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Young woman demonstrates tractor skills, beneficiary of USAID YLA Activity, Photo by Learning Contract

NORTHERN UGANDA REGIONAL INVESTMENT RESEARCH

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ACRONYMS

ACCS	Advisory Consortium on Conflict Sensitivity
ACORD	Agency for Cooperation and Research in Development
APEP	Agricultural Productivity Enhancement Programme
BFP	Budget Framework Paper
BTC	Belgian Development Agency
BTVET	Business, Technical and Vocational Education and Training
CAO	Chief Administrative Officer
CGA	Charlie Goldsmith Associates
CSO	Civil Society Organization
DANIDA	Danish International Development Agency
DCO	District Commercial Officer
DDA	Dairy Development Authority
DFID	UK Department For International Development
DIC	District Investment Committee
DIC	District Investment Committees
DINU	Development Initiative for Northern Uganda
DLB	District Land Boards
DP	Development Partner
DRC	Democratic Republic of Congo
ECA	Economic Commission for Africa
ECDI	Early Childhood Development Indicator
EPRC	Economic Policy and Research Centre
ERA	Economic Recovery Analysis
EU	European Union
FAO	Food and Agricultural Organisation
FY	Fiscal Year
GADCO	Gulu Agricultural Development Company
GDP	Gross Domestic Product
GER	Gross Enrolment Rate
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (German Development Agency)
GOU	Government of Uganda
HIV	Human immunodeficiency virus
HQ	Headquarters
HR	Human Resources
ILO	International Labour Organisation
KILM	Key Indicators of the Labour Market
LC	Local Council
LED	Local Economic Development
LG	Local government
LRA	Lord's Resistance Army
MAAIF	Ministry of Agriculture, Animal Industry and Fisheries
MDA	Ministries, Departments and Agencies
MoEAA	Ministry of East African Affairs
MoES	Ministry of Education and Sports
MOFPED	Ministry of Finance, Planning and Economic Development
MOLG	Ministry of Local Government

MOTIC	Ministry of Trade, Industry and Cooperatives
MTAC	Management Training and Advisory Centre
MTEF	Medium Term Expenditure Framework
NAADS	National Agricultural Advisory Services
NAAS	National Agricultural Advisory Service
NARO	National Agricultural Research Organisation
NDP	National Development Plan
NPA	National Planning Authority
NRM	National Resistance Movement
NU	Northern Uganda
NUSAF	Northern Uganda Social Action Fund
OECD	Organization for Economic Cooperation and Development
OPM	Oxford Policy Management
PPD	Public Private Dialogue
PRDP	Peace Recovery and Development Plan
PSFU	Private Sector Foundation Uganda
R&D	Research and Development
RDC	Resident District Commissioner
RoU	Republic of Uganda
SC	Steering Committee
SME	Small and Medium-sized Enterprise
SRH	Sexual and Reproductive Health
STI	Sexually Transmitted Infection
SWG	Sector Working Group
TB	Tuberculosis
TVET	Technical and Vocational Education and Training
UBOS	Uganda Bureau of Statistics
UBPA	Uganda Beef Producers Association
UEPB	Uganda Export Promotion Board
UEPB	Uganda Export Promotion board
UFPEA	Uganda Fish Processors and Exporters Association
UIA	Uganda Investment Authority
UIRI	Uganda Industrial Research Institute
UK	United Kingdom
UMA	Uganda Manufacturers Association
UN	United Nations
UNBS	Uganda National Bureau of Statistics
UNCCI	Uganda National Chamber of Commerce
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
UNFPA	United Nations Population Fund
UNHCR	United Nations Refugee Agency
UNICEF	United Nations Children's Fund
UNLF	Uganda National Liberation Front
UPDF	Uganda People's Defence Force
URA	Uganda Revenue Authority
USAID	United States Agency for International Development
USD	United States Dollar

UGX	Uganda Shilling
WDI	World Development Indicators

EXECUTIVE SUMMARY

As part of the USAID Monitoring, Evaluation and Learning Program in Uganda, QED Group commissioned a team of consultants led by Charlie Goldsmith Associates (CGA), and including Imani Development, to: *"Conduct regional investment research in Northern Uganda* [Acholi, Lango and West Nile regions [i]]: *to analyze various priority sectors and document sector status, opportunities, and challenges. Priority sectors include: agriculture; infrastructure (roads, electricity, market infrastructure, rails); tourism; education and skills development; industry/industrialization; water and environment; health; land use; and governance"*[ii], identified by the Northern Uganda Regional Forum Interim Steering Committee.

This report begins with a brief overview of the assignment, followed by Section 2, which outlines our methodology. Section 3 sets out global learning and accepted theory on inclusive economic development and structural change, with reference to the priority sectors. Section 4 then introduces the specific context of Northern Uganda, and the nature and drivers of structural change already taking place there. Following this, Sections 5 and 6 examine the status, opportunities and challenges of the priority sectors. An analysis of the (national and sub-national) Government of Uganda's role and experience in promoting inclusive growth is presented in Section 7, including an analysis of the potential to work through existing fora and institutions. Finally, Section 8 concludes with key recommendations and a discussion on each.

Inclusive Development in Northern Uganda (NU) must address historic marginalization, the legacy of recent conflict and the impact of a current influx of (mostly) South Sudanese refugees contributing to rapid population growth, pressure on resources and services, and a high dependency burden.

1 million of the region's 7.5 million residents are refugees (as of August 2017), mostly from the conflict in South Sudan. Government policy is to allocate land to enable them to settle and provide access to key public services, which has been praised by the international community, but has created considerable pressures locally, not least because **sub-national financing and resourcing are largely unchanged.** There is evidence though to suggest the refugee intake could have positive impacts: "*for every dollar refugees receive from food aid, $1.30 is generated in the surrounding communities. The economic multiplier is even greater for cash aid, creating $1.50 in value in the local economy for every $1.00 received by refugees*" (USAID). The additional population may be a local market for expanded agricultural activity recommended here. This is balanced against potential for local inflation, environmental degradation and pressure on resources and services.

The population in Northern Uganda descends from migrants, mainly from Sudan and South Sudan (over many centuries). Many of the refugees are of the same tribes and speak the same languages as the local population, and many also have family and individual links, making it easier for them to integrate and contribute to economic activities.

In the main, however, Northern Uganda is not experiencing a demographic dividend, but rather can be **characterized by a high dependency burden** where by low literacy levels, a dependence on subsistence agriculture, high fertility rates and limited opportunities for higher-paid employment exacerbate poverty.

Politically and economically, Northern Uganda has been marginalized, in more recent times as a response by the current government to its predecessor's dominance through military regimes

[i] Uganda Bureau of Statistics includes Karamoja sub region when accounting for Northern Uganda in surveys, such as the census. However, this research and accompanying strategy development has focused on only the Acholi, Lango, and West Nile sub regions.

[ii] QED Group, 2017

populated by northern tribes. This has resulted in under-investment, reflected in lagging indicators on poverty, health, education and economic diversification.

Northern Uganda is a landlocked region, with poor infrastructure and long distances for export to e.g. ports, and **surrounded by unstable and resource-dependent countries.** These disadvantages are partly offset by increasing regional integration and Northern Uganda's specific comparative advantage in terms of p**roduction and transit of key goods and services for some of its neighbors**. Northern Uganda also has largely **unexploited natural resources**, including oil and minerals, for which the Government has establish a relatively strong policy and legal framework, laying the foundations potentially high returns to the local government and communities.

Currently, the population is largely dependent on subsistence farming, with some key cash crops and staple food crops showing vulnerability to climate change. Despite this, the **climate and soils are favorable for commercial scale agriculture**, assuming the right inputs and techniques. This is, as yet, an under-developed sector.

A key factor inhibiting investment by the private sector is the **customary land ownership structure** which prevails in the Northern Region to a greater extent than the rest of the country. This is also a factor in exacerbating **gender disparities.**

Other constraints to investment and inclusive growth include: limited access to finance; low education and skills; poor transport, energy and communications infrastructure; limited irrigation; fragmented markets; lack of quality agricultural inputs, and high levels of risk combined with limited business leadership.

With this context in mind, this report presents applicable economic theory for sustained and inclusive economic growth in Northern Uganda. This includes the necessary role of structural transformation to higher-productivity (higher wage) sectors, the emphasis on 'discovery' over value chain analysis at this stage of development, and the importance and combined investments in health and education to sustain growth and ensure it is inclusive.

Structural Transformation is based on the premise that development entails structural change – in particular the movement of people out of lower-productivity into higher-productivity activities. Historically, the expansion of modern manufacturing activities has proved particularly important. Agriculture, agricultural manufacturing, and the upstream and downstream agricultural production chain, has also been integral, including through reallocating labor to higher productivity activities, and achieving efficiency gains, including through ensuring the adequate and timely supply of quality raw materials for manufacturing (whether internal or external to the region or country).

Increasingly, **in recognition of persistent market failures, Industrial Policy is seen as a core instrument** in promoting structural change, through a targeted focus on key priority sectors. It relies upon appropriate institutional arrangements and capacities, and should be viewed as **a long-term process of engagement, collaboration and learning with the private sector**.

We also recognize that *"**structural transformation can fuel rapid growth on its own, but if it is not backed up by fundamentals, growth peters out and remains episodic"*** (Rodrik, 2013). Whilst there has been debate surrounding the causality or correlation between health, education and growth, without these, growth cannot be sustained and will not be inclusive. More recent evidence shows that health and education must be viewed jointly to demonstrate their impact: i.e**. that health-adjusted education (healthy learners, rather than just learners) is the driving force behind sustained, inclusive growth** (Madsen, 2012).

In order to examine and apply this theory in the context of Northern Uganda, we conducted an extensive desk review and consulted: Ministry of Trade, Industry & Cooperatives; Ministry Agriculture,

Animal Industry and Fisheries; District and Local Council Officials from Gulu and Lira, as well as the Elegu Border; UNHCR; UNICEF; EU; BTC; Marie Stopes; FAO; AgDevCo; NU-TEC; Uganda Manufacturers Association; Producer Dealers; Gulu Agricultural Development Co.; Omer Farm; Delight Uganda; RAL/RALNUC; Engsol, and the Northern Uganda Land Platform, as well as other organizations contacted by email.

Summary findings of priority sectors identified by the Steering Committee:

Sector	Status	Opportunity	Constraint
Agriculture	Predominantly subsistence, under-developed	Potential for efficiency gains and commercial agriculture for job creation and productivity growth	Poor quality/limited inputs, weak market linkages
Infrastructure (roads, energy, markets, rail)	Limited – represent constraints to investment and development. Road connection: to Kampala good, rural roads limited	Key supporting investment for economic growth	Political and financial constraint to high investment needed
Tourism	Limited	Some potential for high-end tourism. However relatively low return to investment in terms of job creation	Infrastructure, limited employment opportunities, regional competition, significant investment needed
Education & Skills	Limited access, insufficient staff and resources, poor outcomes. Gender and wealth disparities	Basic education/literacy to enable inclusion; Vocational training (in collaboration w/private sector) to support structural transformation	Access, human resources, indicators currently lag behind national averages. Quality impacted by population growth
Industry / Industrialization	Under-developed	Agribusiness	Finance, communications, transport infrastructure, risk, leadership
Water & environment	One wet season (vs 2 in South), with some drought. Environmental degradation from population pressures	Climate and soils favorable to commercial agriculture	Limited irrigation and environmental management. Negative impact of climate change to be felt mostly by subsistence farmers.
Health	Limited access and resources. Key gaps include SRH (family planning). Impact of conflict: alcoholism, psychosocial and injury.	Increasing role of private sector (regulation key). Investment in SRH, HIV, family planning and nutrition.	Access, human resources, indicators currently lag behind national averages. Quality impacted by population growth

Sector	Status	Opportunity	Constraint
Land Use	Dominated by customary ownership, limits investment, fuels gender disparities.	Separate use from ownership, longer leases, reform bylaws	Political interference. Population pressure and food security from subsistence agriculture
Governance	Limited capacity but with experience of promoting economic change and growth, and sufficient institutional arrangements for engagement	Engagement with existing institutions, capacity building	Limited human resources, political marginalization, financing

This report therefore prioritizes commercial agriculture and agribusiness (agri-manufacturing), including food processing, for their potential for inclusive growth through structural transformation. These sectors are highly complementary, have attracted private sector investment in recent years and have the highest potential for achieving positive structural change: i.e. job creation, productivity gains and real wage increases.

Our recommendations focus on eight of the nine priority sectors: Governance, Agriculture, Infrastructure, Education & Skills, Industry, Health, Land Use, and Water and Environment.

Sector	Recommendation	Relative Unit Cost / Risk	Relative Growth Impact
Governance	Support development of an Industrial Policy for the North, (key sectors: agriculture & agribusiness)	Low cost. Low risk.	Medium term, high
Land	Accelerate the separation of land use from ownership (to enable investment)	Low cost. Medium risk	Short term, high
Infrastructure	Increase access to communications & financial services (to enable growth)	Low cost. Low risk	Near term, high
Agriculture/ Industry	Subsidize 'self-discovery' and externalities in new economic activities (focus: agriculture/ agribusiness, to enable private learning and investments)	Medium cost. Medium risk	Near term, medium
Agriculture/ Industry	Strengthen investment promotion (to attract priority investors and business models)	Medium cost. Medium risk	Medium term, medium
Agriculture/ Industry	Promote market linkages (upstream and downstream links in key sectors)	High cost (some finance already committed). Low risk	Medium term, high
Health & Education and Skills	Engage national Government for revision of funding/resourcing allocations based on actual (not local) population numbers	Low cost. Medium risk	Near term, high
Education and Skills	Strengthen collaboration with private sector for increased and better targeted investment in TVET (responding to priority needs)	Medium cost. Medium risk	Medium term, high
Education and Skills	Increase access to quality(secondary) education for sustained, inclusive growth	Medium cost. Low risk	Medium-long term, high
Health	). Increase access to quality SRH and nutrition services (to respond to key gaps and gender disparities in Northern Uganda)	Medium cost. Low risk	Near term, high
Agriculture/ Industry	. Improve testing and control for inputs (focus: agriculture/ agribusiness)	Low cost (some finance already committed). Low risk	Medium term, high
Water & environment	2. Incorporate climate change mitigation/adaptation into agricultural/agribusiness strategies and investments	Low cost. Low risk	Medium term, high

1. INTRODUCTION

In October 2017, and as part of the USAID Monitoring, Evaluation and Learning Program in Uganda, QED Group commissioned a team of consultants led by Charlie Goldsmith Associates (CGA) to: ***"Conduct regional investment research in Northern Uganda* [Acholi, Lango and West Nile regions]*: to analyze various priority sectors and document sector status, opportunities, and challenges. Priority sectors include: agriculture; infrastructure (roads, electricity, market infrastructure, rails); tourism; education and skills development; industry/industrialization; water and environment; health; land use; and governance"***[iii], identified by the Northern Uganda Regional Forum Interim Steering Committee.

The research framework aimed to contribute towards local and regional leaders' thinking around what inclusive economic development could mean in the context of Northern Uganda, considerations for the principles of public intervention, and to provide institutional options through which action might be taken[iv]. Two key research questions were posed:

1. What kind of public investments should government be making and what kind of private investments it should be supporting?
2. What institutional arrangements and policy instruments might be used to promote and support the investments needed?

Over a four-week period, the consultancy team undertook a research process including a review of relevant literature and data collection in Kampala and the Northern region. This report contains the key findings and recommendations from this process. It is structured as follows:

- Section 2 outlines our methodology;
- Section 3 briefly outlines global learning on inclusive economic development;
- Section 4 looks at the Northern Uganda context, including the historic and current political economy issues leading to the nature of structural change there;
- Section 5 explains our prioritization of sectors with highest potential for inclusive growth, from among the nine identified by the Steering Committee, including their current status, key challenges and opportunities;
- Section 6 explores the Government of Uganda's and non-governmental institutions' roles in promoting inclusive economic growth;
- Section 7 assesses the Government's capacity for leading policy reform, and identifies key functions, and
- Lastly, Section 8 concludes with recommendations and a discussion on each.

We intend that this work aligns with both the policy aims of the Steering Committee, and the Government of Uganda's objectives in its Second National Development Plan (NDP II): "(i) increasing sustainable production, productivity and value addition in key growth opportunities; (ii) increasing the stock and quality of strategic infrastructure to accelerate the country's competitiveness; (iii) enhancing human capital development; and (iv) strengthening mechanisms for quality, effective and efficient service delivery."

[iii] QED Group, 2017

[iv] CGA, 2017

2. METHODOLOGY

On the 26th October 2017, senior team members had an initial Skype call with QED, to discuss the Scope of Work and proposed approach, followed by a 'Kick off' meeting in Kampala on 30th October. A workplan and research framework was then developed, which built on the initial proposal:

- 1st – 3rd November: Inception and desk-based research
- 6th – 24th November: Two teams conducted consultations in Kampala and Northern Uganda, whilst other team members continued desk-based research.
- 24th November – 4th December: Analysis and production of the draft final report
- 5th – 22nd December: Comments received and revision of Final Report.

The seven-member team focused on priority sectors, according to their specializations. Regular communication ensured consistency in the approach and avoided gaps or overlaps in the work. Broadly, CGA oversaw the whole assignment and, of the priority sectors, focused on health, education, infrastructure, water and environment, as well as the historic, political and economic context. Imani focused on agriculture, infrastructure, tourism, industry, and land. The team leader focused on relevant theory of inclusive economic growth to guide the approach.

Given the tight timeline for this extensive assignment, it was essential in the inception phase to **identify sectors with the highest potential to drive inclusive, sustained economic growth (i.e. high levels of accessible and well-paying job creation)**. **The two key sectors identified for their job creation potential were agriculture and industry**, with all other sectors except tourism prioritized for their potential to support their development. Tourism was considered to have limited job-creation potential, particularly given regional competition and lack of enabling infrastructure.

Given that Northern Uganda's agricultural markets are relatively under-developed, there is not enough evidence to prioritize one value chain over another. Rather, **this study emphasizes the importance of discovery and enabling that process**. **To support this, we have highlighted case studies of selected enterprises,** consulted during the data collection phase and who operate within value chains of emerging importance, e.g. oil seeds, that demonstrate key issues our recommendations address (Section 5).

Data collection and analysis was based on **two overarching research questions:**

1. What kind of public investments should government be making and what kind of private investments it should be supporting?
2. What institutional arrangements and policy instruments might be used to promote and support the investments needed?

The following organizations were consulted: Ministry of Trade, Industry & Cooperatives; Ministry Agriculture, Animal Industry & Fisheries; District and Local Council Officials (Gulu, Lira); Elegu Border Officials; UNHCR; UNICEF; EU; BTC; Marie Stopes; FAO; AgDevCo; NU-TEC; Uganda Manufacturers Association; Producer Dealers; Gulu Agricultural Development Co.; Omer Farm; Delight Uganda; RAL/RALNUC; Engsol; Northern Uganda Land Platform.

In addition to the Steering Committee's (SC) priority sectors, we analyzed governance and other institutional structures, and the context in which they operate. The findings from both the desk-review and primary data collection were combined to inform our conclusions and recommendations.

3. THEORY AND LEARNING ON INCLUSIVE ECONOMIC DEVELOPMENT

Key Messages

- **Development entails structural change** – in particular the movement of people out of low-productivity into high-productivity activities (e.g. from agriculture to manufacturing):
  - **The expansion of modern manufacturing** activities has proved important where it has absorbed unskilled labor with replicable technologies, thereby increasing productivity.
  - **Agriculture remains important**, including through reallocating labor to higher productivity activities, and achieving efficiency gains, including through ensuring the adequate and timely supply of quality raw materials for manufacturing.
    - The shift from traditional to modern/intensive agricultural supply chains is an important means of expanding the manufacturing sector
- **Human capital development is essential** to ensure growth is both inclusive and sustainable, in addition to the human rights imperatives for investing in social sectors.
- **Industrial Policy** is increasingly seen as a necessary government intervention to overcome market failure:
  - It relies on appropriate institutional arrangements/ capacities, and should be seen as a long-term process of engagement & collaboration with private sector.

3.1. STRUCTURAL TRANSFORMATION AND DIVERSIFICATION

Increases in labor productivity growth promotes economic growth and reduced income poverty; labor productivity sets the ceiling on what incomes can be earned by workers. Productivity growth can be achieved in one of two ways[v]:

- Capital accumulation and/or technological change increase labor productivity within existing activities and industries, or
- Labor moves into higher productivity activities/industries, known as 'structural change'.

Because agriculture is, at early stages of development, the sector with the lowest labor productivity on aggregate[vi], structural change is typically characterized as the movement of labor out of agriculture, into higher productivity activities within manufacturing (including for example, the manufacturing of agricultural products) and services, or as the movement of labor from 'traditional' to 'modern' parts of the economy. The productivity differences within sectors is also important, e.g. traditional vs. intensive farming; informal low technology manufacturing vs. formal high technology manufacturing; petty street-side retail vs. large supermarkets.

