



Searching for the “Grail”:
**CAN UGANDA’S LAND SUPPORT ITS
PROSPERITY DRIVE?**

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What is the Uganda Economic Update?

The Uganda Economic Update (UEU) takes stock of the country's economic developments to provide up-to-date information and analysis on the recent economic performance, challenges, and opportunities. Drawing on global experience, the UEU proposes options for consideration by Government in order to facilitate economic growth, eliminate extreme poverty and promote shared prosperity. The UEU is published by the World Bank on a six monthly basis. The sixth UEU had a special focus on 'Land' and was published in September 2015.

Why is the Update published every six months?

The UEU is aligned to the Government's budgetary process, which carries a time frame of 12 months. The schedule of six monthly updates provides room for providing timely inputs into the budget formulation for the subsequent year, and to assess progress of implementation of policies and make requisite adjustments where necessary.



Why is an Update important for Uganda?

The UEU provides a regular platform to discuss and reflect on topical issues that are affecting the economy. In this respect, the UEU brings together policy makers and key stakeholders to debate and inform the policy formulation process. The UEU is selective, aiming to focus on current issues that require attention for policy makers to formulate ideas and take action on growth and inclusive development.



What is the current State of Uganda's economy?

The Ugandan economy continued to recover from the low growth recorded since financial year 2010/11, which was the most recent election year. During the year ending June 2015, the economy grew by 5.0 percent, compared to 4.5 percent of the previous year. However, growth remained below expectation, and was the slowest amongst regional peers such as Kenya, Tanzania and Rwanda. Prices had remained stable and the cost of credit had reduced, thereby providing a much needed boost to private investment and consumption. The Government had planned to continue to pursue a strategy of addressing the country's deficient physical infrastructure, but this had not fully materialized because of implementation challenges.

What are the main challenges for Uganda's economy?

With planned Government infrastructure investments taking off only slowly, and the exports remaining weak, the main driver of economic activity in the private sector was the increased credit from the banking sector. At the same time, the country had suffered from shocks affecting the economy in varied ways, both in the past and in the near future.

First, the prolonged low international oil prices reduced the country's oil import bill and had a deflationary effect on domestic prices, but has been an important factor in the decisions on investments related to production of oil within the country. Relatedly, foreign direct investment, the bulk of which has come into

this sector, declined during FY 2014/15 and will remain subdued in FY 2015/16.

Second, the shilling has reduced value significantly, reaching a level which is 35 percent lower than what it was in the corresponding period of 2014. This depreciation is consistent with the low net flows of foreign exchange into the country and hence could promote competitiveness, but it increased pressures on domestic inflation.

Third, the tightening of monetary policy will minimize inflation and hence ensure stability, but it will increase the cost of borrowing and hence reduce the rate of investment by the private sector.

Fourth, at the regional level, the political turmoil in neighboring Burundi, and the civil conflicts in South Sudan and Democratic Republic of Congo, have major implications to Uganda's economy, particularly through lower exports of goods and services, lower tourism receipts, and lower FDI, if investors consider regional risks to be as important as country specific risk.

Lastly, as the country prepares for its next presidential and parliamentary elections in February 2016, both uncertainty and speculation have and will continue to impact economic variables, a phenomenon that is common in many other parts of the world.





What is the economic outlook for Uganda?

During financial year 2015/16, the Ugandan economy will on balance, continue to grow, the effects of the shocks notwithstanding. However, the forecasted overall rate of growth for the year of 5.4 percent, will be about a half a percentage point from what had been anticipated when the Government pronounced its budget strategy in June 2015. The rate of growth is projected to accelerate to at least six percent per annum into the medium term. This outlook greatly depends on the success of the Government's huge investment program, which aims to build energy dams to increase availability and reduce cost of electricity; build roads to ease connectivity; and construct the refinery to raise the value of the oil before it is exported out of Uganda.

While addressing these constraints would improve the business climate and encourage more private sector investment, firms will still have to manage their activities in a quite volatile macroeconomic environment in the near term on account of uncertainties and speculation related to elections, and an unpredictable external environment that may have adverse effects on the value of the currency and the market for Uganda's goods on international markets.

