



The World Bank

COVID-19 Economic Crisis and Recovery Development Policy Financing (P173906)

Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 03-Jun-2020 | Report No: PIDA29450



BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Uganda	P173906	Uganda COVID-19 Economic Crisis and Recovery Development Policy Financing (P173906)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
AFRICA	30-Jun-2020	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	Implementing Agency		
Republic of Uganda	Ministry of Finance and Economic Development		

Proposed Development Objective(s)

The objective of the proposed operation is to strengthen the crisis response and protect the most vulnerable and support faster economic recovery and debt transparency.

Financing (in US\$, Millions)

SUMMARY

Total Financing	300.00
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DETAILS

Total World Bank Group Financing	300.00
World Bank Lending	300.00

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

- Real GDP growth is projected to fall from 6.5 percent in FY19 to 3.3 percent in FY20, as both COVID-19 related



shocks and a locust invasion hit the country, and the medium-term outlook for Uganda has worsened. The strong growth outcomes of the previous two years averaging 6.3 percent has not been sustained in FY20. Real GDP growth is set to decelerate between 3–3.3 percent in FY20 (from 6.5 percent pre-COVID) and 2.9–3.7 percent in FY21, as COVID-19 related shocks, a locust invasion and floods hit the country. On a calendar year basis, real GDP growth in 2020 is projected between 0.4 and 1.7 percent, compared to 5.6 percent in 2019. The main transmission channels of COVID-19 are through lower exports, tourism, remittances, as well as a sizable deceleration in FDI inflows and government project financing, creating a significant fiscal and external imbalance. This is amplified by a domestic demand contraction due to stringent mobility restrictions and a corresponding fall in incomes. The decline in Uganda's real GDP growth and corresponding loss of jobs could be even larger if the country were to face a more widespread pandemic, which would require more extended periods of mobility restrictions and/or overwhelming the health sector response

2. For poor and vulnerable households in Uganda the impact of COVID-19 is expected to be especially severe. While the coronavirus outbreak will have long-lasting economic and social impacts for all Ugandans, these impacts are expected to be substantial for the poor and vulnerable households. The coverage and design of social protection programs are currently insufficient to meaningfully address the consequences of shock of this magnitude, and traditional coping mechanisms such as internal and external remittances, will not be available to households. Preliminary estimates suggest that the pandemic could increase poverty incidence by 2.7 to 8.2 percentage points, resulting in 1.1 to 3.2 million additional poor relative to latest official estimate of 8.7 million in 2016/17. In addition, the disruptions in service delivery will disproportionately affect those in the bottom 40 percent. The closing of schools will aggravate two of the most pressing problems for poor children: low progression and completion rates to secondary education and low quality of education. The same applies to access to health services, as there will be disruptions in the provision of public health services, due to the redirection of resources to the emergency and given the limited capacity of the health care system. In addition to this economic impact, it is expected that the outbreak will also bring negative effects on gender disparities, particularly in rural households.

Relationship to CPF

3. The operation is fully consistent with the WBG CPF 2016-20 for Uganda and associated draft PLR. The first pillar of the operation is closely aligned to the first of the three CPF focal areas – *Strengthening Governance, Accountability and Service Delivery* – by enhancing government's capacity and ability to respond to and manage the COVID-19 and other crises. This includes measures that will sustain and, for the health response, improve social service delivery. Furthermore, by continuing the provision of essential water and electricity services (pillar 1 of the operation), this ensures that these services are still available to the urban and rural poor who already have access. The second part of the first pillar of the operation tries to ensure that the vulnerable are protected, which links to the fourth (*enhanced resilience of the poor and vulnerable*) objective under the second CPF focal area. This pillar also addresses issues related to the first CPF focal area by trying to improve governance and accountability, that is, strengthening national systems and institutions for enhancing the protection and welfare of children and women. The second pillar of the operation ties in well with the second – *Raising Incomes in Rural Areas* – and third – *Boosting Inclusive Growth in Urban Areas* – focal areas of the CPF. This pillar aims to ensure that businesses and jobs are supported during the crisis so that they can recover quickly once the pandemic is under control – critical for sustaining growth, particularly in urban areas. Through the roll-out of the e-voucher system, this pillar also aims to improve agricultural productivity, which is necessary for supporting the recovery and the country's drive towards agricultural commercialization and enhancing the resilience of poorer households in rural areas (both objectives of the second CPF focal area). Finally, this operation addresses key adjustments proposed in the PLR for the CPF program, including responding to the health and economic impacts of the COVID-19 crisis, and strengthening social protection.



C. Proposed Development Objective(s)

The objective of the proposed operation is to strengthen the crisis response, help protect the most vulnerable, and foster growth recovery and debt transparency.