Growth and structural change are also associated with diversification: if people are to move out of 'traditional' parts of the economy they need something better to move into. Therefore, as economies grow, they become less specialized, diversifying their range of modern activities.[vii] With the exception of a few countries that have benefited from natural resource windfalls, every country that has experienced rapid (annual per capita growth of at least 4.5 percent) and sustained (maintained over at least three decades) growth has done so through the movement of labor out of agriculture,

[v] NUTEC, 2016

[vi] For evidence using macro (national accounts) data see McMillan and Rodrik (2011) and for evidence using micro (household survey) data see Gollin et al. (2011).

[vii] An important insight established by Imbs and Wacziary (2003). Also see Collier (2013) for a discussion on new economic activities and diversification in the context of aid.

into manufacturing. The roles of capital and technology are key here in terms of efficiency gains and increasing productivity, resulting in higher growth potential.

We can see 'live' examples around us today. **Bangladesh's Ready-Made Garment manufacturing sector** has grown exponentially since the 1970s. It is now the second largest exporter of clothing in the world behind China, employing around four million people, 70 percent of whom are women. It is estimated that the sector will double by 2020, absorbing a further four million people from the countryside, into relatively high productivity (and higher paying) jobs.

3.2. THE ROLE OF HUMAN CAPITAL

There have been numerous studies into the link and direction of causality between health, education and (inclusive) economic growth. Human capital development - primarily through improved health and education – alone will not necessarily drive economic growth, but is essential to ensure it is inclusive and sustainable in the long term (Rodrik, 2013; Dercon, 2015).

Additionally, **investments in basic services have positive returns in themselves,** particularly at the individual and household level in a shorter time than may be seen at the macro level, in terms of improved living standards, easing the dependency burden, reducing negative coping strategies and enabling capital accumulation.

On structural transformation, Rodrik states (where fundamentals are accumulation of skills and institutional capabilities): *"Structural transformation can fuel rapid growth on its own, but **if it is not backed up by fundamentals, growth peters out and remains episodic**. The accumulation of fundamentals, on the other hand, requires costly, time-consuming, and complementary investments across the entire economy. So, it produces steady but slow growth. Ultimately, sustained growth and convergence require both processes."*[viii]

FIGURE 1: RODRIK – A TYPOLOGY OF GROWTH PATTERNS & OUTCOMES

Structural Transformation[ix]

		Slow	*Rapid*
Investment in fundamentals	*Low*	1) No growth	2) Episodic growth
	High	3) Slow growth	4) Rapid, sustained growth

Madsen (2012) provides a useful contribution to this debate with his analysis of the combined value of investments in health and education to inclusive growth, rather than viewing them as separate contributors. He analyzed data from 21 OECD countries from 1812-2009, focusing on the health-adjusted educational attainment of the working-age population. He concluded that the reason for such contention around the impact of these two key sectors, health and education, on growth is that they have been mostly been analyzed separately to date. He provides a more robust understanding of their impact on sustained inclusive growth by analyzing them jointly, i.e. by calculating the impact of health-adjusted education levels on growth. In an extensive literature review he finds the following:

[viii] Rodrik, 2013

[ix] Rodrik, 2013

"*A direct effect of health on learning is that malnourished and sick children are often absent from school and are even less likely than healthy children to be enrolled in school (Jamison et al. 2006; Ch. 58; Mayer-Foulkus, 2005; Currie et al., 2010). More importantly, illness can severely weaken the learning capacity of students due to reduced concentration in the classroom, cognitive impairment, stigma, and coping skills problems (Holding and Snow, 2001; Alderman et al., 2005; Tucker, 2006; Mayer-Foulkus, 2005; and Bloom and Canning, 2009). Chronic poor health can adversely affect ideas production because it impairs creativity, entrepreneurship and lateral thinking (Howitt, 2005)……* ***it is health-adjusted human capital as opposed to educational attainment that is essential for growth***"[x].

3.3. THE ROLE OF MANUFACTURING AND AGRICULTURAL SECTORS

Historically, manufacturing has been able to absorb large numbers of unskilled workers, often from rural areas, increasing their productivity by multiples, and relies upon capital and technologies that require relatively little adaptation to local context. As a result, labor productivity within formal manufacturing industries gradually but automatically catches up with that of advanced countries. Strikingly, this effect holds despite poor policy, weak institutions, bad geography or a lack of skills (Rodrik, 2013). However, it does depend on key infrastructure, such as roads and electricity. Manufactured goods are also tradable internationally: individual product markets can forge ahead of the rest of the economy[xi], assuming a favorable trade policy environment.

Agriculture is important in at least two ways: First, within agriculture, there is scope to reallocate labor to more productive activities (commercial, export, high value crops etc.), for both food security and economic growth. Second, often in developing economies, one of the key constraints to food manufacturing is adequate supply of raw materials. Agriculture – and the shift from traditional to modern/intensive agricultural supply chains – becomes important as a means of expanding the manufacturing sector. However, whilst there is a long-standing view that growth must start with agriculture (Collier & Dercon, 2009): agriculture is the lowest productivity sector and historically, economic growth and large-scale poverty reduction have been driven by movement towards higher productivity sectors.

3.4. PROMOTING STRUCTURAL TRANSFORMATION: INDUSTRIAL POLICY

The role of government in economic development has been much debated over the years but there is currently a broad consensus that developing new industries requires the proactive support of government. This consensus has led to an increased interest in "Industrial Policy". This refers to efforts to stimulate specific economic activities and promote structural change, but can also be called "export facilitation", "promotion of foreign investment", "free-trade zones" and so on.

Industrial Policy is based on the assumption that market failures[xii] can be addressed by government through e.g. the provision of subsidies, trade protection, the provision of venture capital, or through subsiding complementary investments or by guaranteeing a buyer/market. Without

[x] Madsen, 2012

[xi] For a classic study on Global Value Chain 'slicing' see Dedrick et al. (2010).

[xii] **Self-discovery externalities.** Self-discovery is an ongoing process of learning about what can be produced profitably in an economy. Because entrepreneurs do not capture all the benefits of self-discovery (some 'spill-over' to other firms) the private sector tends to under-invest in new activities. **Coordination externalities.** New economic activities often require simultaneous investments in order to become profitable, e.g. irrigation, electricity, transport and policies, which are often public goods and therefore fall to government. Profitable new industries can fail to develop unless upstream and downstream investments are coaxed simultaneously.

such support, the deck is stacked against entrepreneurs and investors who contemplate diversifying into non-traditional areas. From this perspective, it is not surprising to see that economic restructuring rarely takes place without significant government assistance.

Industrial Policy differs from efforts to build broad economic capabilities. It is often assumed that a policy that is good on one front is also good on the other, e.g. investments in broad capabilities of the education system, improving access to financial services or improving the 'business environment' generally. While there is overlap between the two sets of policies, they are distinct. Industrial policy denotes a relatively narrow ambition of directly expanding higher productivity, modern industries, rather than making broad investments in institutions that may trickle down to investment incentives in industry.

This said: *"the two centuries of OECD country data assessed by Madsen reinforces the need for governments in developing countries to prioritize policy measures and multisectoral interventions that contribute to improve health conditions and support early child nutrition and development as key investments for improving the quality and quantity of human capital production—the path through which health influences economic growth".*[xiii]

3.5. FROM THEORY TO PRACTICE

Translating the above into practical solutions for inclusive economic growth needs to be done with the recognition of two key challenges: Firstly, the specific location and nature of failures in any given market, are difficult to know ex-ante, even with the most in-depth analyses. Furthermore, investment is rarely constrained by a single problem; rather there are a myriad of overlapping problems. Secondly, markets are dynamic. As soon as Government takes any action, the status quo is changed and a new dynamic emerges.

Therefore, industrial policy should be a process of discovery and learning, with government's choice of policy instruments – tax breaks, Research and Development (R&D) subsidies, credit incentives, or other specific instruments – emerging from this process. This is illustrated by the example of Government support to the Ethiopia floriculture industry below (Box 1**:** Industrial policy IN Ethiopia's floriculture industry
)[xiv]. To judge the success of the industrial policy, we should ask questions such as:

- Do we have a clear vision and targets for what we trying to achieve?
- Have we set up institutions for an ongoing conversation with the private sector to identify and understand problems and possible solutions?
- Do we have the capacity to respond to these selectively and quickly?
- Do we have the capacity to evaluate policy outcomes and learn from them?

A key learning on structural transformation is that successful industrial policy relies largely on building these institutional capabilities. The ultimate aim is to create long term, sustainable and inclusive growth. The jobs created through this process must be accessible, and provide sufficient incomes and working conditions to support households. In turn, citizens must be sufficiently educated and healthy to be able to take advantage of the opportunities.

[xiii] World Bank: http://blogs.worldbank.org/health/can-improved-health-conditions-contribute-to-long-term-economic-growth

[xiv] *Drawn from Gebreeyesus M., 2014*

RESULTING RECOMMENDATION

- **Support development of an Industrial Policy for Northern Uganda.**

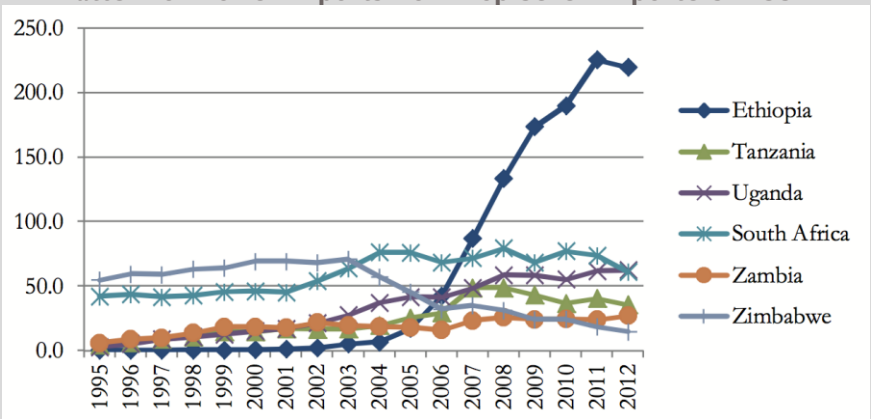
This should be distinct from efforts to build broad economic capabilities (e.g. The PDRP), in that it should focus more narrowly on developing and expanding modern industries, specifically commercial agriculture and agribusiness.

This recommendation is discussed in more detail in Section 8.1.

BOX 1: INDUSTRIAL POLICY IN ETHIOPIA'S FLORICULTURE INDUSTRY

Ethiopia is endowed with the conditions for a successful flower industry (high altitudes, cool climate, low-cost labor, proximity to markets). However, its comparative advantage was not realized until the mid-1990s when two domestic entrepreneurs (Meskel Flowers Plc. And Ethio-Flora) started production.

Pattern of Flower Exports from Top Seven Exporters in SSA



- Self-discovery externalities: Early entrants faced uncertainties and incurred substantial 'self-discovery' costs. The technology needed for flower production was matured and easily available, but the choice of technology and international competitors were a source of uncertainty. For example:

- Two early entrants started in lowlands, with wooden greenhouse technology suitable for other flower varieties. Golden Rose pioneered highland production in modern steel greenhouses.
- All started exporting through the Dutch auction, but later, at least two entrants were forced to change their route to market through sales in Germany due to low prices and services charges.
- There was an acute lack of skilled personnel: firms recruited expatriates for on the job training.

Coordination externalities: Besides technology and marketing knowledge, challenges included:

- Cut flowers need to be transported by air. Cargo space and cold storage facilities at airports are critical. Initially, space was only available on passenger flights and there were no cold storage facilities. Few air carriers were interested in this small market, which made air transport expensive.
- Private investors in the flower sector were able to obtain land only by leasing it from small farmers prior to 2003 – a long process requiring consolidation of smallholdings.
- Availability of credit was another problem, as the flower industry is highly capital intensive.
- Industrial policy response: The industry was underway when Government decided to actively support the sector. It focused not on subsiding pioneers but on addressing coordination failures. The Ministry of Trade and Industry prepared a five-year action plan in collaboration with the private sector.

- The Government initiated co-operation between the exporters and Ethiopian Airlines. This led to Ethiopian Airlines purchasing cargo planes and relocating some of its flight destinations.
- Starting in 2003, land held by the government was made available cheaply within the vicinity of the airport at Addis Ababa, leading to the creation of flower enterprise clusters.
- Long-term credit was made available through the state bank on generous terms.

4. THE HISTORY OF NORTHERN UGANDA'S MARGINALISATION AND THE RESULTING CONTEXT AND ECONOMIC TRENDS

Key Messages

- **Northern Uganda has been historically marginalized** both politically and economically through successive governments. It now also suffers the effects of recent conflict.
- **Poverty, health, education and gender indicators all lag behind the rest of the country,** exacerbated by continued economic marginalization.
- Uganda's population growth rate is exceeded only by Yemen and Niger, and in Northern Uganda, exceeds the rest of the country, caused by high fertility rates and an influx of refugees. This results in **tensions around land and high unemployment and dependency ratios**
- Northern Uganda's demographic trends put **significant strain on public services, particularly as public financing has not been adjusted accordingly.**
- Structural change is happening in Northern Uganda: However, the **alternative to agriculture is predominantly low-productivity, informal work** in the service sector with low and irregular pay, insecurity, transience and socially undesirable positions, i.e. **current structural change is not resulting in inclusive growth. A better form of structural transformation is possible**.

4.1. THE HISTORY OF NORTHERN UGANDA'S ECONOMIC MARGINALIZATION & POLITICAL DIVIDE

The people of the Northern Region of Uganda are typically descended from groups of Luo that migrated south from Sudan and South Sudan. This marks **the Northern Region as ethnically distinct from the rest of the Ugandans who are almost all Bantu speakers, compared with the Nilotic dialects used in the North.**[xv] **To this day, the region still has a greater focus on livestock than anywhere else in the country**.

Uganda gained independence in 1962, and in 1963 Edward Mutesa, Kabaka of the Buganda Kingdom, became the first president, with Milton Obote as his prime minister. In 1966, Obote became Uganda's second president until 1971 when Idi Amin overthrew him. [xvi] The current President Museveni rose to power in 1986 upon his victory in the Ugandan Bush War when his National Resistance Army defeated the Uganda National Liberation Front (UNLA). Despite Museveni's hold on power, the opposition have tended to receive greater support in the north.

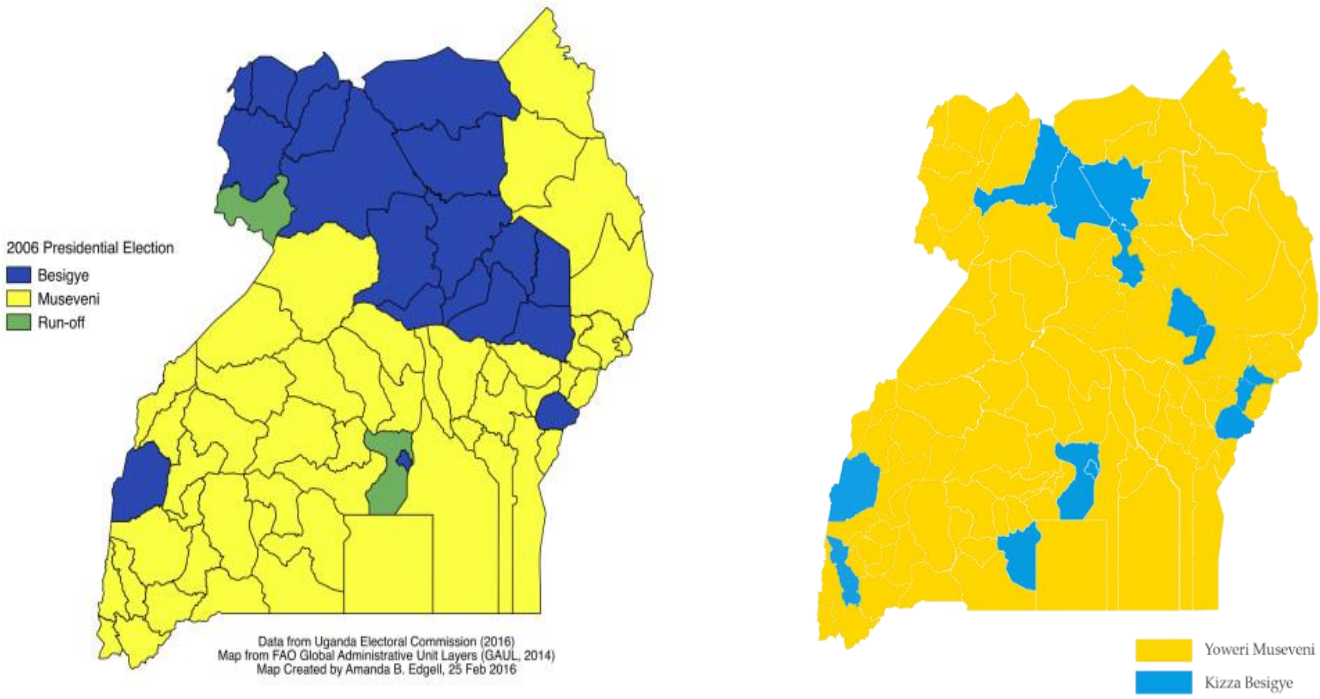
The largest rebel group to arise in northern Uganda was the Lord's Resistance Army under Joseph Kony, an Acholi, in 1987. **By 2006, 1.7 million people had been displaced,** tens of thousands were killed or kidnapped, and 20,000 children were forced to become child soldiers or sex slaves. [xvii] Peace eventually came to the region in 2008, but **the impact of Northern Uganda's historic marginalization and recent conflict is still visible, both economically and socially**.

[xv] The largest ethnic groups in the north are the Lango, with an estimated 1.5 million people, and the Acholi, around 1.2 million

[xvi] Uganda Statehouse Past Presidents of Uganda: http://www.statehouse.go.ug/past-presidents

[xvii] http://www.un.org/apps/news/story.asp?NewsID=15121&Cr=uganda&Cr1=#.Wh0ZYkqWZPY

FIGURE 2: COMPARISON OF 2006 (LEFT) AND 2016 (RIGHT) ELECTION RESULTS[xviii]



4.2. POVERTY IN NORTHERN UGANDA

The population of the Northern Region are the poorest in the country, with most families dependent on subsistence farming. 55 percent of those employed depend on crops, 35 percent on livestock (the highest in the country), and 10 percent on wages[xix]. 60 percent of the adults are unemployed, meaning that poverty is widespread, with 47 percent of the country's poor concentrated in the north, even though it only holds around 18 percent of the population.[xx]

A 2014 study on Northern Uganda by the Secure Livelihoods Research Consortium found that "***A household's primary type of livelihood activity had the greatest impact on the household's overall wealth and food security***. *Those households whose primary livelihood was working for the government (3 percent of the entire population in Acholi and Lango sub regions) or owning livestock (4 percent) had the greatest wealth and lowest food insecurity. Those engaged primarily in casual labor (2 percent) and own cultivation (81 percent), had among the worst food insecurity. The variable that had the second-largest impact on many of the main household outcome variables (after primary livelihood activity) was level of education of the household head.".*

4.3. POPULATION GROWTH

The population of the Northern region was estimated to be 7.5 million in 2016 (citypopultion.de). The overall population density is 88.94/km with the highest concentrations in the West Nile sub-region where it gets as high as 291/km. 87.3 percent of the population are rural according to the 2014 census.

The impact of the LRA conflict, population growth and recent refugee intake from South Sudan have defined Northern Uganda's development trajectory and distinguish it from

[xviii] Data from UEC; Map created by Sputink

[xix] 'The Uganda Poverty Assessment Report 2016', The World Bank

[xx] 'Uganda National Household Survey 2012/2013', Uganda Bureau of Statistics

the rest of the country. Interlinking indicators on poverty, inequality, access to and quality of basic services all lag below the national average.

In 2017 Uganda had the fifth fastest population growth rate in the world, [xxi] **and Northern Uganda's population growth is higher than the rest of the country.** This is due to a combination of high fertility rates and the recent influx of refugees from South Sudan. Nwoya district in Acholi sub-region has the **fastest growing population in the country, at 9.9 percent, compared to a national three percent average**. **The entire region is expected to add 3.1 million people in the next 10 years** (UBOS 2014).

Nationally, the total fertility rate has fallen from 7.4 to 5.4 births per women between 1988 and 2016, but teenage pregnancy remains high, particularly in Lango where 27.9 percent of women aged 15-19 have begun child bearing compared with the national average of 24.6 percent (USAID, 2016).

4.4. THE RESPONSE TO AND IMPACT OF REFUGEE INFLUX IN NORTHERN UGANDA

Uganda *"has been praised for having one of the most progressive and generous refugee laws and policy regimes in the world. In fact,* ***the 2016 United Nations Summit for Refugees declared Uganda's refugee policy a model. The 2006 Refugee Act and 2010 Refugee Regulations allow for integration of refugees within host communities with refugees having access to the same public services as nationals.*** *They have freedom of movement and are free to pursue livelihood opportunities, including access to the labor market and to establish businesses"*[xxii]

In addition, at the 2017 International Conference on Social Protection in Contexts of Fragility & Forced Displacement, the Ugandan Government announced an additional USD 2.6 billion for a universal child grant for refugee households.[xxiii]

Uganda is home to refugees from Burundi, DRC, and most recently those fleeing the South Sudanese Civil War, with the latter two most affecting the Northern Region and the number of refugees reaching 1 million in August 2017. West Nile and Acholi are the primary recipients of refugees from South Sudan, with 62 percent of these being children (UNHCR, 2017). The largest refugee camp in the world is in the West Nile sub-region; the Bidi Bidi Refugee Settlement, home to over 270,000 South Sudanese refugees (The Guardian, 2017).

