** | Decollectivization & long term leases | 7.4 |
| **Viet Nam (1991-95)** | Decollectivization & long term leases | 4.1 |

Source: Byamugisha, F. F. K. 2014. "Land reform and investments in agriculture for socio-economic transformation of Uganda", Paper presented at the National Development Policy Forum, Kampala, Uganda. July 2014.

**The Government must accelerate its land registration program to increase the proportion of formally registered land to exceed that of the targeted level of 30 percent in the next five years**. The systematic land titling program that the Government has initiated must be supported with an extensive sensitization and information campaign on the benefits and challenges of registering land in the country. This initiative should build on the lessons and experiences of the pilot phase of the program, which was undertaken in the period from 2005 to 2007 and which covered the three districts of Ntungamo, Iganga and Mbale. The pilot involved the systematic registration of land on the basis of a detailed survey of boundaries in peri-urban areas and in areas with high value rural land. The Government expects to issue one million new land titles in the next five years, mostly in rural areas. This process will involve the use of low cost technology and will build on experiences from Rwanda and Ethiopia. The program is intended to increase the proportion of titled land in Uganda to 30 percent. However, this is still very low compared to the rates achieved by neighboring countries such as Rwanda, which has achieved the rate of at least 60 percent, and Ethiopia, which has achieved the rate of about 50 percent.

*Box 5: Registering Land Rights fast and cheaply: Experience from Rwanda*

Rwanda first embarked on a systematic land tenure regularization program with the implementation of a pilot program in the period from 2008 to 2009, following which the program was scaled up in the period from 2010 to 2013. This program utilized a systematic community-by-community participatory approach implemented in cooperation with local land committees. Low technology "general boundaries" rules and simple methods of boundary demarcation were utilized by locally trained para-surveyors, who used aerial photography and/or satellite imagery to conduct mapping. By March 2015, virtually all land parcels in Rwanda, a total of 11.3 million, had been demarcated, with 8.3 million land titles having been approved and printed for issuance. However, only 7.2 million land titles, representing about 64 percent of the total number of demarcated plots, had been collected by owners. The gap (36 percent) between the number of demarcated land parcels and the collected titles may be attributed to a number of factors, including the absence of owners, with some being located outside the country. Another factor may have been the inability of some owners to pay for the land titles, despite the low fees charged.

The total cost of the land title regularization program was about US $ 60 million, of which 25 percent was funded by the Government of Rwanda and the rest by development partners, including DFID. Of the total cost of US $ 60 million, approximately US $ 7 million (about 12%) was recovered through fees charged for the collection of titles, with these fees amounting to an average of approximately US $ 1.6 per parcel, except in Kigali (the capital), where the fee imposed averaged at approximately US $ 8.3. The average cost of demarcating a parcel and issuing the associated title deed was approximately US $ 8. On average, the cost recovery for the program was 12 percent, implying a total subsidy of 88 percent. However, land owners in the capital paid the full cost, while the owners outside the capital received a subsidy of about 80 percent. It should be noted that the average cost per title of US $ 8 is low, given that the average cost of similar exercises globally is in the range of US $ 20. Despite the low cost, the program significantly improved tenure security and women's access to land and it also increased land rental market activities (Ali, Deininger and Goldstein 2011).

**Source:** Sagashya, D. G. 2014. "Land tenure reform in developing countries: What can we learn from Rwanda?" World Bank Land and Poverty Conference. Washington DC; Ali, D. A., K. Deininger, and M. Duponchel. 2015. "Sustainability of the LTR program: Preliminary results from the 2015 household survey round in rural Rwanda." Kigali, May 5, 2015. MINERENA.

**It will be possible to accelerate the process of land registration through the use of low cost, efficient technology, as has been demonstrated by the experience of a number of other countries, including several African countries.** Thailand employed a low cost remote sensing and satellite technology to produce orthophotos using ground survey methods to implement its 20 year land titling program. Using a similar methodology, but based on cheap labor and less expensive and more efficient technology , which also uses remote sensing and satellite imagery, Rwanda was able to undertake a country-wide land registration program by utilizing an advanced spatial framework entirely based on photo maps, which enabled the process to be completed rapidly and at low-cost. Within a period of about five years, ending March 2015, Rwanda demarcated 11.3 million land parcels across the entire country and issued land titles for 7.1 million of these parcels at an average cost of US$ 8 per parcel. Almost 100 percent of Rwanda's land is now demarcated, with 64 percent of the demarcated parcels having their titles collected by land owners (see Box 4). Many other countries have implemented fast, effective and low cost approaches to registering land. In Ethiopia, certificates for 20 million parcels were issued at an average cost of less than US $ 1 per parcel. The completion of this program has incentivized landowners to rent land. Although government policy still limits these transactions, placing restrictions on how much land can be rented and for how long, as the system evolves, markets are expected to become more active, leading to increased land concentration and higher rates of migration from rural to urban areas. Ethiopia is piloting the method used by Rwanda, which relies on low cost cadastral index maps to demarcate and register land. The Ugandan Government is in the process of adopting similar technologies to scale up its own land registration program but is preceding the program with design of a GIS software and with other necessary preparations to ensure that the captured land titling data integrates smoothly in the business processes and workflows of the land information system and that there are no constraints to registering subsequent transactions unlike in Rwanda where only 30 percent of such rural land transactions are being registered (after completion of the systematic land regularization program in 2013) partly due to the high transaction costs and fees of registration faced by clients[59]. Given the potential benefits from scaling up this program, it is important that implementation of this reform program remains a top priority. For optimal results to be achieved, the Government must commit to extending its efforts beyond the project currently being funded by the World Bank.[60]

**To accelerate the process of land registration, it will also be necessary to move forward with the registration of communally owned land, including through the formalization of landowning groups**. More than 50 land owning groups have already been organized, out of which ten have been registered as Communal Land Associations (CLAs). The Government should build on this initial process to scale up the registration of land-owning groups as CLAs and to register their land in line with the 1998 Land Act. Under the current program, at least 600 CLAs could be organized, with their land rights being adjudicated, demarcated, and registered. However, as incidences of resistance to the titling program have demonstrated in the past, some communities are still suspicious of government intentions and resistant to engaging in land market transactions with non-community members. This resistance must be overcome through measures to win their acceptance. Linking these communities to investors, with a legally binding stake in the new investments, could help. Moreover, organizations in these areas would likely be more receptive to engaging in land markets if they were able to rent out their land, rather than selling it. Therefore, the current program to formalize groups and to register their land needs to be accompanied by the promulgation of the necessary regulations and guidelines for long term leasing, as was successfully

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[59] Ali, D. A., K. Deininger, and M. Duponchel. 2015. "Sustainability of the LTR program: Preliminary results from the 2015 household survey round in rural Rwanda." Kigali, May 5, 2015. MINERENA.