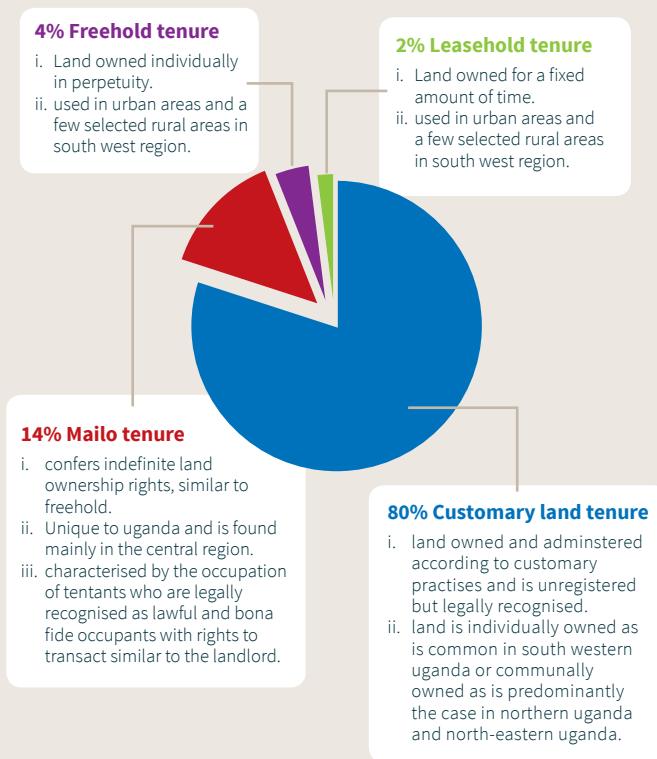
The sixth UEU argues that above all this, the most critical challenge is to identify policies and actions that can raise productivity and incomes for agriculture and low income non-agriculture firms, where most of the people are employed currently; or to facilitate people to shift into those areas where productivity is high and incomes for workers can rise fast. One critical factor for such a transformation to take place is the manner in which land is managed in Uganda.

What is the state of land tenure security in Uganda?

Land tenure in Uganda has evolved tremendously over the past century, resulting into four types of land tenure systems (see Figure 1). The type of tenure system operated for a particular piece of land is not of much essence. What matters is whether there is credible information showing true ownership of that land, commonly referred to as land rights; that information pertaining to these rights as well as location and size of land is stored in a credible and accessible manner; that the true owner can sell that piece of land at fair value; and that there are effective institutions to resolve land disputes effectively if and when they occur. This determines whether land tenure is secure.

Unfortunately, in Uganda these elements are still weak, which has led to unclear ownership of land and a high rate of occurrence of disputes and conflicts. As a result, only a small proportion of land in Uganda is marketable, while some transactions on the market are considered to be unfair and exploitative, and the land markets considered highly segmented and inefficient. According to the Uganda National Household Survey of 2005/06, while approximately 60 percent of households own land, only 39 percent of individually-owned rural land was purchased. Because of the lack of clearly defined land rights, 37 percent of such land cannot be sold; 34 percent cannot be rented; and 44 percent of land cannot be used as security for a loan. This limits the role that this important asset can play in facilitating transformation and development in Uganda.

Figure 1: Composition of Four Land Tenure Systems in Uganda





What is the cost of tenure insecurity and inefficient markets?

Uganda's rapidly expanding population is placing increasing pressure on land usage. This has significant implications for the country's productivity. If properly managed, an increase in population density can actually support economic growth, but to make that possible, policies to promote optimal use of land must be in place in both rural and urban areas, to support the transformation of economic activities. The following are some of the indicators of costly land management:


- **Slow transformation of agriculture:** Land disputes are estimated to reduce the level of agricultural growth in Uganda by between 5 and 11 percentage points. Small farms are not able to achieve high levels of productivity, while low productivity large farms co-exist with a number of promising commercialization and agro-industry businesses failing to expand due to lack of a system that could facilitate efficient and fair sell or rental of land, especially in areas with communal land ownership.
- **Access to finance constrained by limited land registration:** Financial institutions in Uganda typically require collateral for over 86.5 percent of the loans. The limited existence of easily transferable legal titles leaves the bulk of land as 'dead capital' that cannot be demobilized for development nor expand the deposit base of financial institutions. This leaves the cost of credit high.
- **Urban areas not supporting economic development:** Urban authorities lack access to the land required for the necessary public works and social infrastructure. This, together with the lack of enabling site and

building standards, has resulted in urban centers that are not developing efficiently, with these areas often characterized by horizontal expansion rather than more profitable high-rise buildings. For this reason, urban centers in Uganda still have low economic density, not allowing them to generate growth, jobs and decent housing for their increasing populations. If current patterns continue, the process of urbanization will result in proliferation of slums; increased congestion; and a deterioration in the quality of, or a failure to develop, infrastructure due to an escalation in the costs of construction and payment of compensation.