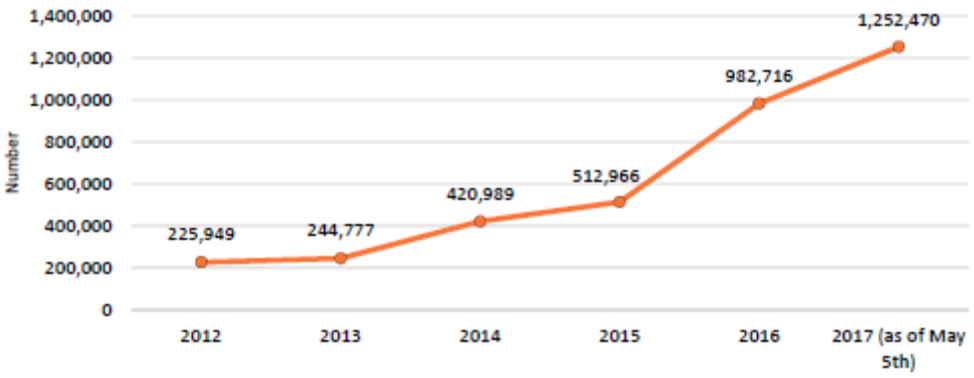
Of the 7.5 million residents in Northern Uganda, the refugee population is one million, making up over 13 percent of the population. During primary data collection, we found that the most significant demographic shifts were occurring in West Nile, and also **resulting in more rapid urbanization.** The figure below shows the total number of refugees in the country ~1.2 million, demonstrating that over 80 percent of them therefore reside in Northern Uganda.

[xxi] https://www.cia.gov/library/publications/the-world-factbook/fields/2002.html

[xxii] UNDP, 2017, Uganda's Contribution to Refugee Protection & Management

[xxiii] http://sp-fragility-displacement.onetec.eu/index.asp?type=

Figure 3: Number of refugees in Uganda per year[xxiv]



Part of the political-economy motivations behind Uganda's welcoming policy to refugees is likely linked to the significant international focus on the current crisis in South Sudan, and therefore the extent of aid money that flows into Northern Uganda in response to the refugee intake. As of September 2017, **UNHCR was calling on *"donors to provide US $701 million for South Sudan refugee operations, of which 20 per cent has been funded"***[xxv]**.**

The population growth has put significant strain on local services and resources, particularly land, as well as reports of local inflation and environmental degradation[xxvi]. *"In FY 2016/17 the total cost of hosting refugees in Uganda is above US$ 323 million",* with the cost in terms of land redistribution accounting for almost 10% of this. [xxvii] However, there are also potentially positive impacts: *"Recent research suggests that for every dollar refugees receive from food aid, $1.30 is generated in the surrounding communities. The economic multiplier is even greater for cash aid, creating $1.50 in value in the local economy…. In addition, some of the infrastructure and investments established to serve refugees remain once they leave."*[xxviii]

Overall, Northern Uganda's population growth puts significant strain on public services, particularly being relatively sparely distributed in rural areas. The high dependency burden (caused by a combination of high fertility rates, large percentage of the population under 18 years, and large household sizes) exacerbates tensions around land. Significantly, from our perspective, **high population growth and limited economic development creates a significantly large pool of young people looking for work.**

4.5. EDUCATION

The education rates in the north are the worst in the country, with only 56 percent of over 18-year-olds in the region being literate; the lowest rate in the country[xxix] . As discussed in Section 3.2., **this has the potential to undermine the inclusivity of economic growth,** particularly for the poorest and most marginalized citizens. Part of the challenge is the **lack of access and [human]**

[xxiv] UNDP, 2017

[xxv]

[xxvi] Ejang, 2017

[xxvii] UNDP, 2017

[xxviii] USAID: Acholi Final Briefer

[xxix] Ibid.

resources, with distances to schools being much larger and teacher scores for literacy and numeracy are lower. *"On average, households with school age children reported their children traveling slightly more than 50 minutes to reach school. Again, the education level of the head of household was correlated with travel time – the higher the education level attained, the shorter the travel time"*[xxx] . During our consultations, respondents generally reported access to secondary school being more challenging than access to primary, particularly in terms of a lack of infrastructure.

Enrolment rates are correspondingly low, with the net enrolment rate at the primary level reaching 84 percent nationally, but 74.8 percent in Northern Uganda in 2013. The gross enrolment rate (GER) is disproportionately high as students deferred entry due to conflict; in 2013 GER for the primary level was 134 percent nationally, and 199 percent in Northern Uganda.[xxxi] As the table below shows, inputs into the sector are disproportionately low in Northern Uganda:

TABLE 1: COMPARISON OF EDUCATION INDICATORS IN UGANDA AND N. UGANDA

Indicator	Northern Region	Country Average[xxxii]
Pupil-Classroom Ratio	136	71.7
Pupil-Teacher Ratio	61	41
Pupil-Textbook Ratio	34.7	23.8
School absence rate	34.7	23.8
Classroom absence rate	69.5	52.6

Given the links explained in above between health, nutrition, education and inclusive growth, **early childhood development** in Northern Uganda is a key area of concern: *"The proportion of children developmentally on track varies by sub region, from a low of 55 percent in West Nile sub region to a high of 74 percent in Bugisu sub region. The ECDI score increases with mother's education, rising from 60 percent among children whose mothers have no education to 80 percent among those whose mothers have more than secondary education. There is a similar pattern with wealth quintile."*[xxxiii]

There are also **stark gender disparities** in educational access and achievement: *"only 13.12 percent of girls who enrol for primary education in northern Uganda complete the circle (Human Development Report, 2017). The girl child completion rate for primary education in northern Uganda is far much below the national average of 63.4 percent (UBOS, 2017). The disparity in the completion rate by region implies that northern Uganda has a peculiar problem that calls for further investigation."*[xxxiv] These disparities worsen at secondary level.

In terms of vocational training, the Ministry of Education and Sports, with support of the World Bank and Government of Belgium, has developed The Business, Technical and Vocational Education and Training (BTVET) Strategic Plan (2011-2020). The first of four intervention areas listed under the plans 'Critical Intervention areas and Priority Investment Programmes' is: *"Development of comprehensive public-private partnership in BTVET"*[xxxv]. However, **among those consulted during primary data collection for this report, there was concern that plans and investments are not coordinated with the private sector**, in terms of the geographic location of investments in

[xxx] Secure livelihoods Consortium, 2014

[xxxi] Ibid.

[xxxii] Ibid.

[xxxiii] DHS 2016

[xxxiv] Ejang, 2017

[xxxv] MoES, 2011

training schools, and also the technical focus of the training available. **Respondents told us that most Technical and Vocational Education and Training (TVET) institutions had not conducted market scoping exercises to assess demand for skills**. Some TVET institutions also required applicants to have completed secondary education which in the context of Northern Uganda, excludes those most in need of acquiring skills.

A 2014 Secure Livelihoods Study concluded: *"**the vast majority of households do not have the education level or primary livelihood occupation that will allow them a way out of poverty**, a means to improve their wealth and assets and reduce their food insecurity. This trend does not appear likely to be reversed any time soon. Current primary education graduate rates in northern Uganda are at 47 percent, and access to secondary school in northern Uganda remains extremely low (only 15% of villages)."*

RESULTING RECOMMENDATIONS

- **Strengthen collaboration with private sector for increased and better targeted investment in TVET (responding to priority needs), and**
- **Increase access to quality education, especially access to secondary education, for sustained, inclusive growth.**

These recommendations are discussed in more detail in Section 8.8 and 8.9

4.6. HEALTH AND NUTRITION

Access to health facilities is comparatively limited in the north. As in the map below, the vast majority of the region's population is at least 10 km away from a public health facility, particularly in the areas most affected by conflict. Compounding the impact of the conflict on health infrastructure, is the ability of local populations suffering physical consequences of the conflict to access clinics: *"The average travel time required of a household to reach basic health services was approximately two hours, with households in Lango traveling on average 30 minutes more than Acholi households. Only one in eight people across the two sub-regions reported that they could access a health centre and that the treatments that they needed were available….. Households where members had suffered serious crimes during the war had significantly greater difficulties in accessing necessary health services, reporting more barriers to access from travel time, cost, and transport."*[xxxvi]

The physical toll of the conflict is acute, with the burden falling disproportionately on women and the elderly, typically already vulnerable groups: *"Ten percent of the population of Acholi and Lango are war-wounded (defined as physical, psychological or emotional injury that impairs functionality), with people in Acholi significantly more likely to be injured. Households that have war-wounded members are significantly more likely to be female-headed, older, poorer and have very low levels of education."*[xxxvii]

Similarly, the *"**percentage of births attended by skilled health personnel** is positively associated with wealth, higher education, and urban place of residence. Only 55 percent of rural births are attended by skilled health personnel compared to 90 percent of urban births."*[xxxviii]

HIV poses a major burden in the Northern region, exceeding the national average of 7.4 percent in Acholi at 8.9 percent. In West Nile, although it is lower than the national average, it has doubled

[xxxvi] Secure Livelihoods Consortium, 2014

[xxxvii] Secure Livelihoods Consortium, 2014

[xxxviii] USAID, 2016

since 2005. In Lango, whilst the overall prevalence is below the national average, the majority of new infections are among adolescent girls. This is a particular concern given the already start gender disparities. Urban centers and transit hubs, e.g. Gulu, have some of the highest rates, and are also associated with high rates of prostitution.

"Across sub regions, there are some large differences in knowledge that using condoms and limiting sexual intercourse to one uninfected partner reduces the risk of HIV transmission among men and women….. In West Nile sub region, more men (87 percent) than women (62 percent) know that both using condoms and limiting sexual intercourse to one uninfected partner are means of preventing HIV. Respondents with no education and those in the lowest wealth quintile are less knowledgeable about HIV prevention methods compared with other respondents."

Due to its impact on the immune system, HIV prevalence in Northern Uganda is associated with higher rates of TB and other communicable diseases. To a large extent, the **high rates of HIV are correlated with low sexual and reproductive health (SRH) education.** Among the development partners consulted during primary data collection, some have *"integrated the family planning services in agricultural extension and youth empowerment program (UNFPA, 2017) Despite the initiative, family planning services is underutilized and currently stands at 25 percent (UBOS 2016). The access could be lower among the rural women who are restricted by taboos, cultural values and economic hardship from accessing family planning services and contraceptives."*

During consultations with district health officials, commercial sex work, particularly in urban areas and transit hubs (near the border) was highlighted as a key contributing factor to the transmission and prevalence of HIV in Northern Uganda.

Nutrition rates in the Northern Region also lag behind the rest of the country: *"Weight-for-age is an overall indicator of a population's nutritional health. The results show that 11 percent of all children are underweight (below -2 SD), and 2 percent are severely underweight (below -3 SD). Children in rural areas are slightly more likely than those in urban areas to be underweight (11 percent and 8 percent, respectively). … The proportion of children who are underweight decreases with increasing levels of the mother's education and increasing wealth quintiles."*[xxxix] **District health officials reported to us that poor health among mothers due to HIV and mother-to-child transmission also contribute to malnutrition in children.**

Immunization rates have been skewed by the intake of refugees, according to respondents during our primary data collection, with coverage rates exceeding 100 percent because plans did not take into account refugee populations. **One interviewee claimed that coverage is far from adequate.**

Alcoholism is comparatively common in Northern Uganda, which is both a symptom of the conflict and poverty (unemployment), but also a cause of unemployment as employers will not take on or keep staff which drink excessively.

In terms of inputs into the health sector, a further challenge lies in the **pharmaceutical supply chain** which, for primary health care clinics (HC2 and HC3) operate on a push system, centrally administered, and therefore not necessarily in line with needs, particularly in the event of a disease outbreak.

[xxxix] DHS 2016

Regarding Human Resources for Health, one respondent told us: *"The (HR) structure we're using is one from 20 years ago.* *With HIV and all the changes, we still expect the two midwives in a HC3 to be able to handle all those challenges."'*

The private health sector has inevitably increased to fill gaps in government provision of health services, which will have mixed results under a weak regulatory environment. However, it may also pose an opportunity for engagement where market forces may enable more efficient interventions in key areas. The private sector accounts for *"about 50 percent of health sector outputs in Uganda. Private not-for-profit health facilities are more structured, and are prominently present in rural areas; and the (less-structured) private for-profit sector is growing rapidly in urban centres. The government has subsidized some private sector facilities."*[xl]

Particular to the performance of Northern Uganda's basic service sectors is the intake of refugees, who also access public services, but are not accounted for in the population-based Unconditional Transfer calculations for funding Districts. This came up in discussions with multiple stakeholders during primary data collection. As the unconditional grants are intended for use on priority areas of primary education, primary health care, agricultural extension, feeder roads, and safe and clean water, this is a concern for Northern Uganda, where investment and resources are needed to improve both access and quality. Similar ceilings apply to the number of health care workers and teachers that districts can employ, which have not been adjusted to reflect the refugee intake. In some cases, where development partners are building, for example, schools to accommodate refugee populations, the management and supervision still fall to local government, with the same budget and staffing constraints. Locally raised revenues are supposed to supplement central government transfers, but in the context of Northern Uganda the contributions from this currently is low.

As well as access to health services being basic human rights, as discussed in Section 3.2, health adjusted education is a key driver of inclusive economic growth.

RESULTING RECOMMENDATION

- **Increase access to quality SRH and nutrition services, as part of a scaled-up integrated universal health care offer, to respond to key gaps and gender disparities in Northern Uganda.**
- **Engage national Government to revise funding/resourcing allocations based on actual (not local) population numbers.**

These recommendations are discussed in more detail in Section 8.10

4.7. CURRENT TRENDS IN NORTHERN UGANDA'S TRANSFORMATION

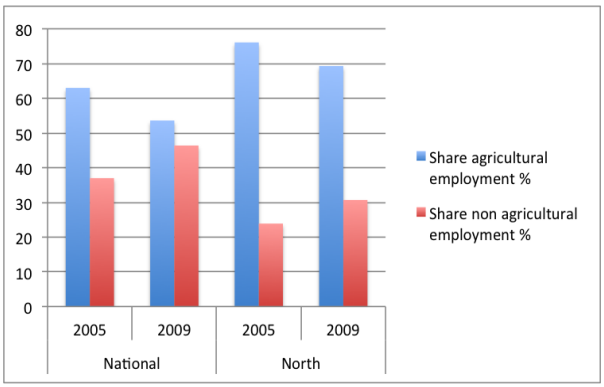
Given the rapid pace of population growth, and significant productivity (and earning potential) differences between sectors, it was not surprising to observe during primary and secondary data collection that **a transformation in Northern Uganda's economy has already started in the sense that people are moving out of (subsistence) agriculture.** This was highlighted in consultations with stakeholders including Uganda Manufacturing Association and Gulu Agriculture Development Company, as well as local government officials.

[xl] USAID, 2016, EPHS Country Snapshot: Uganda

However, this is occurring in the context of a landlocked region/country, with minimal (rural) transport infrastructure and political and economic instability in neighboring countries. Uganda's economy is dominated by a low productivity agriculture sector[xli], employing around three-quarters of the working population. This is even more the case in the northern region where UBOS figures have employment in agriculture at 86 percent against a national average of 66 percent[xlii].

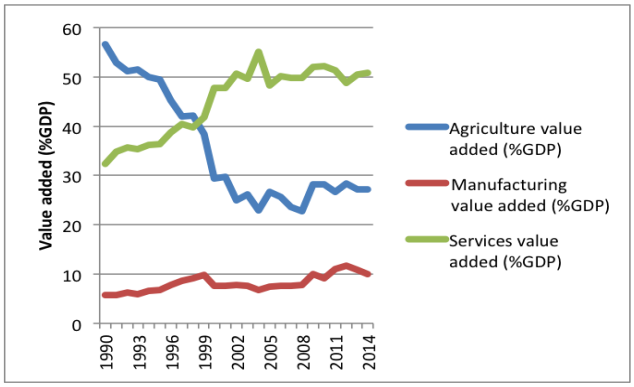
Between 2000 and 2009, the share of Uganda's employment in agriculture fell by about 10 percent as people moved into the service sector, and to a lesser extent, manufacturing employment. The same trend was observed to a varying degree in Northern Uganda (See Figure).[xliii] These findings are consistent with World Bank data showing the rising contribution of the service sector to overall GDP (Figure).

FIGURE 4: CHANGES IN EMPLOYMENT SHARE IN UGANDA AND NU, 2005 - 2009



Source: Christiaensen and Kaminski (2015)

FIGURE 5: SECTOR CONTRIBUTION TO NATIONAL GDP



Source: WDIs

We can see that labor is moving out of the agriculture and into the service and manufacturing sectors, which are on aggregate, higher productivity sectors. However, these broad sectors hide much heterogeneity within and what comes through clearly in the data is that, predominantly, people are moving into self-employment. Christiaensen and Kaminski (2015) find that 70 percent of growth in time spent in non-agricultural employment is driven by a growth in self-employed jobs. Few are being absorbed into formal employment. This trend is Northern Uganda in Figure.

Why is this happening? It is instructive to look at changes in wages between different employment types. The key point from Figure is that while non-agricultural wages remained higher than any other employment type, they declined during the period in Northern Uganda by a considerable 55 percent,

[xli] Author's calculations using World Bank WDIs suggest that in 2009 value added per worker in Agriculture was 7% of that in Industry (which includes Manufacturing) and 12% of that in Services.

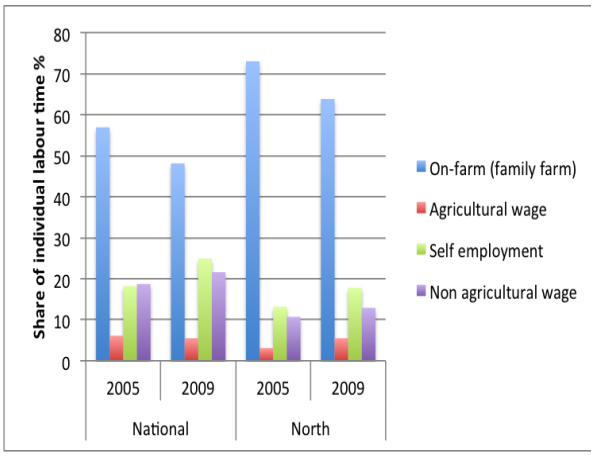
[xlii] Oxford Economics (2015) citing UBOS figures from 2012. ILO Key Indicators of the Labour Market (KILM) have national employment in agriculture at 71.9% in 2013, down 1.9% from 2009.

[xliii] Figures on share of employment are lower than others (see below 53.6% in 2009). This is because others obtain their figure from the number of households whose primary activity is agriculture while the Christiaensen and Kaminski (2015) figures are based on labor time shares of all activities worked among household members, which gives a more precise figure of the labor portfolio compositions.

(incomes for agricultural wage employment also dropped in Northern Uganda during the same period).

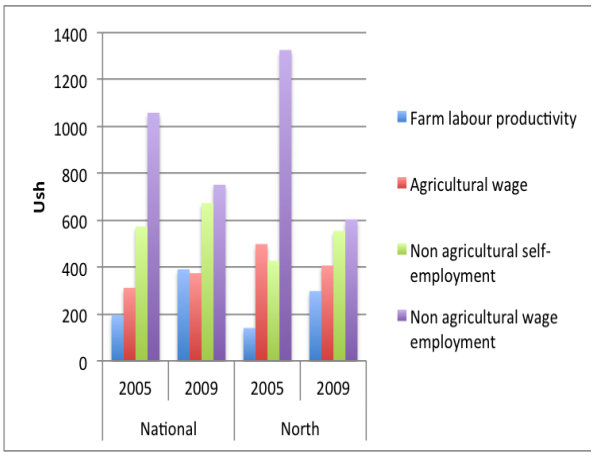
Our interpretation of the data is that as people are spending less of their time on the family farm, the availability of low-skilled agricultural and non-agricultural labor is being driven up, driving down incomes. **In the absence of sufficient wage employment – particular non-agricultural wage employment in the cities and towns – people choose, or are forced, to take up self-employment – in the low productivity, often informal, service sector.**

FIGURE 6: LABOUR MOVEMENTS BY EMPLOYMENT TYPE



Source: Christiaensen and Kaminski (2015)

FIGURE 7: CHANGES IN WAGES BY EMPLOYMENT TYPE



Source: Christiaensen and Kaminski (2015)

A mixed-methods study of youth employment in Lira town (324 young people surveyed) supports our assessment: *"we observe a number of recurring themes: low and irregular pay, insecurity, transience, and socially undesirable positions….While physical mobility might be quite high, it is usually confined to the worst occupations available: casual labor (leja leja) hawking, brokering, low-grade bar work, the sex industry".*[xliv]

Their diagnosis is that the key problem is a lack of higher productivity jobs: *"Within the northern Ugandan economy opportunities for formal wage labor are hard to come by; the large post-war investments entering the north are reportedly concentrated in the hands of the few; and the agricultural sector appears incapable of absorbing the region's massive supply of youth labor…In short, there simply aren't that many viable alternatives around, and so a series of factors combine to make escape from 'bad work' unlikely".*

The recommendations highlighted above (Sections 4.5 and 4.6) are aimed at ensuring job opportunities will be accessible to people who are higher skilled and in better health, as well as the individual and household benefits of these outcomes in themselves. In addition, as explained in Section 3.2. health adjusted education is a key driver of inclusive, sustained growth.