[60] The LIS program is being supported by a World Bank- supported GOU project "Competitiveness and Enterprise Development Project"

implemented with the *Ejidos* in Mexico; with native lands in Fiji; and with *allodial* lands in Ghana (see Box 5).

*Box 6: Land Rental Markets in Communally Owned Land: Experiences in Mexico, Fiji and Ghana*

**Mexico**: *Ejidos* are communal settlements owned by beneficiaries of land reform processes in Mexico. These settlements were subject to an accelerated land reform process in the period from 1992 to 1999, with this process involving the formalization of community groups as land owners; the establishment of community self-governance institutions; and the registration of communal land rights. Within a five year period, 57.2 million hectares of land were measured and mapped, with 2.9 million households receiving certificates to individual, common, and housing land. The program increased security of land access for approximately 1 million households who previously had few or no land rights. It also improved governance: more than 18,000 *Ejidos* formalized internal bylaws through the assembly, with 90 percent electing representatives through a democratic process. The program provided a strong legal basis for numerous contracts and joint ventures between *Ejidos* and entities from outside the communities.

**Ghana**: About 80 percent of Ghana's land is held under customary tenure. This land is administered by traditional authorities (chiefs) who are recognized by Ghana's Constitution as trustees with the authority to allocate land to their subjects for use. The traditional authorities are also empowered to endorse individual allocations of land for registration. As legal trustees, traditional authorities are also empowered to enter into long term leases with investors. In fact, they are the main source of land for commercial investments in agriculture in Ghana.

**Fiji**: About 87 percent of land in Fiji is held under customary title (native land). This land is owned communally by indigenous Fijians, who make about half of Fiji's population. Fijians of Indian origin make up about 45 percent of the population but do not own land. However, the Fijians of Indian origin are the key planters of sugar cane, with this planting being conducted on native land leased from indigenous Fijians on 30-year renewable leases, with lease arrangements managed by an autonomous entity called iTaukei Land Trust Board (TLTB). TLTB manages land transactions involving other entities, including local and foreign investors.

**Source:** Byamugisha, F. F. K. 2013. *Securing Africa's Land for Shared Prosperity: A program to Scale up Reforms and Investments*. Africa Development Forum Series. Washington DC. World Bank; Dodd, M. J. K., 2012. Reform of leasing regimes for customary land in Fiji, A dissertation for a Bachelor of law, University of Otago; and World Bank. 2011. "Ghana Second Land Administration Project. Project appraisal document. World Bank, Washington, DC.

**Government-owned land should also be demarcated and registered to promote the achievement of higher levels of productivity**. The Government still owns large amounts of land either directly or indirectly, including land declared as public land during the colonial period. Much of this land is either unused or underused. For this type of land, the most urgent action is to undertake an inventory to establish the status of occupation and the purpose for which the land is used. Once this process has been completed, the land could then be allocated to the land poor and to investors on the basis of transparent and competitive processes, as advocated by the National Land Policy 2013, while resisting pressures from business entities that wish to obtain government land without going through competitive processes[61]. There is no doubt that there will be some obstacles to the implementation of this plan, as it may involve the displacement of entities currently utilizing the land. However, the benefits could be significant, as experiences in other countries have shown. For example, in Ghana, a similar process enabled the Government to start managing state land assets more effectively and productively. The Government of Ghana is in the process of preparing a comprehensive policy for the management of public land (see Box 6).

**To promote its efficient use, all land, including that owned by religious and cultural institutions, should be clearly demarcated and registered**. Cultural and religious institutions have large holdings of unused and underutilized land, both in rural and urban areas. As in the case of government owned land, much of this land is not properly demarcated. Often, its occupation status and the purpose for which it is used is

[61] "Ministers gave me Namulonge Land – Sudhir", Daily Monitor Newspaper, Thursday August 27, 2015

*Box 7: State land inventories: Ghana's experience*

Ghana has a large stock of government-owned land, most of which was accumulated during the 1950s under the radical land policies of Kwame Nkrumah. In 2001, it was estimated that the Ghanaian government owned 40 percent of all urban and peri-urban land (Kasanga and Kotey 2001). To improve the management of state-owned land, in the period from 2003 to 2010, the Ghanaian Government worked to establish a national inventory of these lands, with the objective of establishing accurate information as a basis for decisions related to the management of public land. The process involved the collection of information on the location, size, ownership, and the boundary measurements of land, as well as current land use and encumbrances, including the presence of squatters. Ten consulting firms implemented pilot inventory exercises in three regions of the country, through which 1,144 sites were identified, significantly greater than the 288 sites compiled from public land sector agencies' records. The exercise provided a clearer picture of the composition of government land and of the principal sources of tension in communities impacted by government land acquisitions. For example, of the 722 sites inventoried, only 58 (less than 10 percent) were formally acquired, compensated for, and fully used for their intended purpose; 198 sites (27 percent) were occupied and used by state agencies without any formal acquisition process; the acquisition status could not be established for 377 (52 percent) sites; and 6 sites reserved by the state were never formally acquired and were not being used for the intended purpose.

**Source:** Ahene, R. and F. F. K. Byamugisha. 2014. "Inventory of government land: Lessons from Ghana and Uganda." Chapter 6 in Byamugisha, F. F. K (ed.). *Agricultural Land Redistribution and Land Administration in Sub-Saharan Africa: Case Studies of Recent Reforms*. Directions in Development. World Bank: Washington DC

not clearly defined. Hence, there is a need for an inventory to demarcate and identify the status of occupation and use. While recognizing that this is private land administered by cultural and religious authorities as trustees, the Government has an interest in ensuring that the land is used efficiently to benefit not only the land owners and tenants, but the nation as a whole. To promote the efficient use of these lands, one option is for government to provide subsidies by way of grants and technical assistance to religious and cultural authorities to: (i) take inventory and register their lands; and (ii) to improve management of their lands, in a similar way as the Government has supported traditional authorities to establish Customary Land Secretariats for land administration and to demarcate allodial boundaries.[62]

## 4.2 Redesigning the Land Fund

The Ugandan government should redesign the Land Fund to achieve higher levels of efficiency and equity. This will require the Government to promote the sharing and redistribution of land between *mailo* landlords and tenants through free negotiations between the two parties to enable one party to buy out the rights of the other, followed by support to improve productivity on the land. Current operations of the Land Fund are not efficient and equitable (see Box 8). The National Land Policy of 2013 provides a basis for changes to the Land Fund to include land sharing, facilitated by mediators and with technical assistance and for improved funding provided to enable *bona fide* and lawful occupants to buy the residual land rights of landlords. Additional steps are required to ensure that the Land Fund provides an effective means to disentangle the overlapping land rights and to make the land more productive. First, the operational priorities of the Land Fund should be revised from the single political objective of restitution to that of a multi-objective operation that not only addresses restitution, but also poverty reduction. This should be achieved by prioritizing the provision of support to poor tenants, agricultural workers and displaced citizens, and other land poor and landless Ugandans in the agricultural sector.