- **High cost of compensation makes infrastructure development costly:** Authorities are struggling to afford high compensation rates involved in the acquisition of land due to highly inflated land prices. This is caused by the lack of available alternative investment opportunities and the need in many cases to pay compensation not only to registered land owners, but also to bona fide occupants.
- **Mismanagement of land systems promoting corruption:** Land transactions are often braced with very high transaction costs, mainly resulting from corruption.

Urban areas becoming large slums and not supporting economic development - Urban authorities do not have access to the land required for the necessary public works and social infrastructure..





How should land in Uganda be managed in order to support the transformation process?

Drawing on global lessons, particularly from countries in Africa that share many of the same characteristics as Uganda, the sixth UEU recommends four points of action. The first two build on what has already been initiated by the Government, while the other two are intended to bridge unaddressed gaps.

- I. Accelerate the process of systematic registration of land including land owned communally, by religious and cultural institutions, and by Government. Low cost technologies, as seen in Rwanda, can raise the proportion of land registered well beyond the current level of only 20 percent.
- II. Redesigning the Land Fund to enhance its efficiency and equity in supporting resolution of overlapping rights.
- III. Strengthening Institutions for Land Administration Management, including for dispute resolution; for documentation, information storage and retrieval, and valuation; and for urban authorities finances to allow them acquire land and pay for infrastructure development.
- IV. Reviewing and prioritizing the many existing policy commitments that already exist to identify and close critical gaps such as in restrictions on rental markets, disincentives such as taxation for speculative holding of land, urban land use, discrimination against women in landownership, and expropriation and compensation to promote equity and fairness in land transactions.

<ul style="list-style-type: none"> ➤ 70 percent of land in Kampala is either public or private mailo land 	<ul style="list-style-type: none"> ➤ Ugandan households paid an average bribe of US\$90 per transaction, to transfer a piece of land 	<ul style="list-style-type: none"> ➤ In 2006, 37 percent of land in Uganda could not be sold; 34 percent could not be rented; and 44 percent could not be used as security for a loan
<ul style="list-style-type: none"> ➤ 7 percent of land in Kampala is mailo land owned by the Buganda Kingdom 	<ul style="list-style-type: none"> ➤ 20 percent of Uganda's land is formally registered 	<ul style="list-style-type: none"> ➤ Proportion of agricultural households renting land increased from 13 percent in 1992 to 36 percent in 1999
<ul style="list-style-type: none"> ➤ Computerized land information system operates in six zonal offices and at the headquarters (HQ) in Ministry of Lands 	<ul style="list-style-type: none"> ➤ 6.5 percent of households engaged in agriculture are affected by land disputes 	<ul style="list-style-type: none"> ➤ Proportion of agricultural households renting land decreased from 36 percent to in 1999 to 17 percent in 2007
<ul style="list-style-type: none"> ➤ The six zonal offices and HQs cover approximately 70 percent of all land transactions 	<ul style="list-style-type: none"> ➤ 5-11 percent of agricultural output is lost due to land disputes 	<ul style="list-style-type: none"> ➤ It takes 154 days to acquire a construction permit
<ul style="list-style-type: none"> ➤ Uganda ranks 125th out of 185 countries in ease of transfer of property 	<ul style="list-style-type: none"> ➤ Over 50 percent of civil cases are related to land disputes 	<ul style="list-style-type: none"> ➤ In Ethiopia, more than 50 percent of land is titled. In Rwanda more than 60 percent of land was titled over a period of five years
<ul style="list-style-type: none"> ➤ Private sector credit is only 13.5 percent of GDP in Uganda compared to 32 percent of GDP in Kenya 	<ul style="list-style-type: none"> ➤ In 2006, an average of 38 percent of agricultural land acquisition was through formal markets 	<ul style="list-style-type: none"> ➤ Land reforms in China nearly tripled the rate of growth of the agriculture sector
<ul style="list-style-type: none"> ➤ 94 percent of agricultural output in Uganda is produced on farms of not more than 5 hectares 	<ul style="list-style-type: none"> ➤ In 2006, an average of 60 percent of land acquisition was through inheritance 	<ul style="list-style-type: none"> ➤ 70 percent of non-agricultural GDP in Uganda is generated in urban areas'

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