[xliv] Malleh et al. 2016

5. IDENTIFYING PRIORITY SECTORS AND THEIR CONSTRAINTS

Key Messages

- There are number of sectors in Northern Uganda that have the **potential to grow significantly**.
- **This report prioritizes commercial agriculture and agribusiness**, including food processing, as they have the **highest potential for inclusive, sustainable growth** through structural transformation.
- Agriculture and Agribusiness **are highly complementary and have witnessed significant private sector investment** in recent years.
- **Constraints** to their growth include land ownership structures, poor infrastructure, access to finance, availability/ quality of services and inputs, fragmented markets and risk, and low capacity in business and local government.
- Given the relatively nascent stage of development of these markets, **a learning process involving both public and private sectors is needed before specific value chains are prioritized for major public investment**; that said, oil seeds are a key emerging market, with a crop that is both locally and internationally marketable, that can be grown at scale, and, by its nature of being robust and bulky by weight, relatively generative of employment at a range of skill levels; see below regarding the current outlines, growth and growth potential of the industry.

5.1. IDENTIFYING PRIORITY SECTORS

While Northern Uganda is currently characterized by a high poverty rate[xlv] and very low levels of economic activity and productivity, recent studies suggest that the North has significant economic potential in a relatively broad range of sectors.

Many studies have looked at sectors with the potential for delivering economic growth in Northern Uganda. An Oxford Economics 2015 assessment of the region's factor endowments points to a comparative advantage in:

- Primary: Food crops; cash crops; livestock, fishing and forestry
- Mining: Minerals; oil; and gas
- Energy: Hydro; solar; wind; and biomass
- Tourism

Realizing its potential in these areas could create 2 million extra jobs (compared to business as usual) and result in poverty rate falling from 44 percent to 18 percent by 2040[xlvi].

The World Bank Group, 2016, provides an analysis of economic potential of the districts of Arua and Nwoya. In Arua, qualitative evidence suggests that agribusiness and tourism offer potential for value addition and upgrading. In Nwoya, potential lies in the availability of fertile, flat land, good weather and a ready workforce. The district has recently witnessed the growth of the livestock sector in pig rearing, cattle and milk production – all of which are new activities for the area. There is also potential in

[xlv] 42% for Northern Uganda compared to the National average of 19.7% according to the Uganda National Household Survey 2012/13.

[xlvi] Oxford Economics, 2015

tourism, with opportunities for developing backward and forward linkages including food supply and tour guides.

Within agriculture, there are opportunities for higher value-added crop production with market potential by small farmers in ginger, fruit and vegetables, pig rearing, milling, etc. Action Against Hunger, 2014, find significant potential for households to increase income through shifting production to cash crops, in particular rice, sesame, sunflower and maize as well as groundnuts. Palladium, 2016a, also find potential in sunflower and soybean production and processing. UNDP, 2012, finds potential for expanding honey production and processing in Arua and to a lesser extent Lira. We also observed such potential, and appetite from the private sector during our consultations with local businesses, e.g. Delight Uganda in growing and processing fruit juice, and Gulu Agriculture Development Company in rehabilitating ginneries (more in Boxes 3 and 4 respectively).

There is, of course, potential in other sectors. The Arua district has also recently witnessed the growth of the livestock sector in pig rearing, cattle and milk production – all of which are new activities for the area. However, these sectors are very nascent. For both Arua and Nwoya, tourism also has potential, but it is starting from a low base, with disadvantages relative to e.g. Jinja and has limited government support.

The following table provides our assessment of the nine priority sectors identified by the Interim Steering Committee, based on our primary and secondary data collection and analysis, and which has guided our prioritization for the remainder of this report:

TABLE 2: OVERVIEW OF STATUS, OPPORTUNITIES AND CONTRAINTS IN THE NINE PRIORITY SECTORS IDENTIFIED BY THE INTERIM STEERING COMMITTEE

Sector	Status	Opportunity	Constraint
Agriculture	Predominantly subsistence, under-developed	Potential for efficiency gains and commercial agriculture for job creation and productivity growth	Poor quality/limited inputs, weak market linkages
Infrastructure (roads, energy, markets, rail)	Limited – represent constraints to investment and development. Road connection: to Kampala good, rural roads limited	Key supporting investment for economic growth	Political and financial constraint to high investment needed
Tourism	Limited	Some potential for high-end tourism based on natural parks/wildlife reserves (however relatively low return to investment in terms of job creation)	Infrastructure, limited employment opportunities, regional competition, significant investment needed
Education & Skills	Limited access, insufficient staff and resources, poor outcomes. Gender and wealth disparities	Basic education/literacy to enable inclusion; Vocational training (in collaboration w/private sector) to support structural transformation	Access, human resources, indicators currently lag behind national averages. Quality impacted by population growth

Sector	Status	Opportunity	Constraint
Industry / Industrialization	Under-developed	Agribusiness	Finance, communications, transport infrastructure, risk, leadership
Water & environment	One wet season (vs 2 in south), with some drought. Environmental degradation from population pressures	Climate and soils favorable to commercial agriculture	Limited irrigation and environmental management. Negative impact of climate change to be felt mostly be subsistence farmers.
Health	Limited access and resources. Key gaps include SRH (family planning). Impact of conflict: alcoholism, psychosocial and injury.	Increasing role of private sector (regulation key). Investment in SRH, HIV, family planning and nutrition.	Access, human resources, indicators currently lag behind national averages. Quality impacted by population growth
Land Use	Dominated by customary ownership, limits investment, fuels gender disparities.	Separate use from ownership, longer leases, reform bylaws	Political interference. Population pressure and food security from subsistence agriculture
Governance	Limited capacity but with experience of promoting economic change and growth, and sufficient institutional arrangements for engagement	Engagement with existing institutions, capacity building	Limited human resources, political marginalization, financing

We therefore consider the main investment opportunity area candidates to be agriculture and agribusiness, in terms of their potential to create jobs and promote sustainable, inclusive economic growth. Opportunities in agriculture relate to both commercial and household farming. However, strong growth will require rapidly increasing commercialization which will result in the sector shedding jobs. This makes growth in agribusiness even more important for employment. Agribusiness, in particular food processing, has also been identified as an important stepping stone to a more complex and productive economy.

This study did not examine specific value chains for either agriculture or agribusiness**,** given the time constraints but also as a strategic decision given that Northern Uganda's agricultural markets are relatively under-developed and there is currently not enough evidence to prioritize one value chain over another. However, it was **clear from our data collection that oil seeds are emerging as a key market for Northern Uganda**, with the Lango sub-region accounting for 61 percent and 43 percent of Uganda's crop area for soybean and sim sim respectively (USAID, 2016). There are over 40, mostly small to medium size, companies across Lango and Acholi sub-regions (NU-TECH MD, 2015), and only one of Uganda's 12 sunflower milling companies is located outside the northern region.

This report therefore focuses on agriculture and agribusiness as sectors which have the highest potential for inclusive, sustained growth, and on constraints in these and other sectors which, when addressed, will enable that process more efficiently. **We have highlighted case studies of selected enterprises, consulted during data collection, that demonstrate the key issues our recommendations address.**

Tourism is the only sector in which we have made no recommendations. This is because it is considered to have relatively low potential for job creation and revenue. Given a lack of key enabling infrastructure in Northern Uganda, it would require significant investments and have to compete with similar but already established markets in East Africa.

In realizing the potential of the priority sectors, agriculture and agribusiness, several well-known challenges need to be addressed. Land governance restricts the release and use of land as an asset. The infrastructure deficit pushes up costs, and we also see fragmented supply and demand with weak or missing links in value chains and limited learning mechanisms.

5.2. AGRICULTURE AND AGRIBUSINESS (MANUFACTURING)

Focusing policy on a strictly limited number of sectors is crucial for two reasons. Firstly, **resources are scarce and needs are great** – prioritization is needed so that resources are not stretched too thin. Secondly, given the nascent co-operation structures at regional level, limiting the sectors to be supported will go some way to **avoid "premature load bearing - doing too much too soon**" (M. Andrews, 2017) and help ensure that the process of support to growth can be managed.

Economic development is path dependent; the products that a country produces today define what it is able to develop in the near future. Countries tend to move from products that they are making to products that are nearby in terms of the productive capabilities they require. Northern Uganda has a natural comparative advantage in agriculture in the form of good weather, flexible climates and fertile soils that support the cultivation of a range of crops and livestock. Agro-based commodities dominate Uganda's exports
(https://atlas.media.mit.edu/en/profile/country/uga/).

The North has a fledgling agricultural manufacturing sector, in oil seeds products for example. Agricultural manufacturing, including food processing, is one of the key platforms upon which the northern region might build. There are very strong complementarities between agriculture and agro-processing. Enhancing linkages and efficiency gains in one positively and directly affect the other (Kremer, 1993) but, more directly, agriculture also provides the raw material for food processing.

Hausmann, et al. (2014) undertook countrywide analysis to identify promising avenues for diversification. **Food processing was identified by Hausmann, 2014, as the key sector that has potential for "parsimonious" transformation** (transformation that is relatively straightforward to achieve)[xlvii], e.g. preserved fruit; frozen or preserved vegetables; insecticides; fertilizers.

Another advantage of these two sectors is that they have attracted significant private sector investment in recent years. In Arua, several agro-processing firms are emerging and adding

[xlvii] Construction materials, including plastics and packaging, where identified as a "strategic bet" - a sector where risks to its development are quite high.

value to local products including cassava, sesame, chili, honey and livestock, with a ready local and cross border (especially to South Sudan) market. Nwoya has recently been able to attract investment in large scale agro-processing in rice, maize, oil seeds and beans (World Bank Group, 2016). This is a vote of confidence in their potential and has also created momentum behind their growth.

BOX 2: CLIMATE AND CLIMATE CHANGE IN NORTHERN UGANDA

Northern Uganda is mostly made up of flat lowlands. The rainy season is from April to October, with Northern Uganda receiving less rain than the rest of Uganda, causing annual water shortages in some areas. In dry season there are also frequent wildfires. As such, the majority of the population who depend on agriculture are very vulnerable.

The Uganda Climate Change Vulnerability Report, supported by USAID in 2013, observed that there had been no significant change in average annual rainfall over the past 50 years, nor predicted any up to 2045. However, the projections did consistently increase in rainfall in December-February of the dry season, and the potential for erratic rainfall, with increases in the frequency of extreme events such as heavy rainstorms and flooding. Since 1951, the USAID report notes that average annual temperatures have been gradually rising, and project this trend will continue, with some models predicting an increase of more than 2°C by 2030.

The impact of this will felt by farmers most severely. The most vulnerable crop is coffee, as erratic rainfall, combined with rising temperatures, increases the risk of disease and pest infestations. Matooke is similarly vulnerable because seedlings are highly perishable. These are both tree crops, not annual crops, and so require more time to adapt to a changing climate. Furthermore, they are cash crops so the impact on the local economy and farmers will be significant,

Maize and beans, essential to food security, will show decreased growth due to increased temperatures and erratic rainfall. Although they are more resistant to climate change than coffee and matooke, the risk of contamination and the spread of infections which can kill the crops and impact human health if consumed (e.g. aflatoxin), will rise. Furthermore, farmers tend to dry their crops by the sun, therefore increased rain will cause greater crop degradation and higher threats of infection.

Increased temperatures and irregular rainfall will also increase the chances of a parasitic weed named striga growing, even among hardier crops like sorghum. This will result in reduced yields as nutrients and water are diverted.

The dependency on subsistence farming and cash crops, combined with increasing land pressures in Northern Uganda, will make households particularly vulnerable to climate change effects. Furthermore, those from the north tend to be less well educated due to the years of conflict (affording them few alternative incomes sources beyond agriculture); they tend to be less likely to sell a portion of their crops or livestock because they grow less and have limited access to markets; and they have less access to financial services, for example to take out a loan.

5.3. KEY CONSTRAINTS TO PRIORITY SECTORS

In this section we examine the main constraints to the development of the two sectors we see as having highest potential to achieve inclusive economic growth and job creation: agriculture and agribusiness. **However, addressing these constraints would have much wider-reaching consequences to the other priority sectors, not least governance, health and education:** e.g. traditional land ownership structures exacerbate gender inequalities; similarly, improved transport, energy and communications infrastructure would enable easier flows of goods, people and information, enabling private sector investments but also enabling the public sector to attract skilled staff in higher numbers; and improved access to finance, i.e. the expansion of both the types and coverage of financial services, has potential impacts ranging from improving public financial management to enabling household level entrepreneurship and savings. **The recommendations included at the end of this section are therefore made with these 'spillover' effects in mind.**

The text boxes included in this section result from our primary data collection and are intended to exemplify some of the key constraints and show how businesses are commonly impacted by more than one of these.

Land

The greater proportion of Uganda's land is unregistered: only 18 percent of private land was titled in 2006; 37 percent of land could not be sold, 34 percent could not be rented, and 44 percent of land could not be used as security (World Bank, 2015). This, together with weak institutional capacities of land administration agencies, limits the functioning of the land markets – making them less liquid than they could be.

The situation has also restricted the extent to which land can be used as collateral and has inadvertently constrained the development of the country's financial systems. *"This is a major barrier to large-scale investments, particularly since the implementation of the 2010 Land Amendment Act, which increased the powers of tenants over landlords through the introduction of the concept of "bona fide"* occupants, making it very difficult for landlords to evict tenants" (World Bank Group, 2016).

As discussed in Section 4.6, Northern Uganda's population growth is placing additional pressures on land, and in turn, gender disparities. The number of land disputes on the rise in Northern Uganda (QED, 2017a), partly due to the influx of refugees and Government's policy to reallocate land to them, and this situation is likely to get worse if not addressed.

BOX 3: COMMERCIAL FARMING & AGRO PROCESSING: DELIGHTS UGANDA

Owned by a successful Ugandan businesswoman interviewed during primary data collection, Delights currently produces Cheers, a fruit juice concentrate of different flavors. According to the proprietor, her dream has always been to produce fresh fruit juice. So, in 2011 she decided to find land where she could grow fruits, to feed her juice factory in Kampala, but with plans to set up another factory in Northern Uganda. She was attracted to Northern Uganda by the expansive virgin land, enabling one extended farm for easy management.

She bought 1,000 acres in 2011 in the sparsely populated area of (now) Nwoya District in Acholi sub-region. In order to find the land, she directly negotiated with the family and clan leaders. Once a deal was reached, she then involved the District Officials. The agreement had to be signed by family members selling the land, neighbors, clan leaders and District Officials. Over time, she bought more land, increasing her cultivation to 1,700 acres. In her view, engaging directly with the community, rather than having government allocate land, was the right thing as it creates harmony with the community.

Operational experience: Before Delight could do anything, the company had to make their own road of about 15-19 km, which was a very challenging task. There were no people in the area at the time (as the locals were still in camps for internally displaced persons), hence the company had to bring in labor and provide everything for them.

In terms of inputs, the first mango seedlings were imported from Kenya. In order to achieve the best yield, there was a need to graft the plants shortly after transplanting. However, she was not clearly informed of this important step when she made the order. When she asked for technical support from the seedlings supplier to come and graft her mangoes, she was told the technician had died. Thus, a year down the road, she had to dig out everything she had planted and restart. Notwithstanding the challenges, she now has a total of 800 acres of mangoes, and 100 acres of oranges where she expects to harvest 1,200 kg/acre of mangoes. She is yet to harvest the first fruit, 6-7 years later.

As she waits for her own trees to bear fruits, she has mobilized 2,400 farmers from the district to grow mangoes that she will eventually buy to feed her factory as part of an out-grower scheme. Working with local farmers is a learning process. The trees have to be taken care of in a very specific manner to produce the right quality of fruit for the factory. The company has taken responsibility for providing extension services to the farmers. With financial support from Agricultural Business Initiative (aBi) Trust, the company has recruited a team of 80 extension agents, each supporting 20-25 farmers. Participating farmers are planting, on average, two acres. If all goes well, an average farmer planting the recommended 112 trees (56 trees per acre) is expected to receive UGX 9 million ($2,479) per season.

This case study highlights the need for interventions focusing on land use, supporting investments in the learning process and self-discovery externalities, and improving testing and quality control of inputs, as discussed in more detail in the next sections.

Transport Infrastructure

Road infrastructure in the north is fairly poor with only 19 percent of the roads paved, the lowest amount in the country [xlviii]. They also deteriorate significantly during the rainy season.

Poor road infrastructure affects most sectors. Poor feeder road infrastructure increases transport and vehicle maintenance costs for agribusinesses and negatively affects farmers access to markets and to better prices. According to the assessment – poor or missing market infrastructure at sub county levels results in losses in the livestock and crop sectors. Lack of appropriate business premises and industrial parks or zones that are serviced with the necessary amenities, particularly electricity, constrain agro-processing and manufacturing more broadly.

The only railroad from East to West is a branch from the Kampala-Mombasa line, which goes to Gulu and eventually Arua. In recent years it has fallen into disuse so that now the entire region has no access to rail. The waterways are also not widely used, with no significant traffic at any point. Only Gulu, Arua, and Moyo airports have scheduled flights.

Energy

Northern Uganda lags behind in terms of energy access and consumption compared to the rest of the country (QED, 2017b). The lack of electricity has been reported as a major constraint to industrial investment and expansion in Arua and Nwoya. Where there is electricity, power surges and cuts can result in damage to machinery and downtime in production, and the electricity costs were felt to be too high for manufacturing businesses. This challenge was illustrated in the factory visit to the Gulu Agricultural Development Company (GADCO) where diesel generators are used for the ginning process.

FIGURE 8: POORLY MAINTAINED TRANSFORMER, GADCO

[xlviii] 'The Uganda Poverty Assessment Report 2016', The World Bank

Water & Irrigation

Water and irrigation is a challenge for agriculture and livestock and, relating to sewage, for tourism (World Bank Group, 2016). The absence of irrigation systems also exposes the agriculture to unpredictable weather (Oxford Policy Management, 2015).

Skills

As set out in Sections 3 and 5, and from our field observations, we identified a lack of agricultural management skills in Northern Uganda, with many of the technicians being from other countries in West Africa. Medium and large scale agricultural investments in the North of Uganda seem to struggle to take advantage of the agro-ecological and pedo-climatic conditions of the North of the country. This can be linked to the lack of good agronomic management skills and the lack of agricultural management companies in the country.

Access to Finance

Access to finance is the most widely cited constraint. Bank access in the north is the poorest in the country, **with many of the districts having no bank access points.** In 2012, there were 145 access points, compared to 839 in the central region[xlix]. This can be attributed to the civil war experience. (i.e. limited investment in infrastructure and loss of pre-existing infrastructure during that time).

The 2012/13 national household survey shows that communities in the North have much lower access to banks and financial institutions compared to the national average. A business survey undertaken by ERA II found only six percent of firms surveyed accessed funding from banks, and a further four percent from non-bank financial institutions. When firms can borrow, terms are often punishing with short timeframes for repayment and interest rates of 30 percent. Problems of access to finance are in part a legacy of conflict with limited bank branch development. The north also carries a higher risk premium (Oxford Policy Management, 2015).

Communications Infrastructure

Mobile coverage is very poor in the rural areas of the northern region, and all networks tend to miss the same areas. Despite this, there are mobile money agents in the northern region, however the density is far lower than the rest of the country.

In a recent cash transfer program by Give Directly in the Northern Region, it was found that only 15 percent of recipients owned a mobile phone and only six percent had a mobile money account. Once set up to receive mobile money transfers, recipients had to travel on average 66km to cash out[l]. Despite a 10-20 percent efficiency drop in programming, due to the limited infrastructure and related logistical challenges, GiveDirectly concluded that the program did succeed in delivering cash transfers to *"some of the poorest and most underserved communities we've ever encountered."* And that: *"A barrier to cash programming has been the perceived lack of viability of local markets. We found recipients comfortably capable of overcoming this, willing to travel considerable distances to put their money to work. 45 percent of our recipients travelled 350 km to a major town where they could buy larger items. The size of the transfer, around $900, allowed them to both cover their transport costs and invest in a balanced portfolio of short- and long-term needs, from business and agricultural investment, to improving homes and paying school fees[li]".* Although they did see short term inflation in remote areas for a small number of staple goods, there

[xlix] Ibid.

[l] https://www.givedirectly.org/blog-post?id=1048165726995814923

[li] https://www.givedirectly.org/blog-post?id=277636543500106139 3

results overall were positive, with increased economic activity in terms of new shops opening, more goods and services locally available and an increase in mobile money agent transactions.