62 World Bank. 2011. "Ghana Second Land Administration Project. Project appraisal document. World Bank, Washington, DC.

*Box 8: Uganda Land Fund to address historical injustices and landlessness*

The Land Fund (LF) was created under the Land Act of 1998, to be managed by the Uganda Land Commission (ULC) to primarily (a) give loans to lawful and bona fide occupants to buy out and register residual interests of landlords or to buy on their behalf those residual interests to settle injustices caused during the colonial era; and (b) resettle people rendered landless by Government action, natural disaster or any other cause. Since FY 2002/03 when it started its operations, the LF received funding of UShs 31.1 billion and acquired 62,279.74 hectares of land with bona fide occupants on it in Kibaale district, thereby buying out the interests of landlords. However, the ULC has not taken any further action on the land: it has neither transferred the ownership interests to the bona fide occupants nor evicted them. Furthermore, since its establishment, the LF has not undertaken any actions to improve the productivity of the land it purchased partly because productivity improvement is not part of its mandate. Based on the amount of land purchased and the money put into the LF, the approximate cost is nearly UShs 500,000 per hectare. In the meantime, the design of the fund also led to distortion of prices on account of the land lords' expectation that their land was to be bought off by the fund. For Kibaale district, it was found that by 2004, just one year after the setup of the fund, prices for mailo land had increased to levels higher than the expected future income stream from agricultural production on that land, and also higher than prices for freehold and customary land, despite the encumbrances on mailo land (Deininger, Ayalew and Yamano 2006).

**Source**: Based on information from MLHUD; Deininger, K., D. Ayalew and T. Yamano, 2006. Legal knowledge and economic development: The case of land rights in Uganda, World Bank Research Working Paper No. 3868, Washington DC: World Bank

Second, the operations of the Land Fund should be made more efficient by: (i) involving beneficiaries (*bona fide* occupants) in negotiating the price of residual rights of landlords to avoid the imposition of exorbitant prices; and (ii) incorporating in the operations of the Land Fund the necessary technical services and agricultural inputs to raise the productivity of land incorporated within the Land Fund. The Government can learn from the experiences of Brazil and Malawi's land reform programs, which successfully incorporated measures to achieve improved efficiency and poverty reduction (see Box 9). Based on the Regulations for the Land Fund gazetted in March 2014, the Uganda Land Commission should urgently issue Guidelines for the Land Fund, taking into account the guidance provided in the 2013 National Land Policy and the experience of land reforms elsewhere, such as in Malawi and Brazil.

*Box 9: Land acquisition and development for the poor: Experience from Malawi and Brazil*

To address the highly unequal distribution of overcrowded arable land, which coexists with underused large-scale farms, Malawi piloted a land reform program with funding from the World Bank (World Bank 2004). The pilot project aimed to increase the income of about 15,000 rural poor families using a decentralized, community-based, and voluntary approach in four districts. Modeled on Brazil's market-based approach to land reform (under implementation since the mid-1990s), the pilot had three key elements: (a) voluntary acquisition by communities of land sold by willing estate owners; (b) resettlement and on-farm development, including transportation of settlers, establishment of shelter, and purchase of basic inputs and advisory services; and (c) survey and registration of redistributed land. Land reform beneficiaries, organized in voluntary groups, were self-selected on the basis of predefined eligibility criteria. Each family received a grant of US$1,050, managed directly by beneficiaries, with up to 30 percent for land acquisition and the rest for transportation, water, shelter, and farm development. Land for the project was acquired from willing sellers, the government, or private donations and was registered initially under group title; it is expected that individual titles will be provided to beneficiaries upon demand in the future. Implementation was decentralized through District Assembly institutions and required capacity enhancement, especially for surveying and registration.

According to the impact evaluation, the project achieved even better results than the Brazilian model on which it was based (World Bank 2009): more than 1.5 hectares of land were distributed, on average, to each of 15,142 rural households (40,102 households in Brazil); agricultural incomes increased an average of 40 percent per year for beneficiaries (compared to non-beneficiaries) between 2005–06 and 2008–09 (6 percent in Brazil); the economic rate of return was 20 percent (13 percent in Brazil); and impacts on the livelihoods of beneficiaries and surrounding communities were positive, with improvements in landholdings, land tenure security, crop production, productivity, income, and food security (similar results in Brazil).

Source: Byamugisha, F. F. K. 2013. *Securing Africa's Land for Shared Prosperity: A program to Scale up Reforms and Investments*. Africa Development Forum Series. Washington DC. World Bank