Fragmented Markets

Production is highly fragmented. World Bank Group, 2016, note the extent to which cassava production is constrained by land fragmentation and small land holdings, and most cassava producers sell it as fresh roots because of the lack of capacity and finance. With regards to agribusiness, only 3 percent of firms employ 10 people or more "*which is a major barrier to reaping the productivity benefits of economies of scale in production".* The poor road infrastructure within the districts further fragments both production and demand

In much of agriculture, the connection between producer and consumer/ processor is via traders. For example, in Northern Uganda close to 70 percent of total maize aggregation is through trader directed storage. The challenge is that *"[T}here is a lot of distrust from producers and grain handlers who buy from traders, with reports of traders manipulating their scales so that grain weighs less, or paying less because the grain is low quality or needs drying. This lack of trust drives producers to 'cheat' in retaliation by selling traders poor grain or trying to increase the weight of their bags"* (Palladium, 2016b).

Fragmented supply and demand, coupled with low levels of trust and poor-quality control, compound to create an ironic situation where existing market infrastructure, in particular storage provided by donors, is underutilized (Palladium, 2016a) while demand cannot be met and post-harvest losses are high. This negatively affects the quality and volume of sales.

The absence of economies of scale and the potential for suppler to "cheat" by selling to the highest bidder also limits the incentive for investment in market infrastructure such as cold storage and other processing capacity and affects investment in enhancing quality seed production (Palladium, 2016c).

Linkages & Inputs

Medium and large investments cannot access some agricultural inputs and services which would drive agricultural growth and inclusive private sector development in Northern Uganda. Unavailability of quality seed for production of grains seems to be a challenge for agricultural development in the target regions. Although the market is characterized by a multitude of players and various efforts have been made in recent years to address this challenge, the current seed companies do not seem to be able to produce quality, consistent seed for commercial agricultural production. Counterfeiting and selling grains as seed was common among farmers interviewed.

Small holder aggregation in seed multiplication through block farming, could be utilized to overcome this challenge as for the case of public private partnership between Vinayak Agro Farm, Naseco seed company and the National Agricultural Research Organisation (NARO) in rice seed multiplication in the north[lii]. Other services were also noted by interviewees as missing included crop dusting.

[lii] http://africarice.blogspot.co.za/2016/08/public-private-partnership-scales-up.html

BOX 4: GADCO: THE CENTRE OF A NETWORK OF PRODUCTION AND DISTRIBUTION

GADCO (Gulu Agricultural Development Company), interviewed during primary data collection, is a private company, that has been the recipient of a range of development capital investments, operating in Gulu town since 2009 through the acquisition and rehabilitation of the ginnery belonging to the West Acholi Cooperative. Playing the role of an aggregator, processor and exporter, GADCO buys (mainly) cotton, organic sesame, sorghum and chili. Working through a sophisticated management network of Field Officers (FO), who play the role of extension service providers, and buying agents, who carry out village level aggregation, the model both promotes, and captures the benefits of, increased efficiency.

Directed by where it can find produce, GADCO starts by conducting a high-level assessment of what farmers generally grow in an area. Once it has established a sizeable number of farmers growing any of the four crops, it then recruits an FO at the Parish level (the second lowest unit of local government). The FO is then trained and tasked to identify lead farmers. Together with the lead farmers, the FO recruits more farmers with a max. of 300 farmers: 1 FO.

In addition to receiving extension services (training on cultivation), farmers are given quality seeds as in-kind loans if necessary. They are also trained on the formation of cooperatives, including Village Savings & Loan Associations that they can use to meet their financial needs.

Within the group of 300 farmers, members have to form 1) a production committee, which ensures farmers know and follow good agricultural practices to maximize yield, and 2) a marketing committee, which keeps track and updates members on relevant market information and also ensures quality. Before the start of every cultivation period, members agree on what they are going to produce, based on their understanding of the market in the previous seasons. Farmers are welcome to farm together in block farms, but don't have to.

Once the harvest is ready, GADCO pre-finances a group of buying agents (BA) who go to buy (at a fixed price), collect and store where a vehicle can reach. BAs will notify GADCO to send a vehicle once they have enough produce. On arrival, GADCO inspects the quality and anything sub-standard is turned away. BAs have to be vigilant to ensure they buy only good quality produce and store it well. On handover, BAs are paid a commission of UGX 100/kg.

There are multiple layers of incentives. Farmers must maintain quality for the BAs to accept their products; the BAs have to enforce quality standards to receive their commission; the FOs have to ensure farmers do well to keep their jobs and increase chances of becoming BAs, and GADCO has to offer decent prices to minimize the risk of side-selling. Through this multi-layered incentive structure, GADCO management believes it has been able to capture 50-55% of the cotton market in their area of operation i.e. Acholi sub-region. In 2013, GADCO opened their second processing plant by renting the Acholi East Cooperative ginnery in Kitgum. It has now started work in West Nile, getting the West Nile Cooperative ginnery working again.

Through its network of 250 FOs and 100 BAs, GADCO has become the buyer of choice for 60,000 farmers and has brought back into operation three of the ginneries in the region, which until recent we considered "dead assets".

This case study highlights the need for focus on market linkages, access to finance, testing and quality controls, in order for this success to be replicated in other value chains and locations.

Business Risk

By its very nature agricultural production is risky. Production is a risk from the weather and pests, while prices fluctuate widely – for example sesame increased in price from UGX 2000 per kg in 2008 to UGX 5000 in 2014 [liii], to fall back again the following year. Small producers with limited access to finance are particularly vulnerable to risk, which helps explain low levels of commercialization.

BOX 5: POSITIVE EXTERNALITIES IN THE SUNFLOWER SEEDS SECTOR

Although production of sunflower seeds (for edible and other oils) in the region has been growing, demand from the millers has been growing at an even faster rate. Annual production of an estimated 100,000 MT for sunflower in Northern Uganda satisfies only 62 percent of the processing capacity of the top three millers in the region: Mukwano, Mount Meru and MMP/Nile Agro Industries. (NU-TEC MD, 2016). For the region as a whole, only 33 percent of the daily processing capacity of the factories has been met (Kilimo Trust & IFAD, 2017).

To increase sunflower production, companies such as Mukwano stepped up efforts to introduce better yield variety, with higher oil content. They encouraged the adoption of the new variety, Mukwano by offering a 25 percent increase in the price (NU-TEC MD, 2016). In addition, Mukwano and other bigger manufacturers have also adopted out growers models that create the platform for provision of quality inputs and extension services. However, a good majority (92 percent) of the smaller and medium size processors are free-riders without similar contractual arrangements with farmers.

This highlights the success of and need for more widespread market linkages, and potentially support to out growers, including access to finance, quality inputs communications etc.

For the larger agro business, there are risks in terms of out-growers selling to the highest bidder at time of harvest, resulting in processing factories running below capacity and orders going unmet. Commercial farmers also need to manage the "social contract" with local communities.

[liii] The official mid-rate (average) foreign exchange rate in 2008 was 1,720.44 Uganda shillings to one U.S. dollar. In 2014 the official mid-rate (average) was UGX 2,600.33 to U.S. $1. Bank of Uganda. Exchange rates.xlsx. Release date: March 5, 2018. Calendar Yr. https://www.bou.or.ug/bou/rates_statistics/statistics.html

BOX 6: INVESTOR SELF-DISCOVERY: OMER FARM HOLDING

One of the biggest farming operations in Northern Uganda, Omer, interviewed during primary data collection, is a commercial and mechanized farm cultivating 4,000 ha (10,000 acres) in Amuru, employing 70 full-time staff and ~200 causal workers. The land was acquired through a 49-year lease from four neighboring landlords who each have land titles to their pieces. Although the landlords did not have their rights to land disputed, they had to deal with squatters (about 20 households). The landlords gave the squatters monetary compensation for their relocation.

Founded in 2015, the farm has had six farming seasons of maize. According to management, all have been loss-making. Although part of problem was attributed to poor past management, the following were also raised as factors affecting the operations:

a. Planting the wrong maize variety: most varieties sold in the market are ideal for drier places (i.e. drought resistant). With the amount of rainfall in the area, other varieties could produce better yields of up to about 6mt/ha) vs the farm's current yields (2mt/ha).
b. Poor quality inputs: a lot of ordinary grain seeds are being packaged and sold for the price of hybrid seeds. The same can also be said about the fertilizer sold in the market.
c. High volatility of maize price

To address the losses, Omer is experimenting with rice, which is reported to perform remarkably better than maize, with the yield 4-5 mt/ha range. Given the relatively higher and more stable rice price, management is planning to switch from maize to rice.

Another lesson that Omer management pointed relates to weather: Over three years, the farm has recorded rainfall on daily basis. Contrary to the popular belief that Northern Uganda has two rain seasons, the data show that their region has one long rain season with two peaks: Apr/May and Aug/Sep. That means there is practically one dry season (Dec- Feb). While the continuous rain season can perfectly support two planting seasons, it does not give farmers enough of a dry spell to harvest and dry the maize from the first season properly.

As for skills, it is also noted that there is a huge skill gap to run large-scale commercial firms in the region. This is so true of important skills such as tractor operators, drawers and steers, but also senior management that can properly manage the use of available resources. In the General Manager's view, management will be a going concern for not just Omer Farm, but all the other commercial firms that have been emerging in the Amuru and Nwoya districts. Only farms that can solve the management challenge will emerge profitable while the rest may end up losing money for investors despite the large and within-reach potential to run profitable commercial farms in Northern Uganda.

In addition to the implication for land policy, particularly separating ownership from use, there are key lessons from this case study in terms of supporting (and possibly subsidizing) 'self-discovery' and learning to enable private sector investment in priority sectors. It also clearly demonstrates the impact of climate change on agricultural production in Northern Uganda.

Limited Business Sector Leadership

Oxford Policy Management, 2015, highlight the lack of local private sector capacity and leadership in the Norther to support transformative economic growth and develop value chains. While some capacity clearly exists – for example, the Head of Gulu Chamber of Commerce is actively involved in shaping development support programs targeting the private sector – there is a lack of collective and

strong voice and a supporting and coordinating structure. The challenge is compounded by limited local government resource to engage and support economic transformation and manage rapid urbanization. Again, there is some capacity – the DCO and Vice Chair in Gulu both articulated a strong vision for growth in the district. However, the structure of local government, staffing and performance indicators limit the ability to even engage in issues beyond nationally set expenditure targets. [liv]

RESULTING RECOMMENDATIONS

- **Accelerate the separation of land use from ownership (to enable investment).**
- **Increase access to communications and financial services (to enable growth).**
- **Subsidize 'self-discovery' and externalities in new economic activities (with a focus on agriculture/ agribusiness, to enable private sector learning and investment).**
- **Strengthen investment promotion (to attract priority investors and business models).**
- **Promote market linkages (upstream and downstream links in key sectors).**
- **Improve testing and control for inputs (with a focus on agriculture/ agribusiness).**
- **Incorporate climate change mitigation/adaptation into agricultural/ agribusiness strategies and investments.**

These recommendations are discussed in more detail in Sections 8.2 to 8.6, and 8.11 to 8.12

[liv] We recognize that USAID is already investing in programs that address partially or wholly some of the above recommendations. However, we have still included them here as they resulted from our analysis.

6. THE ROLES OF GOVERNMENT AND NON-GOVERNMENT INSTITUTIONS IN ECONOMIC GROWTH

Key Messages

- **Substantial institutional machinery for inclusive development,** industrial policy and regional planning exists centrally and in the districts, as the basis for new initiatives.
- Considerable **investment and progress have been made in rebuilding northern** institutions since the end of fighting in 2006 but, at the district level, government remains fractured, under-funded and weak. Most commentators believe **governance is declining across the country.**
- At the center, there is **competition for budgets and influence** between key central ministries, including OPM, NPA, MOFPED.
- The National Resistance Movement (**NRM) (leading policy party and party of the current government administration) is suspicious of any emerging rival power** centers, especially any in the north.
- Stakeholders should be aware of institutional 'turf wars' and conflicts between different interest groups
- Creating new institutions as vehicles for reform would be counterproductive in most cases. **Stakeholders should identify and engage with existing pockets of capability**

6.1. GOVERNMENT & NON-GOVERNMENT INSTITUTIONS

Although the reach, effectiveness and impact may be arguable, there is a sizeable, complex, and functioning institutional machinery in Uganda. At the top (with regards to much of our work), the Ministry of Trade, Industry and Co-operatives (MOTIC) is mandated to provide the policy and regulatory oversight of industrial development in Uganda. Other key Ministries and government departments include the Ministry of Finance, Planning and Economic Development (MOFPED), the Ministry of East African Affairs, and the Ministry of Foreign Affairs on matters of regional integration and export market development. MTIC also provides policy guidance to the different statutory bodies handling aspects of industrial development. These include:

- Uganda National Bureau of Standards (UNBS)
- Uganda Industrial Research Institute (UIRI)
- The Uganda Export Promotion Board (UEPB)
- The Management Training and Advisory Centre (MTAC)

Other key institutions, whose roles and status are detailed in Annex 2, are:

- The National Planning Authority (NPA)
- Ministry of Agriculture, Animal Industry and Fisheries (MAAIF)

An important point to make here is that these ministries compete for funds and influence and they do it in an atmosphere where governance is in general decline, (Hickey, 2013, International Crisis Group, 2017). Such competition undermines the coherence of policies and plans and this plays out *"in the form of a conflict within key policy-making circles around how Uganda can make the significant investments required to transform the economy… (particularly in terms of the role of agricultural and rural development). While there is a broad consensus amongst political and bureaucratic elites, and also external advisors, that major investments in infrastructure and energy are required …. dominant actors within economic policy-making remain reluctant to allow high levels of government expenditure or borrowing to finance these beyond strict macroeconomic ceilings…. This ideological conflict is also closely informed by legitimate concerns regarding the Government's capacity*". (Hickey and Golooba-Mutebi, 2012).

While MOFPED is seen as the de facto leader of government business by donors, it is OPM that is mandated to be responsible for the coordination and implementation of government policies with three other institutions, namely the Office of the President; MOFPED and NPA.

Among non-government and semi-autonomous bodies are (discussed in Annex 2):
- The National Agricultural Research Organisation
- The National Agricultural Advisory Service
- Uganda Investment Authority (UIA)
- The Uganda National Chamber of Commerce and Industry
- Private Sector Foundation Uganda
- The Presidential Investor's Roundtable
- Association of Microfinance Institutions of Uganda
- Uganda Bankers' Association
- Uganda Beef Producers Association
- Uganda Fish Processors and Exporters Associations
- Uganda Flowers & Exporters Association
- Uganda Leather and Allied Industries Association
- Uganda Manufacturers Association (UMA)
- Uganda National Dairy Traders Association
- Uganda Small Scale Industries Association
- Northern Uganda Manufacturers' Association

6.2. POLICY FRAMEWORK: INDUSTRIALIZATION

The importance of industrialization in the process of economic transformation and development has been widely recognized in Uganda[lv] and could be said to date back to the colonial period and the Worthington Plan (1947-1956).

The first years of the Museveni era were characterized by economic reforms with a strong liberal stance and these enabled the country to become one of the fastest growing economies in the world during the 1990s. However, this growth was not accompanied by any significant industrialization of the economy and it was in this context that the **Uganda Industrialization Policy and Framework (1994-1999) was formulated, the major emphasis being on the agro-processing sector**. This was followed by the *National Industrial Policy* (2008), focused mainly on institutional strengthening and infrastructure development and in the *National Industrial Sector Strategic Plan* (2010/11-2014/15), in which 80 percent of the estimated US $2.8 billion budget was intended for infrastructure.

At present, the major policy paper driving economic planning is Vision 2040, which envisions the transformation of Uganda *"from a peasant to a modern and prosperous country within 30 years*" and puts emphasis mainly on public investment in infrastructure. The development of the industrial sector is an essential part of this strategy. One of Vision 2040's main objectives is to boost the share of the industrial sector in GDP between 2010 and 2040 from 25 percent to 31 percent, as well as to increase the share of the labor force in industry from 7.6 to 26 percent. Vision 2040 also specifically targets the manufacturing sector, aiming to boost its share of total exports from 4.2 percent in 2010 to 50 percent in 2040. The implementation strategy of Vision 2040 relies on six five-year National Development Plans, the current NDP 2 (2015/6-2019/20), being the second one.

President Museveni declared 2017 the "year of mass industrialization" (State House, 2016) and the new UDC has taken interest, or set up joint ventures, in four projects. Among them, three

[lv] Obwona, 2016, RoU 2016, UNECA 2017

are manufacturing projects: the Teso fruit factory, whose construction is under way in Soroti, the Luwero fruit processing company and the Kira Motors solar powered bus project. A wide range of institutions that have been strengthened since the 1990s compliment the emerging policy framework. Examples include the Uganda Export Promotion Board (incubating SMEs for export industries), the Uganda Industrial Research Institute and the Uganda National Bureau of Standards (although whether these bodies have adequate resources to fulfil their mandates is less clear).

6.3. DISTRICT LEVEL FRAMEWORKS AND INSTITUTIONS

As of July 2017, there are twenty-five districts in three sub regions of Northern Uganda, including Acholi, Lango, and West Nile. [lvi] Their **relationship to central and local government is clearly demarcated by the Local Governments Act 1997 and specified in Uganda's Constitution.** To ensure efficient and effective service delivery by local governments, the ministries, departments, and agencies of central government have responsibility for providing direction and assistance through technical support and advice, supervision, and monitoring to ensure adherence to guidelines on policy, strategy, standards, and regulations. Central government also provides conditional grant funding, through the budget, for activities to be implemented at district level. The district governments, in turn, are responsible for planning and implementation in line with central government guidelines.

The key ministry in this regard is the Ministry of Local Government (MOLG) mandated to coordinate the implementation of decentralization, and supporting local governments to ensure efficient, effective, and sustainable service delivery.

An understanding of the history of local government in Uganda is useful to understanding the current situation, where Local Governments (LGs) are under resourced, under capacity and unable to deliver very much of their mandate. The NRM view, in broad, seemed to be that effective decentralization would boost the legitimacy of the state and enable it to assert more effective authority over the country's entire territory. This was a view also in vogue at the time in the donor discourse. This view persisted and the NRM regime eventually produced a new policy (Republic of Uganda, 1993) which decentralized powers essentially to two levels of local government: the district and the sub-county (LC3, or Local Council 3). These levels were mandated to formulate and implement development plans; draft, approve, and execute budgets; raise financial resources and use them to respond to local priorities; make ordinances and bylaws; and manage and deliver services that had previously been the central government's responsibility. The Local Governments Act of 1997 formalized this structure and central resources were then made available to enable the new system to proceed. Local Government Structures are set out in more detail in Annex 2.

6.4. DISTRICT LEVEL FINANCING

In line with the principles of decentralization, the intention was that LGs would be supported by locally raised revenue and fiscal transfers from the center. Locally raised revenue originally consisted of graduated tax, fees from market dues and rates, various licenses and property taxes. Revenue collection is done at the sub-county level and LC3s had the right to retain 65 percent of what they collected with the obligation to remit the rest to the districts. Local revenues were expected to be supplemented by three types of fiscal transfer:

[lvi] Uganda Bureau of Statistics includes Karamoja sub region when accounting for Northern Uganda in surveys, such as the census. However, this research and accompanying strategy development has focused on only the Acholi, Lango, and West Nile sub regions.

- **Unconditional grants** to allow local governments discretion in the use of resources, while privileging five national programs areas: agricultural extension, primary education, primary health care, feeder roads, and safe and clean water. Population size accounts for 85 percent, and geography 15 percent of the allocation. However, as discussed in Section 4.6, **the population statistics do not include the recent influx of refugees and are therefore not representative of the number of people actually using public services in Northern Uganda.**
- **Conditional grants** designed to finance predetermined programs in priority areas, ideally based on mutual agreement between central and local government.
- **Equalization grants,** operational since FY: 1999–2000, available to the least developed local governments, with the intention of enabling them to meet minimum standards for service delivery.

From the start, inevitably, revenues were insufficient for the levels of service delivery aspired to. In 2005, in the run-up to the election, seeking support in the countryside, President Museveni suspended the tax. The result is that the budget across all Uganda districts is now 90 percent financed by the central government (FY 2016/17), although there are substantial differences between districts, exacerbated by donor contributions to certain district budgets. Revenue mobilization is worst in the north providing, on average, only 2 percent of the total district budget[lvii].

As to outside donors, the average contribution is highest in Karamoja, with 16 percent of the LG budget, where the largest contributor by far is UNICEF. Refugee hosting districts in West Nile receive between 9 percent and 21 percent donor funding, primarily from the UNHCR and to a lesser extent from UNICEF.

RESULTING RECOMMENDATION

- **Engage national Government to revise funding/resourcing allocations based on actual (not local) population numbers.**

This recommendation is discussed in more detail in Section 8.7

[lvii] According to the Auditor General's report (2015) about 24% of the projected revenue collection by the districts was not collected.

BOX 7: NATURAL RESOURCES, REVENUE AND THE SOCIAL CONTRACT IN NORTHERN UGANDA

Broadly speaking, natural resources in Northern Uganda are under-exploited. This owes primarily to the recent conflict, widespread dense forest cover and a lack of infrastructure. (USAID Research Brief, 2016). However, mineral exploration licenses have been awarded in at least Acholi (and Karamoja) and there is further potential West Nile. For Uganda as a whole, the largest natural resources discovery is in the Albertine Graben under Lake Albert in Western Uganda. Tullow, Total, and China National Offshore Oil Cooperation form the consortium operating in that region. Museveni has claimed production will begin before 2020, although significant infrastructural development is needed first. In the Northern Region, there have been oil discoveries in West Nile and Acholi, (exploration is also due to begin in Murchison Falls, sparking debate over the legality and potential impact on wildlife and tourism).

Under the Second Schedule of the Mining Act (2003), 80 percent of royalties should accumulate to the Central Government, 17 percent to the District Government (local government), and 3 percent to land owners or occupants where the mine is located. For oil, the 2015 PFMA Act sets out that local governments should receive 6 percent of oil royalties. *"A political economy analysis of Uganda oil concessions notes that Uganda has performed relatively well in building technical capacity, developing necessary laws and policies, and negotiating with international oil companies for the country's best interest…. Uganda's leaders have limited their political interference in favor of reliance upon technical expertise…. "Uganda is likely to receive between 80% and well over 90% of revenues, after costs have been recovered""* (USAID Research Brief, 2016).

However, there is concern over the process to award exploration licences, with a Global Witness report alleging widespread corruption and mismanagement, undermining the potential for benefits to accrue to local communities. The discovery of oil in Northern Uganda has also fuelled tensions: "*Displacement, resource-based conflict, and land disputes were increasingly recorded as part of the Northern Uganda Conflict Analysis conducted in 2013".* (USAID Research Brief, 2016). Given that the majority of land in Northern Uganda is under customary ownership, communities may also not be able to claim compensation as they will struggle to prove ownership of their land. Furthermore, there have been reports that such developments exacerbate gender inequalities: "*When the Uganda Human Rights Commission went to the districts involved, they recorded reports that only men were signing compensation forms, even though there were requirements in place that both husbands and wives should be signatories. Women expressed concern that they were being excluded from the potential benefit"* (USAID Research Brief, 2016).

There is clearly a risk that the discovery of natural resources could undermine, rather than promote, inclusive growth in Northern Uganda, with the benefits accumulating to an elite few, at the expense of the wider community. Rodrik (2013) also cautions against over-dependency on natural resources: *"resource sectors that exhibit high labour productivity, such as oil, tend to be very capital intensive and absorb few workers. Continued growth in a resource- based economy is dependent on rapid and sustained productivity increases in the resource sector, new discoveries, or steady rise in world market prices. And even if one or more of these fortuitous circumstances materialize, the pattern of growth tends to become very skewed. Growth benefits the state or a rentier class, spawns inequality and distributive politics, and proves generally detrimental to institutional development. Resource- based growth tends to produce spurts of growth, followed by stagnation or decline;"*

Dercon (2015) refers to the need for the development of a social contract, to ensure that revenues are disbursed to the benefit of the wider population, to "s*ocial sector and human capital policies that facilitate inclusion"*. Whilst the foundations for this do exist under Uganda's legal and policy framework, *in NU in particular, aspects of environment damage, gender inequality and land tenure need to be incorporated to ensure benefits are shared.*

6.5. FRAGMENTATION AT LOCAL GOVERNMENT LEVEL

In the 1995, there were 36 districts. This rose to 56 in 2002; 80 in 2008; 112 in 2015, and, in September 2016, more districts were created, bringing the total to 125. The President argues that this is a response to the rising population and brings government closer to the people but it brings a clear set of problems:

- Existing staff and leadership have to be shared out, thereby spreading the already limited human resources ever more thinly.
- There is increased administrative confusion especially in the new districts, some of which have capacity close to zero
- The quality of service is spread, and therefore reduced across all districts
- Widespread cynicism grows that creating more districts is a deliberate policy to weaken forces outside the center, leading to disempowerment and disillusion.

Observing the rapidly growing district numbers in 2012, the Observer[lviii] wrote about *"crippled service delivery"* amid *"indignation from a largely hapless local leadership"*.

6.6. LOCAL GOVERNMENT CAPACITY

Citing DFID (2013), the program document for the Danida U-Growth II Programme states that: *"the district local governments in Northern Uganda have very serious capacity problems which constrains their effective service delivery…. For example, the staffing levels of strategic positions at the districts in Northern Uganda fall below the national average. Agago, Lamwo and Zombo are some of the districts where the staffing level is below 20 percent compared with the national average of 47 percent. Apart from the low staffing levels, the knowledge and skills gap identified are in the areas of planning and budgeting, procurement, financial management and reporting, inadequate supervision and M&E, records and data management and use of ICT, conflict management, and human resource management. Furthermore, the communities are equally not aware of their roles and therefore cannot hold the district leadership accountable."*

Staffing levels are worse (about 45 percent) in newly created districts, particularly the more remote and hard to reach (USAID, 2015). Capacity constraints were also noted in the OPM-conducted Economic Recovery Analysis (ERA) for Northern Uganda (Oxford Economics, 2015), also undertaken with support from DFID. The report elaborates on the *"lack of local private sector capacity and leadership in the North to support transformative economic growth and develop value chains"*. Some capacity exists, the report states, in the form of chambers of commerce, Private Sector Foundation Unit branches and sector bodies, and there are willing and able private sector individuals who have a track record of business success and are passionate about seeing the North succeed economically. (This was observed in interviews with the Chambers of Commerce, Land Platform and local businesses). However, collectively these groups lack a strong voice, empowerment, organization and a supporting and coordinating institutional structure to play a much greater and leading role in the North's economic development: *"This group may have been less important in the initial post-conflict recovery phase, but will arguably be the most important stakeholder group going forward."*

The ERA/Oxford Economics team concluded that there is no single institution or political leader with final responsibility for developing the North's economy. *"This leadership void means there is a lack of accountability and incentive to fully realize the North's potential."*

[lviii] 29 June 2016: Uganda: How Decentralization Policy Was Killed in 10 Years, by Sadab Kitatta Kaaya

6.7. LOCAL GOVERNMENT SERVICE DELIVERY

In the early years, the consensus was that decentralization was helping improve service delivery. This was not unrelated to the large amounts of government and donor resources the policy attracted (rising from about UGX 224.9 billion in FY 1997–1998 to UGX 805.5 billion in FY 2004–2005).

The challenges with fragmentation, financing and capacity have however considerably dented this optimism. **The number of people with ostensible access to services may have grown but the quality of service has fallen across the board.** Part of the problem is that sustained improvements in service delivery depend, at least to some degree, on the public's holding public officials to account. USAID (2015) puts it bluntly: *"ordinary citizens are unable or unwilling to do so, due to a combination of inadequate sensitization and the peculiarities of the context, with variable human relationships that experts responsible for designing public administration systems do not take into account. For example, it is not easy to reorient people steeped in hierarchical political traditions of obedience to authority toward a willingness to question authority figures*".

Poor data availability and collection does not make the diagnostics any easier. The team formulating the EU's Development Initiative for Northern Uganda (DINU) project in 2017 found that, in the agriculture sector for example, none of the districts were able to provide reliable data on planted acreages, yields, gross margins, trade volumes, agribusiness outputs and turnovers for any of the major crops. Although our own observations support much of the above, without this data, basic planning in the key economic sector is impossible.

6.8. DEVELOPMENT PLANNING

Ten years after the fighting stopped, in a conflict that Jan Egeland, then UN Under-Secretary General for Humanitarian Affairs, described as *"the biggest neglected humanitarian emergency in the world"*, the reverberations of the conflict remain, albeit further under the surface now. Violence and abuse by government forces, the Uganda People's Defence Force (UPDF) were rampant, and repression common. Forced encampment in these conditions meant forced dependency, forced vulnerability, forced humiliation, forced congestion within camps, and forced isolation from outside (Atkinson 2010).

The violence did not however enter the dominant narrative in this way. Rather, the official line concentrates on two partial themes (Atkinson 2010). The first of these, still very prominent now, is the brutal violence perpetrated by the LRA; second is the notion that the group (and its leader, Joseph Kony) is guided by an incomprehensible and essentially primitive worldview that excludes any meaningful political agenda. Domestically, President Museveni, has used this narrative to cultivate political support from areas outside the north (OPM, 2015). During the war, Uganda became, as Atkinson notes, essentially two separate countries: one includes the peaceful and relatively prosperous western, southern, and central parts of Uganda, with a growing economy that has won Museveni praise from the World Bank, IMF, and other donors. The other is the war-torn, impoverished, isolated North. This dichotomy has had profound implications for the perceptions around, and acceptance of, investments in the north. **The NRM is suspicious of any emerging rival power centers (Perrot, 2016), and especially any in the north.** For our purposes, we need to note that GOU will need persuading to fully get behind new initiatives there.

The policy framework guiding development in Northern Uganda is discussed more in Annex 3, including:

- Peace, Recovery and Development Plan 1
- Peace Recovery and Development Plan 2
- Economic recovery Analysis

BOX 8: UGANDA'S DAIRY AND FISHERIES SECTORS: ILLUSTRATIONS OF GOVERNMENT INTERVENTION

GOU is fully conversant with the kind of actions an industrial policy for the North would encompass. Some of this is illustrated in the work of Kjaer (Whitfield, 2016, Kjaer 2015), one of the intentions of which is to explore political pressures and the way they impact on policy design and implementation. Kjaer starts with the paradox that although Uganda has seen numerous presidential statements on the need for an industrial revolution, the NRM government actually pursued *"few sustained industrial policy initiatives to address the challenges of expanding and upgrading existing productive sectors and incentivizing investment"*. Kjaer examines the dairy sector and the export sector in fish and contrasts what happened as a result of GOU engagement.

The dairy sector is a relative success story. The NRM government targeted milk production for rehabilitation after the end of the civil war in 1986 and, from the early 1990s, milk production increased to such a degree that the country moved from being dependent on imported milk powder to being self-sufficient in fresh milk. By the mid-2000s, the dairy sector constituted about 3 percent of GDP (and has continued to grow ever since).

The fisheries sector was less successful: At the same time, although frozen and chilled fish fillets constituted the fastest growing non-traditional export in the 2000s, overfishing in Lake Victoria has almost killed the industry in the years since. In order to strengthen management of the fisheries, GOUGOU proposed a Fisheries Authority and a Bill to constitute it was passed in parliament. However, it failed to pass through Cabinet. Without political support, some fish processors tried to initiate a system of self-regulation in which they would commit to not accept fish of less than 50 cm but illegal fishing continued and fish stocks kept falling (to this day).

Kjaer argues that both sectors took off as a result of industrial policies promoted by the NRM government after the end of the war in 1986. However, when the two sectors faced economic challenges *"the response of the government towards the two sectors differed"*. In the dairy sector, despite conflicting interests among different NRM elites, political support for the regulation was sustained, and the state agency responsible for the dairy sector was quite successful in mediating the various interests. *"This sustained political support was because the dairy farmers were an important support base for the NRM coalition and because individual ruling elites came from the main milk production area and owned dairy farms themselves"*. In the fisheries sector, by contrast, conflicting interests emerged over the regulation of fishing. Essentially, political support could not be rallied in the face of numerous diverse producers, all desperate to fish (and so undermining the profitability of the processing firms): over-fishing and the destruction of the industry continued.

For our purposes here, the point is that the dairy sector benefitted from a sustained and successful industrial policy to rehabilitate the industry.

7. ASSESSING GOVERNMENT CAPACITY FOR LEADING POLICY REFORM

A broad approach to inclusive economic development in Northern Uganda is needed, including developing human capital alongside promoting development of key sectors with the highest potential for job creation and growth, which we have identified to be agriculture and agribusiness. To further the latter**, we set out here key considerations for developing a new Industrial Policy for Northern Uganda.**

Drawing on Hausmann (2007), we set out three functions of government that we consider to be essential to successful industrial policy:

(i) A mechanism to promote, under public auspices, systematic discussion among firms with the aim of identifying, and proposing solutions to, specific coordination failures.
(ii) A budgetary procedure to increase the responsiveness of the public sector to the requisite actions
(iii) A monitoring procedure to discipline project selection while diffusing the lessons of its successes

Current arrangements in Uganda do not pass the test as described in Haussmann (2007), but can certainly be conceived as the basis for building a new, more consistent, more effective policy, as per our recommendations. There *are* fora at which a better connection between the private sector and the government can be established and developed. There *are* functioning platforms which can be the basis for better information flow, improved situation diagnostics, improved policy design and targeting, improved dialogue and impact monitoring. We give an overview of the GOU's capacity in each of the three functions here:

i) A mechanism to promote, under public auspices, systematic discussion among firms with the aim of identifying, and proposing solutions to, specific coordination failures.

The key institutions and processes available are described in detail above and in Annex 2, including those here:

- Uganda Investment Authority
- The Dairy Development Authority
- Sector Working Groups
- Commodity "platforms"
- Public Private Dialogue (PPD) Forums
- Private sector actors
- Health and Education Stakeholder
- The Chamber of Commerce

All of these organizations and mechanisms, and others like them, are an excellent resource base - we might call them 'pockets of capability' - and the MOTIC, the mandated authority, should be using them to design a new industrial policy.

For the north, and at a very basic level, this should be expected to cover agreement on the key challenges that Northern Uganda needs to overcome if businesses are to compete in a rapidly changing world; agreement on focus areas to optimize returns to the investment (they might include people, infrastructure, business environment); some estimate of funding especially for vital research and development; some understanding of the implementation challenges and how results will be delivered (especially in light of the ECA team's statement that *"apart from strong investment efforts made by the*

government with international partners in infrastructure and some specific projects, the implementation level of other key objectives of the industrial policy has remained low and target indicators far from being achieved".)

ii) A budgetary procedure to increase the responsiveness of the public sector to the requisite actions

All the sector ministries, but especially MOFPED, who supervise the annual process, have experience of running budgetary procedures: *"Overall, Uganda has made tremendous progress in improving its PFM system over the past 10-15 years, with ratings consistently above the average for Sub Saharan Africa. Underlying this success has been a strong MOFPED which has overseen the reform process, which has, by and large, been given the space by the executive to implement and manage those reforms"* (Steffenson, 2010).

This started as far back as 1997 when the Medium-Term Expenditure Framework, SWGs and a consultative budget process was established. The early focus of these reforms was establishing overall fiscal discipline and improving budget formulation.

After 2010, MOFPED began addressing inefficiencies and wastage of budget expenditures in sector programs, at the center and in local governments, through the introduction of a form of program-based budgeting and strengthened budget monitoring.

These reforms also meant that the institutional machinery was ready for the PRDP process as a budgetary procedure when this got underway in 2008. Unfortunately, to date, no official evaluation of PRDP's achievements has been undertaken but ACORD made an instructive analysis (ACORD, 2011).

"the PRDP implementing districts were required to come up with their annual priority interventions through a consultative process involving all stakeholders, notably the members of parliament and political leadership in the districts. The lower local units were also expected to set their priorities and submit them to the districts for consideration. These PRDP priority activities are presented by the District Technical Planning Committee to the District Council for final approval. However, this process had several challenges ranging from lack of information, poor communication to inadequate capacities of planning teams. OPM received a number of complaints from the PRDP implementing districts. Most district councilors never gave any feedback to the sub-counties they represent on the prioritization decisions of the councils and the spirit under which they were taken. The apparent poor working relations between the members of parliament and some district leaders resulted in poor flow of information. Some districts also approved the PRDP work plans without subjecting them to serious scrutiny by the stakeholders, which resulted in duplication….. Furthermore, unclear policy guidelines have resulted in conflicting prioritization, lengthy procurement processes and high costs of investment. Coupled with poor public information and limited understanding of the PRDP, there are unrealistic expectations held by implementing districts.[lix]

"*In some cases, there is a tension between some district local governments and the sector ministries about their mandate in the implementation of the PRDP activities*[lx].

[lix] For example, members of Lira district local council planned to build a 40,000 seat modern stadium named after John Akiibua, a former Olympic gold medalist, and an airport at Anai using PRDP funds (Omara 2009).

[lx] For example, the Ministry of Education and Sports (MoES) has moved beyond its mandate of ensuring quality through provision of technical support to ensure compliance with line sector norms and standards in the implementation of PRDP activities. In Manafwa district in particular the District Education Officer (DEO) with instruction from the MoES took over

The ACORD report is generally downbeat and it doesn't even catch up to the era of the OPM corruption scandal. Nonetheless there is clearly much directly relevant experience to pick up and learn from here. The point is that both the central ministries and the LG do have a degree of capacity and experience when it comes to operating budgetary procedures and they are certainly fluent in the modality issues required.

(iii) A monitoring procedure to discipline project selection while diffusing the lessons of its successes

The sector based budget process described above also spurred the establishment of Sector Wide Approaches in many sectors, with SWGs encouraged to develop and monitor sector plans, with joint sector review and monitoring processes. Again, this prepared the officers (at least partially) for the PRDP process.

Monitoring the implementation of PRDP is done at various levels. OPM generated results matrices for monitoring the implementation of the programs within the plan. The donors and donor working groups have also developed matrices for monitoring peace and development impacts. Local civil society and other international civil society groups have also put in place mechanisms to monitor the implementation of projects at district, sub-county and village level. However, the monitoring function, seems not to have impacted on the critical issues of appropriate resource allocation and ensuring that the sector spending plans were relevant to the fundamental issues.

In summary, whilst institutional capacity is still weak, the GOU does have foundations on which to build. **The key to making these fora and platforms function better is political will and this perhaps can be improved with careful representations from DPs.** As a first instance DPs should seek to dialogue with those 'pockets of capability' within the existing structure, as discussed above.

RESULTING RECOMMENDATION

- **Support Development of an Industrial Policy for the North**

This recommendation is discussed in more detail in Section 8.1

8. RECOMMENDATIONS

BOX 9: KEY CONSIDERATIONS FOR 'DO NO HARM' RECOMMENDATIONS

Given the political context of Northern Uganda, with historic and existing tensions impacting its growth trajectory and the extent to which its population has been marginalized, **it is essential to implement recommendations that directly address such problems or, at the very least, do not exacerbate them, i.e. Do No Harm**. We outline some key considerations for this principle here:

i. Considerable consultation, collaboration and dialogue should be undertaken between policy makers, potential investors and local communities on the terms and conditions of policy change and resulting planned investment. It is important to ensure the community understand the balance of costs and benefits.
ii. Involvement of cultural leaders as custodians of cultural land is key factor to avoid conflicts.
iii. Any recommendations must consider existing or recent local conflict and, if necessary, incorporate communication strategies to demonstrate that one demographic is not 'unfairly' benefitting ahead of another
iv. Corporate Social Responsibility, and similar schemes, which invest in community development, should be considered, particularly for extractive industries.

As a result of the prioritization process described in Section 5 of this report, recommendations have been made in eight of the nine priority sectors identified by the Interim Steering Committee (excluding tourism). The recommendations are:

1. Support development of an Industrial Policy for the North, (prioritizing key sectors: agriculture & agribusiness);
2. Accelerate the separation of land use from ownership (to enable investment);
3. Increase access to communications and financial services (to enable growth);
4. Subsidize 'self-discovery' and externalities in new economic activities (focus on agriculture/ agribusiness, to enable private sector learning and investment);
5. Strengthen investment promotion (to attract priority investors and business models);
6. Promote market linkages (upstream and downstream links in key sectors);
7. Engage national Government to revise funding/resourcing allocations based on actual (not local) population numbers;
8. Strengthen collaboration with private sector for increased and better targeted investment in TVET (responding to priority needs);
9. Increase access to quality basic education for sustained, inclusive growth;
10. Increase access to quality SRH and nutrition services (to respond to key gaps and gender disparities in Northern Uganda);
11. Improve testing and control for inputs (with a focus on agriculture/ agribusiness); and
12. Incorporate climate change mitigation/adaptation into agricultural/ agribusiness strategies and investments.