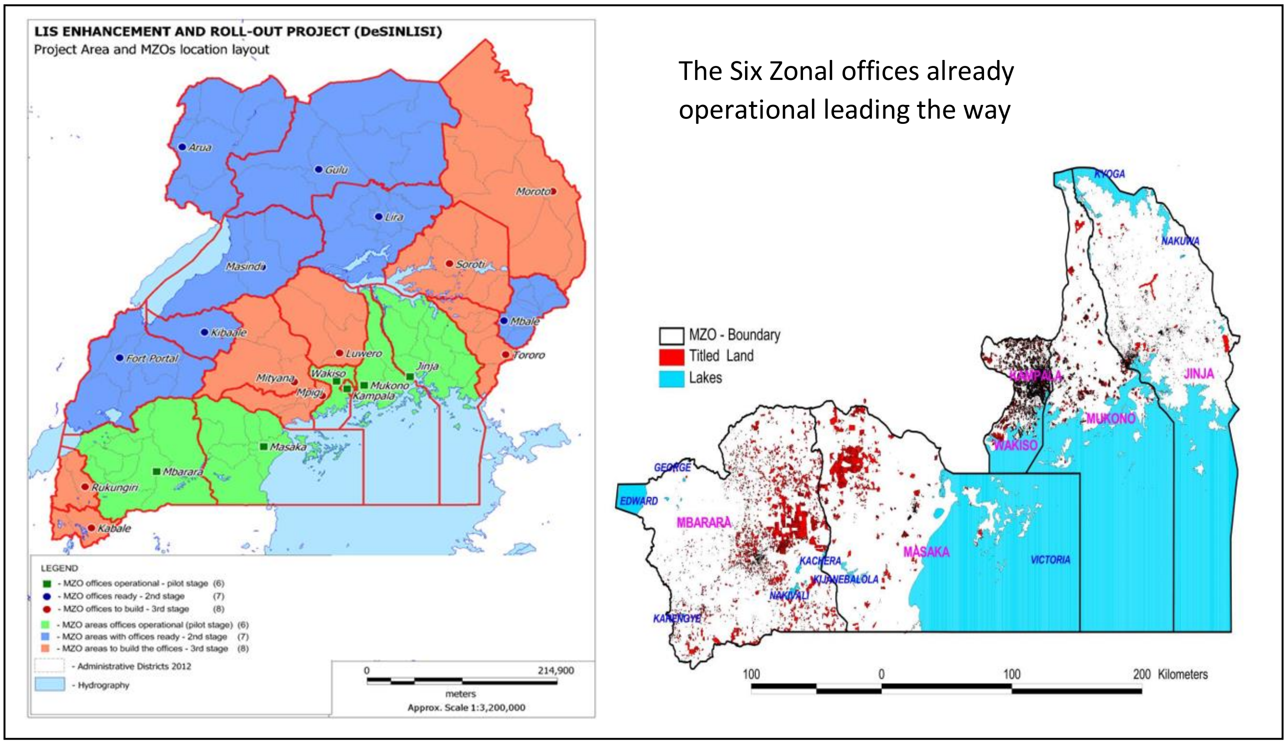
## 4.3 Strengthening institutions for land administration

The third measure that the Ugandan government should implement is to strengthen the institutions responsible for the management of land, including the administration and management of land transactions and the resolution of related disputes.

### *a) Accelerating progress on land administration and management*

**The most critical institutions in the management of land administration are those involved in the documentation; information storage, analysis and retrieval; and valuation processes.** Prior to recent initiatives, after more than three decades of poor land governance, Uganda's land administration systems had become virtually dysfunctional. Services had almost ground to a halt, with the dysfunctionality taking the form of: (i) disorganized and physically worn out manual land records, especially maps and registration documents; (ii) wide spread corruption; (iii) fraudulent title certificates; (iv) fraud in the administration of land rights; (v) chronic understaffing and underfunding; and (vi) cumbersome and long procedures to register land and land transactions.[63] In 2005, the Government started rehabilitating and modernizing institutions responsible for the management of the administration of land through interventions built around the development of computerized land information systems. At the central government level, these institutions are managed under the Ministry of Lands, Housing and Urban Development (MLHUD) with its 21 zonal offices, and is decentralized to 111 districts as of June 2015. The Uganda Land Commission and the Institute of Survey and Land Management also operate under the auspices of MLHUD. Progress In addition to the rehabilitation and modernization of land institutions, the Government has also piloted key reform initiatives, including: (i) the organization of communal land owners into legal entities and the registration of their communal land rights; and (ii) the acceleration of the systematic registration of individual land rights.

*Figure 13: Steady progress in improving land information system*




**The implementation of the Land Information System (LIS) program has already demonstrated the benefits to be derived from an efficient land management system.** The development of the computerized LIS began with the re-engineering and computerization of processes and workflows of the land registration function and the associated cadastral mapping. The process is now being scaled up to cover other land administration functions, including physical planning, valuation, and topographic mapping. It is also being extended from six zonal centers to all 21 of these centers across the country. So far, the impact on land transactions and on the collection of land-related revenue has been impressive (see Box 9). The average time taken to facilitate the transfer of property titles has been reduced from 227

[63] Cheremshynskyi, M. and F. F. K. Byamugisha, 2014. "Developing land information systems in Sub-Saharan Africa: Experiences and lessons from Uganda and Ghana." Chapter 5 in Byamugisha, F. F. K. ed. 2014. *Agricultural Land Redistribution and Land Administration in Sub-Saharan Africa: Case Studies of Recent Reforms. Directions in Development*. Washington, DC: World Bank

days in 2007 to 43 days in 2014. This is lower than the average for Sub-Saharan Africa, which according to the Doing Business Survey is 57 days.[64] However, the performance is still short of the service standards set in the Government's Client Charter and therefore requires further improvement. For example, during FY 2014/15, in Uganda, only 22 percent of all transfers were completed in the 10 days service standard stipulated in the Client Charter.[65] For mortgage transactions, while the average time to facilitate a mortgage declined from a period of 3 to 4 weeks before the implementation of LIS, only 10 percent of the mortgage transactions were completed within the three-days service standards set in the Client Charter. Similarly, only 21 percent of total searches (verification of landownership and any encumbrances on the title) were completed within the three-days stipulated in the Clients Charter, although this is much better than the average period of 50 days prior to the implementation of the system. The impact on land-related revenue has been considerable. The value of the average monthly revenue from transaction taxes increased from US $ 0.7 million in 2013/14 to US $ 3.6 million in FY 2014/15. With intensified training and closer supervision of staff, the Government expects actual performance to be very close to the service standards defined in the Client Charter by mid-2016. It is envisaged that by its completion in 2018, the LIS program will be able to support all functions of land administration. Because it will be fully computerized, this program is expected to facilitate the achievement of dramatically improved levels of efficiency, enabling land transactions to be completed within a single day. In addition, the system will facilitate electronic linkages with strategic clients, including banks (to facilitate mortgage transactions); the chief government valuer's office (to facilitate valuation); and local urban authorities (to facilitate compliance with land use regulations, including the issuance of construction permits).

[64] World Bank. 2014. *Doing Business 2015: Going Beyond Efficiency.* Washington, DC: World Bank

[65] Uganda Ministry of Lands, Housing and Urban Development (MLHUD), 2014. Lis Review Report, March 2013-December 2014; also supplemental progress Notes provided by MLHUD

*Box 10: How technology is improving land administration in Uganda - The Uganda Land Information System*

In 2005, Uganda embarked on a program to rehabilitate and modernize its land administration system. A core component of this program is its computerized Land Information System (LIS).

Following the implementation of a baseline study and a conceptual design in the period from 2007 to 2008, the development of LIS was planned for implementation in two phases. First, in the period from 2010 to 2013, a three-year pilot was implemented in six zonal offices, with these six offices together holding approximately 70 percent of all registered land titles in Uganda. The LIS was implemented along with a legal review and a program to rehabilitate land offices; to re-engineer business processes and work flows; and to build institutional capacities. This pilot phase became fully operational in March 2013.