The following table provides a summary of the predicted relative growth impact, cost and risk associated with each, to guide the Steering Committee's decisions on implementation:

TABLE 3: RELATIVE IMPACT, COST AND RISK OF RECOMMENDATIONS[lxi]

Sector	Recommendation	Relative Unit Cost / Relative Risk	Relative Growth Impact
Governance	1. Support development of an Industrial Policy for the North, (prioritizing key sectors: agriculture & agribusiness)	Low cost. Low risk.	Medium term, high
Land	2. Accelerate the separation of land use from ownership (to enable investment)	Low cost, medium risk	Near term, high
Infrastructure	3. Increase access to communications and financial services (to enable growth)	Low cost. Low risk	Near term, high
Agriculture/ Industry	4. Subsidize 'self-discovery' and externalities in new economic activities (focus: agriculture/ agribusiness, to enable private learning and investments)	Medium cost. Medium risk	Near term, medium
Agriculture/ Industry	5. Strengthen investment promotion (to attract priority investors and business models)	Medium cost. Medium risk	Medium term, medium
Agriculture/ Industry	6. Promote market linkages (upstream and downstream links in key sectors)	High cost *(some finance already committed)*. Low risk	Medium term, high
Health & Education and Skills	7. Engage national Government for revision of funding/resourcing allocations based on actual (not local) population numbers	Low cost. Medium risk	Near term, high
Education and Skills	8. Strengthen collaboration with private sector for increased and better targeted investment in TVET (responding to priority needs)	Medium cost. Medium risk	Medium term, high
Education and Skills	9. Increase access to quality (secondary) education for sustained, inclusive growth	Medium cost. Low risk	Medium-long term, high
Health	10. Increase access to quality SRH and nutrition services (to respond to key gaps and gender disparities in Northern Uganda)	Medium cost. Low risk	Near term, high
Agriculture/ Industry	11. Improve testing and control for inputs (focus: agriculture/ agribusiness)	Low cost *(some finance already committed)*. Low risk	Medium term, high
Water & environment	12. Incorporate climate change mitigation/adaptation into agricultural/agribusiness strategies and investments	Low cost. Low risk	Medium term, high

[lxi] Time frames in the above table are relative but, broadly, near term can be interpreted as <3 years and medium term as <5 years and long term as >5 years. The level of impact refers to the relative potential for widespread (across NU), sustained, inclusive growth. Costs and Risks apply to both donors and government.

We recognize that, for some of the recommendations below, USAID (and other development partners) are already providing support to partially or wholly address the issues raised. However, as they were clear results of our analysis, we have included them here, in order to i) fully represent the work undertaken and respond to the SOW in an unbiased manner and ii) to reinforce the importance of these areas. This applies, for example, to recommendations 8.6 and 8.11.

8.1. SUPPORT DEVELOPMENT OF AN INDUSTRIAL POLICY FOR THE NORTH

Based on our observation of persistent market failures which could be addressed by government, a key recommendation of this paper is that government efforts to promote structural transformation be organized around an industrial policy for the Northern region. This industrial policy should be distinct from efforts to build broad economic capabilities (e.g. the PDRP), in that it should focus more narrowly on developing and expanding particular modern industries, specifically commercial agriculture and agribusiness. We see two possible policy framework options:

1. To augment the existing national policy framework (including Vision 2040, National Industrial Policy (2008) and the National Industrial Sector Strategic Plan (2010/11 – 2014/15) with a distinct and explicit Industrial Policy for the Northern Region. Under this new policy would sit a set of programs/initiatives for promoting industry in the North.
2. To not formulate a 'new' policy but to operate programs/initiatives under the existing policy framework. Whichever policy option is chosen would require the three mechanisms set out in Section 7.

We emphasize that specific policy responses to market failures should arise from a process in which government and the private sector collaborate with the aim of uncovering where the most significant obstacles lie and co-design solutions to them. One policy response we would highlight is thus to strengthen existing forums where this kind of collaboration can occur and strengthen capacities to participate.

8.2. ACCELERATE THE SEPARATION OF LAND USE FROM OWNERSHIP

As demonstrated by many of the private sector companies consulted for this assignment (e.g. Delight Uganda, Omer Farm Holdings) the development of commercial agriculture requires the separation of land ownership from land use and requires larger blocks of land. There are now lessons as to the right way and the wrong way to go about this – in particular with regard to the need for community engagement from the word go (World Bank Group, 2016).

However, there may be scope to accelerate this process through the participation of government and through increased flexibility in the interpretation of the cooperative's act and the standard cooperative's bylaws currently adopted at a district level. Increased capacity building from government and involvement of independent players in the setting up and management of cooperatives could improve the efficiency of aggregation models increasing their socio economical developmental impact (for the latter, Omer Farm provide a useful example).

Registration of land based on fit-for-purpose principles as a preliminary method until central methods can be properly implemented will add value to land, protect community and customary land and ensure ownership of land. Further, enabling investors to lease for a long period (39 or 99 years) to enable them to have a long term investment without buying the land, whilst encouraging investment.

The inability of the local courts to address squatters was also raised as a challenge for the de facto use of land for commercial purposes, and therefore should be addressed.

Lastly, traditional ownership structure are currently exacerbating gender inequalities and these reforms would go some way to addressing that challenge, which has spillover effects to women's socio-economic empowerment and local development more broadly.

8.3. INCREASE ACCESS TO COMMUNICATIONS AND FINANCIAL SERVICES

Supporting investment in communications and financial services infrastructure is a **low cost, low risk strategy** to increase financial inclusion with the potential for a high growth impact. As well as directly supporting development of the agriculture and agribusiness sectors, it will have positive impacts ranging from enabling improved public financial management (through improved audit trails) to enabling household level financial inclusion for investment and savings.

8.4. SUBSIDIZE 'SELF DISCOVERY' IN NEW ECONOMIC ACTIVITIES

Commercial farming in Northern Uganda is a costly process of trial-and-error. It requires half a dozen very varied dominos to be lined up precisely and carefully. Getting them all in place requires a mix of skill, temperament, finance, savvy and luck. It is a rare farmer that can manage all that. The experience of Omer Farm Holdings provides a case study of the process of 'self-discovery' in Northern Uganda (see Section 5)

We have also witnessed significant positive externalities resulting from private companies, where they are not capturing the full benefit from their investments. For example, in the seed sector smaller processors are free riding on the actions of larger ones. See the case of sunflowers below:

To support 'self-discovery' and promote positive externalities, one option would be to subsidize such costs. This might take the form of a contest in which private sector entrepreneurs bid for public resources by putting forward investment proposals. Unlike some 'challenge funds', which simply fund investments with benefits to income groups, proposals would relate to substantially new activities in Northern Uganda and be designed to maximize learning spillovers.

8.5. STRENGTHEN INVESTMENT PROMOTION

Strategic investment promotion can help to attract the kind of investment to drive transformational change. Agglomeration and aggregation can be enhanced through the entry of large investors. In terms of business models to promote, the large commercial farmer is the most likely to drive fundamental increases in efficiency and productivity. Delight Uganda Ltd. offers a case study in how commercial farming is part of the process of change. Other examples include Amatheon and Omer farming. All illustrate the challenges of 'self-discovery' (see Section 5).

However, the extension of this model requires large tracts of land and is relatively risky. Another business model to promote is that of the large agro-processor, (see the case study of GADCO in Section 5) that places itself within a network of household producers, out growers, traders and distributors that can realize scale economies sufficient to address quality concerns, low levels of trust, and access to inputs and working capital.

Strategic investment promotion would also target input and service providers that are currently missing from the value chains. Promotion would need to draw on a thorough assessment of the gaps in the different value chains.

Promotion would also involve establishing one stop centers for potential investors to guide them through the regulatory requirement, in particular when it comes to land issues and community liaison.

To be able to engage in investment promotion at the regional level would involve lobbying national government to develop the appropriate indictors for local government institutions and officers.

Whilst we are cautious to recommend any single value chain to be the main focus of investments of resources and finances, for reasons discussed above and mostly relating to a lack of in-depth analysis to justify the prioritization (and the time constraints prohibiting this study from engaging in that research), **there is clearly potential to for Northern Uganda** to fill the gap in oilseed production, not just in Uganda but in the entire East Africa region. Rather than focusing on producing raw seeds to be processed in other parts of the region, the focus should be put on building not just the capacity of farmers to meet the demand of oil millers for raw materials, but also working with the miller to turn Northern Uganda into a vegetable oil industrial complex. **Investment models to be explored, for all value chains, include**:

TABLE 4: STRENGTHS, WEAKNESSES AND EXAMPLES OF POTENTIAL AGRICULTURAL INVESTMENT MODELS IN NU

Investment model	Strength	Weakness
Commercial farms e.g. Omer	• Transformative: changing perception of agriculture as only for subsistence • Implementing the separation of land use from land ownership. This will promote better, more efficient use of land and overcome local fear of investors 'taking' people's land • Promoting technology transfer in agriculture and demonstrating good practices.	• Very few locals directly benefit as many lack the required skills • Only the Acholi sub-region has extensive land fit for large farms. Other sub-regions can support small-medium size farms. • Commercial farms require supporting services, which currently are lacking. Thus, chances for replication remain limited as

Investment model	Strength	Weakness
		investors don't have resources to provide everything they need (e.g. crop spraying, seed propagation, etc.)
Contract out grower schemes e.g. Mukwano Sunflower Protect	• Highest potential to create jobs for most number of people as scale can only come from working with high numbers of smallholder farmers. • Technology transfer: companies can maximize value by 1) engaging in processing rather than trading raw products and 2) ensuring farmers have the appropriate inputs and technical know-how to produce the best yields. • Poses least threat to community in terms of land issues: both land use and ownership remain within the control of existing arrangements	• Contract enforcement is problematic: side selling remains a problem with some companies choosing to free-ride • Not all companies prioritize investing in out-growers. Others don't have necessary understanding of requirements to produce the crops. E.G. Delight (U) Ltd in starting fruit cultivation. • Slow transition from subsistence to producing for the market. • Huge unmet demand (from companies) despite investment in the oilseed sector, for instance. This may deter companies from further investments as projected yields continue to fall below expectations.
Aggregators and connecting farmers to markets e.g. GADCO	• Potential to work with as many farmers as possible. GADCO is already working with 60,000 smallholders • With appropriate management systems, aggregators are much more efficient in delivering necessary services such as extension, input distribution etc. • Putting back to work previously abandoned "dead assets" such as the cotton ginneries in the region	• Requires high level of management, which very few companies can successfully replicate. Risk of successful companies turning into monopsony to the detriment of the farmers. • Risk of side-selling, which may reduce incentives for companies to invest in services, such as research and extension that build capacity of farmers • Constraints related to infrastructure gaps (roads, electricity etc.) can hinder ability of companies to reach remote locations

8.6. PROMOTE MARKET LINKAGES

Aggregation and agglomeration can also be facilitated by actively supporting rural urban linkages through trade or market centers, which provide market infrastructure to go beyond aggregation to allow for sorting, grading and quality control (Palladium, 2016b) and promote the clustering of related activities such as packaging and transport.

The promotion of linkages need not be though physical investment alone. E-technology platforms can also facilitate greater use of existing storage infrastructure and upgrade quality. For example, the East Africa Grain Council's G–Soko[lxii] platform connects the producers to a network of automated and certified grain aggregation centers, participating banks and trading houses, all within a regulated framework to underwrite trust in the system. The aim of the system is to promote quality produce (Palladium, 2016b).

8.7. ENGAGE WITH NATIONAL GOVERNMENT TO REVISE FUNDING & RESOURCING BASED ON ACTUAL POPULATION NUMBERS

Public administration/ financial reform to update and strengthen planning and budgeting processes and requirements, particularly with regard to basic services, is essential in order to address the disconnect that we observed between who in a district is planned for/funded versus who is able to access services. This should take into particular account that districts are unable to adequately plan and budget for services for refugee populations.

Education and health management require increased resources and capacity building support to districts to better supervise and support quality of service delivery. Districts should have the capacity to sustainably incorporate the rise in population, rather than relying on development partners to provide additional institutions.

Quality of services would be improved by investment in human resources, updating HR structures (particularly in response to demographic trends), increasing the number of teachers /health workers.

For health planning and budgeting reform, greater decentralization of resources is required in order to a) provide healthcare facilities and hospitals autonomy over resources and procurement, in order to improve efficiency and support local healthcare staff to prepare for or respond to specific contextual needs and b) let them plan more effectively for actual population size.

Particularly in urban areas, increased resources, greater regulation, and improved capacity would ensure the regulation and quality of private sector healthcare services.

8.8. STRENGTHEN COLLABORATION WITH PRIVATE SECTOR FOR INCREASED & BETTER TARGETED INVESTMENT IN TVET

In order to address clear skills gaps, particularly among youth, the TVET system must build on existing plans to reform, which private sector stakeholders in particular told us they would welcome. This should involve stronger public/private partnership and, in particular, must have stronger understanding of and links to the labor market. This is in line with the objectives set out in the BTVET Strategic Plan (2011-2020), but according to our research has not been achieved yet. To enable this, management of TVET must work across MDAs as, if it remains only in the hands of MoES, it will miss important opportunities to become more effective.

The TVET model for delivery should move away from long-term courses in established TVET institutions to offer more flexible, dynamic learning, more closely aligned to specific labor market opportunities (i.e. more work-based learning). There are also opportunities to build on existing lessons from other development partners (e.g. BTC). This would support TVET becoming more accessible, particularly in the short-term, learners with lower levels of qualification and those on lower incomes.

[lxii] http://g-soko.com

Lastly, efforts must be made to incorporate vulnerable groups of youth population – particularly girls/young women, refugees

8.9. INCREASE ACCESS TO QUALITY (SECONDARY) EDUCATION FOR SUSTAINED, INCLUSIVE GROWTH

Underpinning skills development, is the need to ensure that the population meet basic standards of education required to access opportunities. This is both a right, and a driver of sustained inclusive growth (Madsen, 2012). As such, basic and secondary education must improve in terms of quality and access. The results of our primary and secondary data collection showed that access to secondary education is arguably a bigger problem in Northern Uganda than access to primary, and address this issue is closely linked to recommendation 8.7.

Girls' education must remain a priority given the high proportion of girls who don't complete primary school, never mind secondary. These years in a girls' development will shape her future opportunities and, thus, are likely to impact the prosperity of her own family.

The Number and quality of schools in underserved urban areas needs to improve (particularly relevant for informal settlements). Support to and regulation of low-cost private schools is required in order to meet service provision gaps as this will grow as urbanization continues.

8.10. INCREASE ACCESS TO QUALITY SRH AND NUTRITION SERVICES

Key to the improvement in educational access and outcomes is nutrition of learners, particularly relevant for vulnerable pupils. Support to school feeding programs needed in both refugee hosting and non-refugee hosting areas. As we have explained above, the health of learners is a critical driver of sustained and inclusive economic growth, and its importance cannot be overstated.

Similarly, sexual and reproductive health (SHR) remains a top priority. It requires prioritization for funding as well as efforts to reduce its stigma. This would serve a key role in a) managing population growth; b) supporting women to access more/better employment opportunities c) improving prosperity by delaying/managing number of children; d) mitigating disease burden through reduction in STIs and their secondary effects (e.g. TB).

8.11. IMPROVE TESTING & CONTROL FOR INPUTS

Quality infrastructure to test and control the quality of seeds and fertilizer would reduce the risks of commercialization for smaller producers in particular, and for out growers, such as those engaged through Delight Uganda. We understand that USAID is engaged in this activity in the seed sector.

8.12. INCORPORATE CLIMATE CHANGE MITIGATION/ADAPTATION INTO AGRICULTURAL AND AGRIBUSINESS STRATEGIES AND INVESTMENTS

In order to address the threats that climate change brings to those dependent upon agriculture, households have to identify the specific changes that they will face, with some indicators given in Omer Farm Holding's reports of changing weather patterns. Increasing temperatures are all but a certainty for the people of Northern Uganda, thus investments have to be made into varieties of maize and beans that are more adaptable to higher temperatures. Investments also should be made in shading and other temperature-reducing management techniques, particularly for vulnerable crops such as coffee and matooke. Soil moisture management has to also be addressed to ensure that plants get enough water from the soil as increased temperatures lead to more evaporation.

In the face of changing rainfall patterns, the resistance to pests and diseases has to be prioritized. Reserves of seeds that are protected or treated should be maintained and management strategies have to be developed to reduce the risk of pests and diseases, for example, improved storage facilities.

Diversification also has to be adopted in order to spread the risks in agriculture so that families are not dependent on one crop or one source of income. Furthermore, this will allow for greater innovation and adaption so that farmers are more capable of facing the threats of climate change.

BOX 10: THE ROLE OF NATIONAL AND LOCAL GOVERNMENT IN IMPLEMENTING RECOMMENDATIONS

Political leadership is essential – such critical reforms require a multi-agency effort and thus someone with power and influence needs to be at the helm, preferably championing the process and being held accountable for success and failure. At a technical level, a government agency needs to be given responsibility for coordinating policy formulation and implementation.

Regarding Industrial Policy recommendations, at the national level MOTIC would be the obvious choice given their mandate to provide the policy and regulatory oversight. Moreover, they have influence over statutory bodies handling different aspects of industrial development. At the regional/local government level, the Northern Uganda Development Forum would be option. We understand that the Forum's Interim Steering Committee will be developing a "*regional strategic investment plan"* which could contain an Industrial Policy. Ownership and leadership by a body in the North would require the blessing of the national government. First, because the capacity to implement such a policy generally resides in national level institutions. Second, because, as we have outlined, the NRM is suspicious of everything outside NRM circles, especially any emerging power centers in the north. There is a risk that the national government would be reluctant to support rival power structures.

Regarding recommendations for social sectors, line ministries and their subnational counterparts will be required to lead, including where private sector intervention is critical.

Regarding recommendations for supporting functions, such as infrastructure, land, agricultural inputs and business environment, a collaborative approach between line ministries and the private sector will be required.

In terms of policy implementation, it is generally true that the districts lack capacity for economic development and urban planning, as these have not traditionally been functions for which they have had significant responsibility. There may be pockets of capability but much of policy implementation will require the leveraging of national level institutions competence.

USE AND BUILD EXISTING INSTITUTIONS AND 'POCKETS OF CAPABILITY'

Substantial institutional machinery exists already and can be the basis for policy implementation. There *are* fora at which a better connection between private sector and government could be established. There *are* budgetary procedures that might be used to fund to the requisite actions. There *are* monitoring procedures that might be used to learn, discipline project selection while diffusing the lessons. The key is to identify 'pockets of capability' and lodge policy activities there, instead of creating new institutions. Capability can be built upon with support from donor partners.

8.13. POSSIBLE NEXT STEPS

Following approval by the Steering Committee of this report and its recommendations, the next steps towards implementation would be:

1. Where necessary, National Government approval for recommendations should be sought and key national stakeholders need to be identified and approached.
2. Within existing budget constraints and political feasibility, the Steering Committee should review the prioritization of interventions provided here and include them in their Regional Strategic Investment Plan or other policy and strategy frameworks as a basis for implementation.
3. For all recommendations, key partners among the private sector and development partners should be identified to take forward recommendations, using existing mechanisms and fora of engagement where possible.
4. Further explorations for some recommendations may be needed, such as an 'Options Paper' for industrial policy and how it could be incorporate into the SC's Regional Strategic Investment Plan.

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ANNEX 1: LIST OF INFORMANTS

Some of the individuals interviewed asked not to be named specifically – we have not included those names or precise positions where this was the case.

Attempts were made to meet other organizations, including but not limited to UNFPA, District Education Officials and DFID, but these were unsuccessful.

Name	Position	Organization
	UNHCR staff	UNHCR, Kampala, Uganda
	UNICEF Staff (health)	UNICEF, Gulu, Uganda
	UNICEF Staff (education)	UNICEF, Kampala, Uganda
	3 X BTC Staff (Skills Development)	Belgian Development Agency (BTC), Kampala, Uganda
Simon Aloo	LC Vice Chair	Gulu District, Uganda
	District Health Official	District Health Management Team, Gulu District, Uganda
	District Gender Official	Gulu District, Uganda
	Marie Stopes International Staff Member	Marie Stopes International, Gulu, Uganda
Stephen Kamukama		Ministry of Trade, Trade Industry and Cooperatives
Bob Bariyo Barigye	Assistant Commissioner, Cooperative Development and Policy	Ministry of Trade, Trade Industry and Cooperatives
Muhammad M. Muzamil	Policy Officer	Uganda Manufacturers Association (UMA)
Ssenyondwa Allan	Policy and Internship Placement	UMA
Ssali Godfrey		UMA
Patrick Lakica	District Commercial Officer	Gulu District Local Government
Patrick	Education Secretary	Gulu District
Mark Moro		Chamber of Commerce, Gulu
Charles Onen	Head of Producer Dealers	Gulu Town
Gerard Sands		Gulu Agricultural Development Company
Robert Ogwang		Gulu Agricultural Development Company
Wilfred Kamuleyega	Senior Agronomist	Gulu Agricultural Development Company
Josephine	DCO	Lira District
Olade Santos	Commercial Officer	Lira District
Opio Robert Luis Oluge	District Agricultural Officer	Lira District
Peter Schuurs	General Manager	Omer Farm Holding
Dominic Kimara	Agronomist	Omer Farm Holding
Bongomin Francis	Trade Information Desk Officer	Elegu Border
Kilama Patrick		Elegu Border

Name	Position	Organization
Olika Joseph	Gender Representative	Elegu Border
Anthony Mugenyi	District Production/Marketing Officer	Adjumani District
Collins Apuoyo	Team Leader	NU-TEC MD
Julian Omalla		Delight Uganda Ltd
Walaita Sebastian	Coordinator	Delight Uganda Ltd
Massimo DIOMEDI CAMASSEI	Trade Adviser	European Union Delegation to the Republic of Uganda
Aloys Lorkeer	Head of Section Sustainable Development	European Union Delegation to the Republic of Uganda
Niels Knudsen	Senior Adviser	RAL/RALNUC
Pius Wakabi Kasajja	Permanent Secretary	Ministry of Agric, Animal Industry and Fisheries
Ian Walker		Engsol
Jim Middleton		Engsol
Chris Burke	Chairman	Northern Uganda Land Platform
Maria Guglielma Dapassana		FAO
Rebecca Sankar	Uganda Country Manager	AgDevCo

ANNEX 2: OVERVIEW AND ANALYSIS OF KEY GOVERNMENT AND AUTONOMOUS INSTITUTIONS

The Ministry of Finance, Planning and Economic Development

MOFPED is responsible for ensuring that sectoral investments are well coordinated and appropriately funded. The principal mechanism is the Medium-Term Expenditure Framework (MTEF), designed to provide a rolling three-year guide to overall, sector and sub-sector budget allocations. MOFPED insists that the substantive new budgeting procedures, first introduced during FY 2008/09 has led to more performance monitoring and better budget discipline (but the considerable and growing use of Supplementary Budgets, many of them for State House and electioneering) suggest this may be wishful thinking.

The Office of the Prime Minister

OPM has two ministerial positions with specific remits for the North:

- The Minister of State for Karamoja provides political leadership and responsibility for the implementation of the Karamoja Development Programme.
- The Minister of State for the North provides political leadership for the Peace, Recovery and Development Plan (PRDP) including initiating, designing and coordinating special programs and projects for disadvantaged areas. The PRDP Monitoring Committee (PMC), chaired by the Prime Minister, meets twice a year, the highest structure which brings all the PRDP stakeholders into a dialogue. The PRDP Technical Working Group, chaired by the Under Secretary for Pacification and Reconstruction of the North, meets monthly and it brings together technocrats from the different sectors and the development partners.

The National Planning Authority

NPA was established by an Act of Parliament in 2002. It is the principal statutory agency responsible for the management of national and decentralized development planning. The primary function of the Authority is to produce comprehensive and integrated development plans for the country (see Vision 2040 below), and long and medium-term plans. There are two directorates namely Development Planning and Research and Development Performance. Development Planning has six departments including the Department of Local Government Planning.

Ministry of Agriculture, Animal Industry and Fisheries

Most of the sector ministries operate in the north. We can illustrate the way they relate to the center with, a discussion of one of them, the Ministry of Agriculture, Animal Industry, and Fisheries (MAAIF). MAAIF consists of MAAIF headquarters and a series of 'semi-autonomous' agencies. At MAAIF HQ there are four Directorates (Animal Resources, Crop Resources, Fisheries and Extension). Below each of them are two to three Departments (headed by Commissioners), a number of stand-alone Departments (most notably one for Planning) and four specialist units.

There are also a number of semi-autonomous agencies (**the National Agricultural Research Organization, the National Agricultural Advisory Service** (NAADS) etc.), each with their own line in the annual budget. MAAIF's agencies, operating at both national and local levels, are responsible for the execution of approved plans and projects, leaving MAAIF HQ to concentrate on policy formulation, support and supervision (especially of Local Governments), sector planning, regulation, standard setting, quality assurance and sector monitoring and guidance.

The Ministry of Local Government

The MOLG has four key responsibilities:

- Inspect, monitor, and, where necessary, offer technical assistance, supportive supervision, and training.
- Coordinate and provide advice for the purpose of harmonization and advocacy.
- Link local governments with other ministries and departments, parastatals, the private sector, and regional and international organizations.
- Research, analyze, develop, and formulate national policies, including those pertaining to local revenue mobilization through taxes, fees, levies, and rates.

The Uganda Investment Authority

Uganda has tried to move away from ad hoc, venture-specific incentives towards an approach aimed at levelling the playing field for all investors. UIA is the agency set up by an Act of Parliament (Investment Code 1991) to promote and facilitate private sector investment in Uganda. In recent years, UIA has been proud to call itself a 'one stop center' to assist investors in: business registration, investment licensing, environmental advice and compliance, taxation and immigration issues, as well as land acquisition for investment and aftercare services.

There are three core divisions in UIA: Investment promotion; Investment facilitation and aftercare, and; Enhancement of SMEs. UIA is Secretariat to the Presidential Investor Roundtable where the President invites domestic and foreign private sector members to advise him and his cabinet on investment enabling policy (see below). The Office of the Prime Minister gives oversight to the implementation of approved recommendations.

Previously, UIA gave foreign investors certificates making them eligible for tax holidays and exemptions. UIA seems to have abandoned this practice and the official position now is that Uganda's investment incentives are codified in its tax laws.

In order to ensure balanced development all over the country, UIA has created District Investment Committees to ensure that district leadership is involved in investment matters. However, UIA has no particular position on the north and needs to be more proactive in promoting the region. Consideration could perhaps be given to setting targets for UIA for actual inward investment projects in the North. Feedback on reported barriers to investment in the North would also be useful so that Government is aware and can better resolve these.

The Uganda National Chamber of Commerce and Industry

UNCCI describes itself as *"the oldest nation-wide umbrella organization for the private sector in Uganda"*. It has a network of district branches in over 80 districts around the country including in Lira and Gulu. It has Directors representing the North, the north East and the North West. It has influence and authority.

Its main objective is to promote and protect the interests of its members in the business community. Members come from a range of sectors including internal and external trade, industry, tourism and, transport. UNCCI puts focus on advocating for appropriate economic policies and interventions that encourage a favorable business and investment climate, working with its members to enhance their capacity to grow and run efficiently. UNCCI also works with other key partners and players to ensure the enabling environment for the sustainability of the private sector led growth. The main services provided by UNCCI are: Lobbying and Advocacy; Dialogue to promote public-private partnerships; Disseminating up-to-date Business Information and Opportunities; Providing Business Advisory Services; Facilitating Joint venture and Business matchmaking; Facilitating inward and outward trade and investment missions; Providing a platform for networking for members; and arbitrating business disputes.

Private Sector Foundation Uganda

For its part, the PSFU describes itself as *"Uganda's apex body for the private sector"*. It is made up of over 200 business associations, corporate bodies and the major public sector agencies that support private sector growth. Since its founding in 1995, PSFU has served as a focal point for private sector advocacy as well as capacity building and, according to its website 'continues to sustain a positive policy dialogue with Government on behalf of the private sector'. It certainly has been Government's key implementation partner for several vanguard projects and programs including: the two Private Sector Competitiveness Projects funded by the World Bank; the Business Uganda Development Scheme funded by DFID; and the Competitiveness and Enterprise Development Project funded by the World Bank.

The Presidential Investors' Roundtable

The PIR is in its thirteenth year. It convenes every six months to allow the business community an opportunity to discuss major business constraints directly with the President. UIA is the secretariat and chooses the sectors of focus each year and 20 local and foreign investors are selected to participate and make recommendations on what business environment reform activities should be prioritized. The selection process is perceived to favor large investors but lack of progress beyond dialogue has been a source of frustration for participants. Specifically, little action has been taken on most of the recommendations to date: it seems that each year, roundtable participants present a new set of recommendations without any conclusions drawn on the ones offered the year before. Agriculture was the topic of one recent roundtable, but it does not appear that any of its recommendations ever translated into government action.

Industry Associations

Uganda has numerous industry associations, several pertinent to our brief: from the Association of Microfinance Institutions of Uganda to the Uganda Bankers' Association and the Uganda Beef Producers Association (UBPA), the Uganda Fish Processors and Exporters Associations (UFPEA), the Uganda Flowers & Exporters Association (UFEA), the Uganda Leather and Allied Industries Association, the Uganda Manufacturers Association (UMA), the Uganda National Dairy Traders Association and the Uganda Small Scale Industries Association. As to those specifically active in the north there is also a Northern Uganda Manufacturers' Association, which has had a role in providing a fora for Northern Uganda companies and involves running a Northern Uganda Economic Empowerment Week in Lira. The event is organized in conjunction with the PSFU and the last one featured exhibitions and business seminars with various stakeholders/partners including the Uganda Export Promotions Board, the Uganda Industrial Research Institute, Makerere University Food Science and Technology, UIA etc.

Dairy Development Authority

According to Kjaer (2015), the DDA successfully established relationships with the traders and big dairy farmers based on mutual recognition and trust. The DDA has competent staff, most notably its last directors who had their pasts in the dairy industry. The DDA negotiated, sometimes in complex processes, with the milk traders and farmers and persuaded them to upgrade technologically and improve the quality of the milk. This helped increase sales and expand the industry

Sector Working Groups

A key institution in the sector ministries' planning and budget process is the *Sector Working Group* (SWG) usually composed of departmental heads, Civil Society Organizations, donors, private sector players and other interested parties including, in the case of agriculture, farmers and farmers' groups. The SWG is supposed to evaluate ministry investments in line with sector priorities, and review the

annual Budget Framework Paper (BFP) as a basis for budgeting in the sector and identifying policy issues for consideration and action by the ministry's management team.

The SWGs have substantial opportunities to prioritize issues and exert pressure for appropriate sector allocations. But, mostly, and as in the case of MAAIF, they do not. Also, if MAAIF experience is anything to go by, projects do get into the BFP without ever being discussed in the SWG. Our view is that the SWGs could be much more effective vehicles for lobby and communication if the various participants showed more patience, commitment, clarity and coherence in their approach. Perhaps a reminder of their responsibilities (and power) in this process might be useful.

Commodity Platforms

In the last few years, MAAIF has established a series of commodity platforms like vegetable oils and maize, where LG representatives can be present if they are resourced. Membership is drawn from actors along the value chain, some with support from USAID and the World Bank. At the time of writing, platforms for seeds, maize and oilseeds (at least) are holding regular meetings as proactive forums for developing consensus on actions for their respective industries. They would seem to have real potential and need encouragement. These platforms have a role to play but are often not efficient. LGs will benefit from being helped to make plans. Where they have them, they are not fully fledged and ready for support or investment, DP assistance may be available.

On top of the formal institutions, there also frequent **ad hoc events** which add to the strengthening of the private sector and to private sector-GOU dialogue. For example, International Alert in collaboration with UCoC organized meetings on the theme **"Promoting a Peace Economy in Northern Uganda through Investment"** in 2013 in Gulu and Kampala. The workshops attracted mainly investors, political leaders, government officials, academia and CSOs. They aimed at sharing experiences of investors who 'have experienced the challenges and opportunities for investment in Northern Uganda'. Similarly, in 2016, FAO organized a workshop for government officials directly involved in agriculture investment in the north and, in the same year, UIA held an event focused on fruit production and oil seed tree growing in the north, a key message of which was that investors should always work with the relevant local authorities to acquire land from the local people. "In rare cases, we introduce the investors to local authorities through our formed District Investment Committees (DICs) in the Lango, and Acholi regions", said UIA. 'Investment promotion is everybody's role although UIA is the chief agency. Investment promotion is carried out with support from local communities, different stakeholders, politicians and district authorities.'

Public Private Dialogue

PPD fora have been established by some LGs. Rou (2016) suggests the PPD have had mixed success (relatively successful in Nwoya, dormant in Arua), based on whether private sector actors saw that it was in their direct interest to participate. This has been observed in many fora before. RoU (2016) goes on to say that a change in approach and the institution of more meaningful PPD Forums at the local level would give a signal to the private sector that the LG is serious about improving the environment for business in the locality. "PPD forums should rely on dialogue with already active private sector associations at the local level *rather than creating new forums*." The report does somewhat undermine its own confident prescriptions by also suggesting that "LED pilot programs implemented in Uganda have also "made two main assumptions that did not turn out to be realistic": (i) that stakeholders are interested to rally behind a common LED strategy and contribute their own resources to implementing it, and (ii) that the private sector has the necessary capacity and resources to make investments towards the enhancement of the local economy. These are both clearly killer assumptions (in the old terminology) and, we suggest, do not hold in all situations.

Local Government Structures

At the top of the local government structure is the **District**, comprising several counties and whatever municipalities lie within its territory. It has primary responsibility for sub-national service delivery. An **elected council (LC5)** presides over the district, headed by a chair and an executive committee. On the technical side, the Chief Administrative Officer (CAO) is the head of the district administration. Originally, this officer was appointed by the district level but central government has taken over these powers. The district structure includes the sector departments such as agriculture, education, health, works, water, environment, and planning. The elected leaders are supposed to

oversee the activities of the technical personnel. Membership of the LC5 must include at least 30% women.

At the base of the five-tiered local government structure, **the village** is Uganda's smallest political administrative unit. There are some 60,000 villages (USAID 2015), with an average village comprising 50 to 100 households and a population numbering in the hundreds. **Each village has a council (LC1),** whose membership includes all residents 18 years and older. Presiding over each village council is an executive committee, with a chairman and nine members. These committees have no service delivery function but are meant to 'mobilize' community members for matters of collective interest.

At the next level, **the parish (LC2)** comprises several villages. Each parish has a council whose members include all the LC1 committee chairs from the parish's constituent villages. The role of parish councils and their committees is largely restricted to settling local disputes referred from LC1s but, currently, they are more or less dormant.

Above the parish is **the sub-county**, made up of several parishes. The sub-county chief works with an elected council and this has a chair, an executive committee and elected councilors representing the parishes. The sub-county chief heads a technical team of officials who are responsible for overseeing service delivery, as inspectors and coordinators –in, for example, the sector ministries of agriculture, health, education and water provision.

Next up is the **county-level council (LC4)** constituted of members of sub-county executive committees from a single county. These members elect an executive committee but this has limited powers[lxiii]. Counties do, however, constitute the parliamentary constituencies, with each county represented in the national Parliament by an elected member.

At LC3 and LC5 levels, the responsibility to implement council decisions and central government directives belongs to appointed civil servants, who are overseen by the CAO. In theory, elected leaders oversee civil servants' work and wield authority over them. However, tensions inherent in the relationship of the two groups frequently arise and lead to negative impacts on service delivery in particular.

Another element in the mix is the **Resident District Commissioner** (RDC), the representative of MOLG. Following the ministry's mandate, his/her responsibilities are to: Supervise staff in the districts; Provide advice for the purpose of harmonization; Link a district government with the center;

Presently, over 90% of licensed investments, in Uganda are situated in Kampala and the central region (UIA website). This is followed by the East and West, with the least amount of investments in the North. Consequently, UIA is now actively creating **District Investment Committees (DICs)** in an attempt to spread investments throughout the country. DICs have so far been established in the regions of Bugisu, Bukedi, Rwenzori and Kigezi and there are plans to spread to Lango, Karamoja and Teso.

UIA together with bodies such as UNBS, URA, and **Uganda Registration Services Bureau** undertake an orientation program for the members of the DICs to empower them to undertake the roles of investment promotion and facilitation within their areas. During this

[lxiii] Due to budget constraints, there have been no LC1, LC2, or LC4 elections for years (USAID, 2015) with the consequence that many have atrophied into virtual nonexistence.

orientation, the DIC members are capacitated to; Identify the economic activity in which it has a comparative advantage over other districts; Provide a base or infrastructure for investment promotion and training activities by UIA and any other partners interested in investment in that particular district; Identify viable and bankable projects; Provide a readily accessible point of contact with UIA and its investor services.

Together with **UIA, the DICs compile the District Investment Profiles** and these are amalgamated into Regional Investment Compendiums which are used to market the districts to interested investors.

Also important are **District Land Boards (and District Land Offices** which provide technical services to the DLBs), which were set up under the Constitution. Their functions are: Hold onto and allocate land in the district which is not owned by any person; register and transfer interests in land; issue certificates of customary ownership; and approve the conversion of customary tenure into free hold.

Private Sector

The significant and genuinely invested agribusinesses who form the primary pool of potential partners in Northern Uganda are few and, while they have been constructive partners in a wide variety of ventures, it is not helpful to think of them as prospective development agencies or charitable operations. Mukwano Group's A.K Oils and Fats, for example, has received support from several projects (e.g. USAID's APEP and the aBi Trust) and has been a constructive partner but they have also used this support to realize their own existing strategies. They know they can use development partner support to accelerate scaling up and outreach and to offset the risks to their own capital. Gulu Agricultural Development Company (GADC) are a younger, originally cotton based, firm who have shown a remarkable ability to use matching grants and development finance to expand their operations - at significant scale - into other commodities, notably sesame and chilli. These organizations are examples of well informed and managed businesses who are accustomed to a development dialogue as an input to helping their businesses grow. They have learned how to talk constructively to LGs. A challenge in Uganda has always been to understand the role that patrimony and politics plays in business and investment. It goes without saying that few major investments proceed without a political nod of approval.

ANNEX 3: NORTHERN UGANDA POLICY FRAMEWORK

The Peace Recovery and Development Plan

The special case of Northern Uganda was certainly recognized by GOU and DPs back in 2006 and resulted in the comprehensive Peace Recovery and Development Plan (PRDP), approved in 2008. The objective of the PRDP framework was to reduce the gap between northern Uganda and the rest of the country in the main socio-economic indicators. This was essentially an affirmative action to ensure that additional funds over and above the normal budget were provided for the region, till then devastated by war.

PRDP had four strategic objectives: (i) Consolidation of State Authority; (ii) Rebuilding and empowering communities; (iii) Revitalization of the economy; and (iv) Peace building and reconciliation. These objectives were implemented by use of three different funding modalities: (i) budget support to the PRDP district grants; (ii) on-budget special programs and projects; and (iii) project support (off budget support). The PRDP does not restrict development partners to a certain type of funding modality.

The first phase of the PRDP framework was completed in June 2012. The Mid-term Review concluded that progress was being made and found positive developments including a decline in the poverty rate in Northern Uganda, down from 63% in 2002/03 to 46% in 2009/10. While this was a significant decline, the national poverty rate had fallen faster, to 25% in 2009/10. The reality was that, due to the high population growth rate, the absolute number of poor people in the North had actually increased.

Based on these findings, a second phase of PRDP was launched, continuing the gradual move from emergency assistance towards traditional development support to the region. It was conceived as an elaborated framework with a log-frame, M&E system and procedures for coordination and dialogue between all the multiple development partners supporting the program and GOU. Donor support from a number of sources – Denmark, Sweden and Ireland - was expected to go to specific budget lines of PRDP2 in the form of budget grant support to OPM as the implementing agency, all regulated by a Joint Financing Agreement. The support was also expected to continue into a transitional phase *after* the end of PRDP2, that is from 2015 onwards. In preparation, the OPM received significant capacity building support from a range of DPs, such as DFID, GIZ and Danida. PRDP2 was expected to continue with the original four strategic objectives and the three funding modalities.

However, just months into the new phase of PRDP2, a GOU Audit report uncovered serious fraud within OPM, largely around unauthorized payments and transfers of PRDP money (ACCS NU Conflict Analysis 2013). The audit revealed that of the €22.9 million received on two PRDP accounts between 2009 and 2011, €12.6 million had been misappropriated. Many DPs then discontinued support to OPM and the entire PRDP2 implementation was put into jeopardy (although it continued with GOU support). Many citizens of northern Uganda apparently took the incident as further evidence of their political marginalization (ACCS 2013). Some have said they see it as part of an almost institutionalized lack of political will to bring northern Uganda up to the levels of the rest of the country.

Phase2 of PRDP ran out in June 2015. The Prime Minister then announced that PRDP III and the related NUSAF III would commence before the end of the year. In fact, there have been delays although a World Bank loan of USD 130m for NUSAF III has been approved.

Under *PRDP*, a remarkable amount of social service infrastructure has been built in Northern Uganda (schools, water points, skills training centers, health centers, teachers' houses and sanitation facilities etc.) but as ACORD (2011) makes clear, government failed to follow through on improving

development outcomes in the impoverished region. "*Responsibilities cannot be met by relying on humanitarian agencies and development partners to provide core functions such as health, education, water and agricultural support. The government should be at the frontline and must demonstrate the will to comprehensively address the recovery of northern Uganda."* Interestingly, the status of PRDP is now unclear. In 2015 it was on the drawing books and expected to start by the end of that year, but it was then delayed and appears to have had further delays. The background papers to DINU (2017) suggest PRDP3 is underway but, if so, it is low key and the focus must have shifted from the recovery, rebuilding, reconciliation and revitalizing objectives of earlier phases towards supporting livelihoods and private sector led economic development. Nothing much appears to have been written on this however and so the exact status of the plan and its implementation remains unclear.

Economic Recovery Analysis

In 2015 the Office of the Prime Minister conducted an Economic Recovery Analysis (ERA) for Northern Ugandan, with support from DFID. This was to pursue further PRDP's Strategic Objectives on Economic Revitalisation (Oxford Economics, 2015). There were two phases:

- Led by UIA, Phase I was undertaken in conjunction with the Economic Policy and Research Centre at Makerere (EPRC). It detailed the existing production profiles of 15 districts in the Greater North[lxiv], identifying the opportunities, constraints and challenges faced by enterprises in the selected districts.
- Phase II involved a forecast of Northern Uganda's inclusive economic growth prospects. The analysis involved substantial primary and secondary data gathering and growth modelling, as well as extensive qualitative research. The ERA report (Oxford Economics, 2015) lays out the results of that exercise and makes some high-level proposals for institutional reforms to foster long-term growth so as to address the North's sizable poverty gap. Some of the findings of the report have been very useful as we prepared our document

[lxiv] The PRDP Greater North covered 55 districts in 8 sub-regions in the North, North West, North East, Mid-West and East of Uganda: Acholi, Lango, West Nile, Karamoja, Bunyoro, Teso, Elgon, and Bukedi