*What has been the impact?*

While it is still too early to draw comprehensive conclusions regarding the long-term impacts of the program, in the short term, LIS has achieved the following: (a) *a decrease in the average time to transfer property*: In the Masaka zonal office, for example, the average time taken to facilitate the transfer of property titles decreased from 227 days in 2007 to an average of 26 days in 2014. While it still takes about two months to implement such transfers in the less successful zonal offices, such as the one in Wakiso, the average time is now significantly lower than 57 days, which is the average time for such transfers in the sub-Saharan African region; (b) *decreases in the time to conduct searches*: The average time taken to complete a search (verification of land ownership and encumbrances on the title) declined from 50 days to 8 days in Masaka, and to 32 days in the worst performing zonal office, in Wakiso; and (c) *decreases in the time taken to facilitate bank mortgages*: The time taken to process a bank mortgage has been reduced from more than 50 days to 7 days in Mbarara, and to 48 days in the worst performing zonal office of Wakiso. The potential to improve performance in all these areas is high, given that the high service standards defined by the Client Charter have been achieved for a significant proportion of land related transactions, with 22 percent of the land transfers being completed in 10 days, 12 percent of mortgages being registered in three days and 21 percent of searches also being completed in 3 days. In addition to efficiency gains in land transactions, there has been an impressive increase in the value of monthly land-related revenues, from US$ 0.7 million in 2012/13 to US$ 3.5 million in 2013/14, representing a fivefold increase.

The roll-out phase, which commenced in 2015, is expected to extend the LIS from six to 21 zonal offices. In this phase, the functional coverage of the program will be extended to physical planning and valuation. It will also facilitate the establishment of electronic linkages between land administration services and strategic clients and partners, including banks and real estate agents.

During the roll out phase, it is expected that the time taken complete land and mortgage registration and searches will be reduced to a single day. This will result in an additional boost to land-related revenue, since the valuation function will be fully computerized.

***Source: Uganda Ministry of Lands, Housing and Urban Development (MLHUD), 2014. LIS Review Report, March 2013-December 2014; also supplemental progress Notes provided by MLHUD.***

### *b) Strengthening systems for valuation of land*

The ability of government institutions to accurately and efficiently conduct land valuations plays a vital role in a number of processes, including the following: (i) *Expropriation and compensation:* Accurate valuations are required in order to ensure that fair compensation is paid to the original owners of the land; (ii) *Revenue collections:* Accurate valuations facilitate the collection of revenue by enabling an accurate assessment of the value of stamp duties to be charged on land transfers and of the property rates to be collected by municipal authorities.

In addition, government valuers, under the leadership of the Chief Government Valuer, are responsible for the establishment of standards and regulations to guide the valuation of land by private sector entities and to facilitate the development of valuation data bases that can be used by all valuers in the public and private sectors to undertake their work. This process is particularly critical in urban areas, where a credible system for documenting and valuing land will go a long way towards streamlining transactions and eliminating speculation. However, the existing system needs to be strengthened and improved into an efficient valuation system. This would require passing legislation to promote mass valuation across the country; developing valuation standards; institutionalizing periodical property re-valuations in the country including the LGs through the District land boards; setting quality control guidelines; undertaking periodic audits; publishing results of all process to empower the population and improve accountability; improving governance in the valuation units including fighting corruption; and strengthening human and financial resources. Under a World Bank supported project,[66] the Government is developing systems and capacities to conduct valuations in the public sector and to establish valuation databases and standards and regulations that can improve the performance of private sector valuers. Implementation of this process should be accelerated to ensure that valuation services and standards are improved rapidly.

### *c) Institutions for managing local urban authorities finances and land*

The capacities of urban institutions responsible for financial management need to be strengthened in order to enable them to effectively collect the revenue necessary to acquire land and to pay for infrastructure improvements. At present, the institutional arrangements in this area are poorly coordinated and badly managed. These institutions need to be equipped with the necessary management systems and tools and with adequate human resources to plan and manage urban affairs, including the collection and management of public urban finances. While the on-going government projects[67] have excellent potential to develop and strengthen institutional capacity in Kampala and the chosen municipal towns, implementation needs to be accelerated and extended to other urban authorities.

At present, urban public finances are derived from two primary sources: (i) own source revenues; and (ii) transfers from the central government. With the exception of Kampala City, which raises about 50 percent of its budget from its own source revenues, all other urban authorities in Uganda depend heavily on central government transfers to fund their development programs. The value of the Government transfers is very limited, with urban authorities receiving only 6 percent of the total value of transfers to LGs, with this value amounting to UGX 1.2 trillion to LGs in FY 2004/05 – 2009/10[68] It is critical that the urban authorities develop the capacities to increase revenue derived from their own sources and to manage this revenue prudently.

### *d) Institutions for dispute resolution*

As a matter of urgency, the Government should strive to improve its systems for the resolution of land-related disputes and to fill institutional vacuums in land administration while also strengthening the judiciary and the local council courts and their interface with traditional institutions.

Of course, measures to accelerate the land registration process and to disentangle land rights under the *mailo* tenure system will in themselves have a significant positive impact in reducing land-related disputes. However, there will still be a need to establish effective systems and to provide necessary resources to resolve emerging land disputes quickly and at low-cost. As already alluded to, this would require filling the institutional vacuum in land administration in the hotspots of land disputes, especially in northern Uganda and the Albertine region, by ensuring that zonal and district land offices are adequately staffed.

[66] World Bank 2013. Project Appraisal Document for The Competitiveness and Enterprise Development Project
[67] World Bank supported projects, 'Uganda Support to Municipal Infrastructure Development Program' and 'Kampala Institutional Strengthening and Infrastructure Project'.
[68] Ministry of Local Government, 2015. Local Government Profile. Republic of Uganda

In addition, and for the whole country, it would also require building competent formal institutions for dispute resolution by providing adequate staff, budget and training to judges, magistrates, Local Area Committees, and Local Council Courts, and to strengthen alternative dispute resolution (ADR) mechanisms as well as the interface between formal and traditional institutions, by empowering the latter.

## 4.4 Prioritizing and closing gaps in policy commitments for effective implementation

**The Government should review the many existing policy commitments related to the administration of land and to prioritize measures to close critical gaps when these are identified.** In recent years, the Government has strived to develop a land policy framework to underpin essential reforms related to the system of land administration. In addition to the Constitution of Uganda of 1995, significant instruments for this purpose include the 1998 Land Law (and its subsequent amendments) and at least five different national policies (the National Land Policy; the National Land Use Policy; the National Resettlement Policy; the National Urban Policy; and the National Housing Policy). If not properly coordinated, these various instruments could be a source of confusion. In fact, the confusion resulting from the multiple and inadequately coordinated policies and their instruments has already been the source of some conflict in various parts of the country, especially in relation to resolving land disputes. To prevent further occurrences of this sort, it is vitally essential that a thorough review of these instruments be conducted to ensure consistency.

**Despite – or perhaps partly because of – the existence of this wide range of land-related laws and policies, there are still critical gaps in the policy framework. To support the effective implementation of land reforms, it is vital that these gaps be addressed.** Critical gaps identified in this update include the following: (i) the need to amend laws to remove restrictions on rental markets to improve landlord-tenant relations on both *mailo* and freehold land; (ii) the establishment of disincentives to discourage the speculative holding of unused land for extended periods of time; (iii) the need to clarify policies governing the use of urban land, including the provision of incentives to encourage vertical expansion and multi-purpose usage of structures as a means to promote increased density and sustainable urban development; (iv) the adoption of innovative instruments for land pooling, financing and development to achieve economies of scale and equitable urban land development; and (v) measures to address the issue of expropriation and compensation and thereby to promote the principle of fairness and equity. The current market-based practice often underestimates the value of future income from the investment for which the land is being acquired, and often does not factor in the cost of moving people into a new area of settlement and the restoration of livelihoods to at least the level that existed before the expropriation. To achieve this goal, it is vital that the authorities not merely strengthen regulations, but ensure that existing regulations are appropriately enforced.

### *a) Removing restrictions on rental markets*

To ensure the development of more effective land rental markets and thereby to facilitate increased access to land, the Government could learn from the experiences of China and Vietnam, but keeping in mind that the land reform agenda in China has some way to go especially to lift a ban on rural land sales and mortgages, and to pay adequate compensation for expropriated land. These countries implemented measures to develop land rental markets with initiatives first implemented during the 1970s, 1980s and 1990s. These initiatives involved measures to improve land tenure security and to remove restrictions on the rental of land as part of a broader agrarian reform process. Impact evaluations indicate that these reforms played a vital role in improving access to land by the land-poor and in increasing overall productivity. In China, these measures are estimated to have increased agricultural productivity by approximately 60 percent.[69] In Vietnam, participation in rental markets grew from 3.8 percent in 1993 to 15.8 percent in 1998, with the development of both rental and sales markets being found to have an unambiguously positive impact on productivity.[70] In addition, the reforms in China reduced population pressures in the densely populated agricultural areas by facilitating out-migration, with this process resulting in an increase in the share of migrants to China's urban labor force from 5 percent in 1988 to 17 percent in 2000, representing a total of 124.6 million people.[71,72] In Vietnam, the reform process increased the rate of migration by households from 29 percent in 1993 to 64 percent in 1998.[73]

There are two critical factors that enable land rental markets to operate efficiently, these being land tenure security and the elimination of restrictions on land rental markets. While registration of land is critical, it must be supported by a legal framework that does not overly constrain landlords and tenants from negotiating freely the terms and conditions of the rental or lease of land. Thus, in the Ugandan context, existing restrictions on land rental markets, especially the fixing of nominal rents at uneconomic levels, as under the Land (Amendments) Act 2010, need to be eliminated, as advocated by the 2013 National Land Policy. These restrictions have driven landlords out of rental markets and made tenants more vulnerable to eviction, which is the exact opposite of the intended purpose of the Act.

### *b) Optimizing usage of land to promote markets*

**In Uganda, much land remains idle and functions merely as a highly illiquid form of savings. Uganda could learn from the experiences of other countries, where measures have been implemented to promote land markets as a means of optimizing the use of land and ensuring that it serves as a productive asset.** With the limited availability of savings instruments in Uganda, many Ugandans use land as an investment vehicle for their savings. This has led to speculative buying and the accumulation of unused land in both rural and urban areas. To discourage this practice, Ugandan policy makers should consider the introduction of a punitive tax to act as a disincentive. A number of countries have imposed taxes on agricultural land to encourage landowners to use it productively. Countries that impose taxes on agricultural land include Rwanda, South Africa, Namibia, Jamaica, Colombia, Brazil, St. Lucia, Japan and the USA[74]. Rwanda imposes a property tax on freehold land, while annual lease fees are paid on leasehold land with a certificate of registration, except for agricultural land of less than two hectares. Property taxes

[69] Deininger, K, and S. Jin, 2009. "securing property rights in transition: Lessons from implementation of China's rural land contracting law". Journal of Economic Behavior and Organization, 70 (1-2).
[70] Deininger, K. and S. Jin. 2003. "Land sales and rental markets in transition: Evidence from rural Viet Nam", World Bank Policy Research Working Paper No. 3013.
[71] Zhai, F., T. Hertel, and Z. Wang. 2003. "Labor market distortions, rural-urban inequality and the opening of China's economy." Working Paper No. 27, GTAP
[72] Deininger, K. and S. Jin. 2007. "Land rental markets in the process of rural structural transformation: Productivity and equity impacts in China", a World Bank Policy Research Working Paper No. 4454.
[73] Deininger, K. and S. Jin. 2003. "Land sales and rental markets in transition: Evidence from rural Viet Nam", World Bank Policy Research Working Paper No. 3013
[74] Childress, M. D., A. Hilton, D. Solomon and van den Brink, R. 2009. Agricultural land tax, land-use intensification, local development, and land market reform", chapter 12 in Binswanger-Mkhize, H. P., C. Bourguignon, and van den Brink, eds. *Agricultural Land Redistribution: Toward Greater Consensus*. Washington, DC: World Bank

are paid at the simple rate of one thousandth of the taxable value of the land each year. The fee structure for land lease fees is complex, with rates set within minimum and maximum thresholds and related to market value of land, with the level of the fee depending on the use to which the land is put and its size, with these levels being determined by each district.[75]

**An additional measure to avoid keeping land idle and to free it up for more productive use is to reduce the duration of statutory leases, in the way of leasehold, from the current 99 years to a more realistic duration of up to 49 years that is closer to the period required by an investor to recover the money invested in land.** This would put Uganda on the same footing as some other developing countries in the continent and beyond including Rwanda, Ethiopia, Tanzania, Mozambique, Viet Nam and China, and these countries have moreover been doing well in attracting both local and foreign investment into agriculture. The reduction in leasehold from 99 years to a maximum of 49 years should initially be done for foreign investors and then gradually extended to Ugandan citizens.

**Ugandan policies should strive to implement an efficient framework to tax land to promote efficient land markets.** Land is lightly taxed in Uganda. The most significant tax is imposed on land sales, with a stamp duty of 1 percent of the value of land. Even this stamp duty is under-collected due to a proliferation of informal land sales and under declarations of the sale price. For example, when the LIS became fully operational in February 2013, resulting in a consequent improvement to the integrity of land records, the value of revenues collected from stamp duty increased dramatically, with this value increasing fivefold in the period from 2012/13 to 2013/14. In addition to stamp duties, municipal authorities also impose property rates. In Kampala City, these rates are set at the equivalent of 6 percent of the ratable property value, although this is imposed only on commercial and industrial properties, with residential properties and undeveloped land being exempt. Other urban authorities hardly bother with the collection of such rates. Overall, the collected property rate tax is estimated to be around 1 percent of the property value.

In addition, a number of other taxes are imposed on landowners, including taxes on rental incomes (30%); capital gains tax (15%); and Value Added Tax (18%). However, to increase the value of collected revenues and to promote efficient land markets, it is most important that at least the two main land-related taxes, namely the stamp duty and property rate tax, be effectively and efficiently administered, with the collection of these taxes being extended to all eligible tax payers. To achieve this, the following steps should be implemented: (i) a more intensive utilization of the LIS in the six zonal centers, which cover approximately 70 percent of land transactions; (ii) an intensification over the next five years of the use of the cadastral and registration data and of the improved valuation system and its links with the scaled up LIS covering the rest of the country to extend revenue collection efforts to cover the whole country; (iii) reductions in exemptions from tax through an extension of the tax system to include residential property and undeveloped property, although at lower rates than for commercial and industrial property; and (iv) an extension of the property rate tax system to registered rural land after five years, at a point when the proportion of registered land is expected to have increased from 20 percent to 30 percent.

[75] Childress, M. D., A. Hilton, D. Solomon and van den Brink, R. 2009. Agricultural land tax, land-use intensification, local development, and land market reform", chapter 12 in Binswanger-Mkhize, H. P., C. Bourguignon, and van den Brink, eds. *Agricultural Land Redistribution: Toward Greater Consensus*. Washington, DC: World Bank. Masengo, F., T.H. Ngoga and E. Ingabire, 2014. Land Tenure Reform and Local government revenues in Rwanda. Land Project Policy Research Brief No. 3, Kigali, Rwanda: USAID Land Project.

### *c) Improving urban land management*

**With the rapid process of urbanization in Uganda, it is vitally important that systems are implemented to ensure that urban land is allocated optimally. The allocation of this land should be consistent with land use planning regulations and designed to promote efficient usage.** The actions to streamline the current system of land rights and to strengthen land administration institutions highlighted above are critically important measures for the foundation of an efficient system for urban land management. It will also be necessary to implement specific actions to improve the efficiency of these systems in urban areas, where there is a higher population density and hence a requirement for land to be used even more efficiently. Such reforms should focus on measures to ensure that the urban land tenure system supports investments and service delivery, as well as facilitating the healthy development of satellite towns. As an estimated 70 percent of land in Kampala is either public or private *mailo* land, with overlapping rights and conflicting interests between landlords and *bona fide* and lawful occupants, it is important to reform the legal framework to promote the practices of land sharing, pooling and readjustment as a means to support the development of vertical multi-family and multi-purpose buildings that promote the efficient use of land. In addition, laws to improve the regulation of the land market needs to be formulated and implemented to improve the management of land. This will involve both the imposition of taxes and the provision of incentives, and the promotion of both conventional and innovative financing instruments to facilitate the development of both private and public infrastructure in urban areas. The current development of the new National Housing Policy should be seized as an opportunity both to introduce policies to strengthen policies related to land administration and financing and to compensate for market failures that have excluded low income earners from the housing market. Housing policies need to be reviewed to address market failures that prevent low income earners from accessing housing. Policymakers should consider the implementation of a number of measures to address the challenges faced by urban local governments, including the following: (i) accelerating the formulation of a clear national policy for urban development, including urban land use; (ii) the enforcement of urban development regulations; and (iii) the establishment of a framework to promote the development of high rise buildings with multipurpose usages.

The top priority for the promotion of effective land reform is the development of an effective system for the documentation, registration and valuation of land. This should be accompanied by specific measures to support the development of a more fluid land market in Uganda, as described in the previous chapter. Such reforms should be designed to reduce land-related conflicts and overlapping land rights; to reactivate land rental markets; to encourage the emergence of rental markets in areas where the system of communal land ownership predominates and where changes to the tenure system are not likely to be realized soon; and to strengthen the capacity of land administration institutions. Furthermore, measures should be implemented to improve the finances of local urban authorities to develop their capacities to acquire land and to fund the development of infrastructure. Measures to achieve this should include improving the coverage and level of compliance with property taxes; a review of the system of transfers from the central government; and a thorough assessment of the manner in which future oil revenues will be shared.

In addition, Ugandan policy makers should give consideration to measures to improve urban planning and zoning; to facilitate downtown improvements and readjustments; and to reform systems of agricultural land management. There is also a clear and vital need to strengthen the capacities of land administration institutions. In the medium to longer term, such measures will play a significant role in preparing Uganda to implement a land valuation system (including an integrated land management and registration system); to manage land transactions (including the setting of levels of compensation for land acquisitions); to settle land-related disputes; and to review regulations that govern land transactions. Uganda should learn from the experience of other countries, with the evidence showing that highly urbanized countries such as South Korea established the institutional foundations for fluidity in land transformation at incipient stages of urbanization.

It is also vitally necessary that Ugandan policy makers implement measures to achieve improved compliance with land use regulations. In addition to a land tax to encourage efficient land use, efficient and sustainable urbanization requires effective planning of physical development, including compliance with land use regulations. In its 2007 National Land Use Policy, the Government committed to promoting effective physical development planning, a commitment that was further manifested by the promulgation of the Physical Planning Law in 2010. The law requires that, before land title and construction permits are issued for land development, the relevant authorities should ensure compliance with local development plans and regulations. At present, due to low levels of institutional capacity and the lack of effective coordination, compliance with land use regulations remains problematic. With funding available to strengthen physical development planning under CEDP, the Government should seize the opportunity to strengthen institutional capacities for physical planning, including through the provision of training and the further development of the computerized LIS to strengthen the coordination of land registration and physical development planning.

### *d) Balancing expropriation with commensurate compensation*

In Uganda, three main issues negatively affect systems for the assessment and payment of compensation for the expropriation of land and the implementation of these systems, with these three issues also affecting a number of other countries in the region.[76] Firstly, the legal framework for the payment of compensation for expropriations is outdated. While the 1995 Constitution and the 1998 Land Act to some extent attempted to address this issue, the primary instrument in this area is the Land Acquisition Act 1965, which is outdated and inadequate for handling new developments in land policy, such as legal recognition of customary tenure (much of which is undocumented) or secondary and tertiary rights, such as rights of access to pastoral and forestry resources. Secondly, current valuation practices tend to result in the undervaluation of land, as systems for the valuation of rights that are not easily monetized, such as pastures and access to forest resources, are poorly developed. These systems prioritize the payment of compensation in cash, rather than facilitating land-for-land compensation and resettlement, both of which may serve as a better means of ensuring that the livelihoods of those affected would be protected from the negative impacts of expropriation. In addition, with most land being held under customary tenure being unregistered, under-compensation is particularly common in cases involving land of this type. Thirdly, weaknesses in systems of governance and corruption often lead to underpayment and/or prolonged delays in the payment of compensation. In consideration of these weaknesses, there is a need to: (i) accelerate the process of updating the 1965 Land Acquisition Act; (ii) implement measures to avoid the undervaluation of land (see above section on valuation) and the use of poorly conceived forms of

[76] Byamugisha, F. F. K. 2013. *Securing Africa's Land for Shared Prosperity: A program to Scale up Reforms and Investments*. Africa Development Forum Series. Washington DC. World Bank

compensation; and (iii) improve systems of governance as a means to reduce and eliminate corruption to ensure that fair and full compensation is paid.

### *e) Promoting the rights of women*

In the area of land ownership, Ugandan women continue to face significant institutionalized and informal discrimination. This discrimination is not only unjust, it also acts as a significant constraint on economic growth. Increasing women's access to land and improving their security of tenure would be significant measures towards eliminating the gender gap in agricultural productivity, with this gap currently standing at 19 percent.[77] Eliminating this gap would provide a significant boost to agricultural production, given that over 50 percent of agricultural work in East Africa is done by women.[78] To increase women's access to land and to improve their security of tenure, Ugandan policy makers should implement at least two actions, both of which are advocated by the 2013 NLP. These involve the formulation of a new marriage law that promotes co-ownership of land for married and cohabiting couples; and an overhaul to the succession law to protect the rights of women following divorce or the death of their spouse.

Since the existing legal framework for land does not encourage joint titling and registration of land, as advocated for by the 2013 NLP, the Government is formulating a new marriage law (Marriage and Divorce Bill 2013; and Administration of Muslim Personal Bill 2013) to provide for joint registration and co-ownership of land not only for married women, but also for women in *de facto* relationships. It is particularly important that the implementation of this law proceeds rapidly, so that its provisions can be applied in the systematic scaling up of land registration, which will result in the issuance of 1 million new titles by 2019.

Ugandan policy makers should also give serious consideration to a thorough revision and reform of the Succession Law to protect the rights to inheritance by women upon divorce or upon the death of their spouses. Given that inheritance is the most common means by which land is acquired in Uganda, this is particularly significant. The greatest discrimination against women in property rights is at the point of inheritance. To promote women's access to land and their security of tenure, it is therefore important to overhaul the current Succession Law to provide for a fair share in inheritance for women.

[77] Ali, D., D. Bowen, K. Deininger and M. Duponchel, 2015. Investigating gender gap in agricultural productivity: Evidence from Uganda. Policy Research Working Paper No. 7262. Washington DC: World Bank
[78] SOFA Team and Cheryl Doss, 2011. "The role of women in agriculture". Background paper for FAO's The State of Food and Agriculture 2010-2011: Women and Agriculture: Closing the Gender Gap for Development

**Annex 1:** How history has structured the land tenure system in Uganda

| Period & Event | Changes in land administration system | Impact on land tenure system |
|---|---|---|
| Pre-independence | During the British colonial period, land reforms mainly in the central (Buganda, Ankole and Toro), gave large tracts of land to the political elite but turned most of the people of Buganda into tenant farmers. | Created freehold system of land ownership in the central region, thereby starting off a market, but also created a grossly unequal land tenure system, of tenant farmers. These had customary unwritten right to use the land for grazing and farming renting on the landlords *mailo*s of land. |
| 1900 Agreement | Divided land in Buganda into *Mailo* land and Crown land. *Mailo* land was doled out to the Kingship, the chiefs and some notables while Crown land was held for government purposes. | Customary unwritten right to use the land for grazing and farming were terminated |
| 1927 Busuulu and Envujjo law | Regulated the rent that peasants in Buganda were supposed to the holders of certificates if they wished to use the land ('Busuulu' and 'Envujjo') they hitherto used by right of history and custom. This turned the *bona fide* occupants into tenants. Landlords were hiking the 'Busuulu' and 'Envujjo' rates haphazardly. | Access to land was increased through direct purchase and through official alienation of hitherto communal land, the customary tenure remained very dominant with its demerits.<br><br>Allocation of land to absentee landlords saw the evolution of squatters -- people who settled, farmed and grazed animals on the undeveloped land of an absentee landlord but who could later be evicted by the landowners. |
| 1937 Toro Landlord and Tenant Law | Set up for the same reason in Ankole | |
| 1969 Public Land Act | Provided for the protection of customary land rights. | Legalized the rights of holding land under customary ownership |
| 1975 Land reform decree | Declared all land in Uganda public land and title to it was vested in the Uganda Land Commission. All free land, including *Mailo*, was converted into leaseholds. Customary occupants were deemed to hold the parcels of land at sufferance, which could be | Reduced the authority of landlords and attempted to develop rental market for land. At the same time, created more uncertainty in rights to holders of land |

| | | |
|---|---|---|
| | terminated any time without notice. Rent payment by tenants was also removed. | |
| 1995 Uganda constitution | Land is vested in the citizens of Uganda in four land tenure systems: Customary, Freehold, *Mailo* and Leasehold. | Returned land to citizens of Uganda. Created more certainty about rights to holders of land. |
| 1998 Land Act | Provided for a certificate of occupancy to be issued to the occupant on application to the registered owner | Strengthened the rights of the occupants of land, especially the tenants on *mailo* land |
| 2005 Constitutional amendments | "the entire property in, and the control of, all minerals or petroleum in, on or under, any lands or waters of Uganda are vested in the Government on behalf of the Republic of Uganda". | Strengthened government's authority over the extractive riches under the land by making it a public good. |
| 2010 Land Act Amendment | Tenants who have lived unchallenged on registered land for 12 years or more, or who are settled on the land by the Government, cannot be evicted for any reason other than non-payment of a nominal ground rent. | Strengthened the tenant's rights to land, hence creating overlapping rights to the same piece of land |