Key Results

4. **The key results of the operation include:** (i) Exempted revenue, in support of imports of products to prevent, treat, and manage COVID-19 is assessed to amount to UGX6.5 billion in FY20; (ii) Households will be disconnected from water and electricity services in the fourth quarter of FY20, emergency responders will be guaranteed access to utility services and utilities will be compensated by the government; (iii) According to World Bank estimates, rapid and time-bound expansion of labor-intensive public works is expected to reach roughly 600,000 beneficiaries, although the planned coverage by the government is 40 percent larger, while the expansion in the senior citizens' grant will protect the elderly and is expected to reach some additional 200,000 beneficiaries. Finally, beneficiaries registered in established single registry are assessed to amount to ; (iv) It is expected that 40,000 of girls and boys, who have experienced violence, will be reached by health, social work and/or justice/law enforcement services; (v) Liquidity provided to businesses on account of listed deferrals is expected to total about UGX125 billion in 2020, and liquidity provided to banks by BoU through repos and other instruments are available to the financial sector; (vi) The comprehensive approach adopted under the e-vouchers system is expected to lead to the adoption of better farming practices, including adapting to and mitigating the impacts of climate change. It is expected that an additional 20,000 farmers reached with e-vouchers through the scale up of the program in 10 districts; (vii) MoFPED will continue adhering to high transparency standards by consistently publishing data on total public debt, government guarantees, individual PPPs, implicit contingent liabilities, including from legal proceedings, and domestic arrears with not more than a one-year lag.

D. Project Description

5. **The proposed Emergency Fiscal and Growth Stabilization DPF will support the Government of Uganda (GoU) in managing the impact of the COVID-19 pandemic.** The GoU is facing a major economic and health crisis arising from the COVID-19 global pandemic. The impact on the Ugandan economy is significant, creating both economic disruptions and financing imbalances that need to be addressed urgently. The proposed DPO lies at the core of the World Bank's rapid response to help the GoU. Its objectives are to support the crisis response, help protect the most vulnerable, and strengthen economic recovery and debt transparency. The DPO is structured around two pillars: (i) crisis response and protecting the most vulnerable; (ii) supporting faster economic recovery and debt transparency. The proposed operation is consistent with the priorities outlined in the World Bank Group Country Partnership Framework for FY16-FY20 and is aligned with the GoU's response program priorities – as outlined in the Cabinet Paper – which are to maintain macroeconomic stability and mitigate the growth and social impact of the economic crisis.

6. **The objective of the proposed operation is to strengthen the crisis response, help protect the most vulnerable, and foster growth recovery and debt transparency.** The operation will provide emergency financing to the government as it strives to maintain macro-fiscal stability, whilst also supporting businesses and households, particularly the most vulnerable, in managing the impacts of COVID-19 and the locust invasion. A fiscal consolidation after these crises, combined with the completion of major infrastructure and a committed revenue effort, is expected to shift the fiscal primary deficit from 6.2 percent of GDP in FY21 to a surplus of 0.2 percent of GDP in FY26 and enable the authorities to maintain public debt within manageable levels. The financing provided through this operation is urgently needed to help close a large financing gap and prevent a more protracted crisis. It will also help with debt sustainability through limiting costly domestic borrowing to finance the rapidly deteriorating fiscal position and thereby preventing the gross financing need from ballooning.



7. **The proposed operation is articulated around two mutually reinforcing pillars:** The first pillar, strengthening the crisis response and protecting the most vulnerable, aims to save lives, maintaining critical services, reduce the poverty impact of the COVID-19 crisis and ensuring children have safe access to education by: (a) facilitating access to critical materials to manage the COVID-19 disease by lowering costs and stimulating local production; (b) ensuring uninterrupted access to basic utilities during a crisis; (c) expanding social safety nets; and (d) enhancing the protection and welfare of children. The second pillar, supporting a faster recovery and debt transparency, aims to support businesses and inject liquidity into the economy as well as enhance further public debt transparency by: (a) improving the cash flow of firms so they remain operational and limit layoffs; (b) ensuring adequate availability of credit through commercial banks and non-bank financial institutions, and allowing restructuring of loans on a case by case basis for borrowers that have been affected by the pandemic; (c) improving the productivity and resilience of the agricultural sector by improving access to higher quality agriculture inputs; and (d) improving transparency of contingent liabilities and domestic arrears.

E. Implementation

Institutional and Implementation Arrangements

7. **The Ministry of Finance, Planning and Economic Development (MoFPED) is responsible for supervision and monitoring of the reform program supported by this operation.** The monitoring will be closely coordinated with the National Task Force responsible for managing the COVID19 crisis in Uganda. The participating ministries, departments and agencies will furnish relevant information and documentation on the status of their respective programs to MFPED, which will monitor progress against the operation's objectives and results framework as presented in Annex 1. Most of these results indicators are based on routinely published information by GoU. For those that are not, MFPED will liaise with focal points in the other ministries involved as needed to provide such information at a frequency and in a format satisfactory to the World Bank. The World Bank may provide implementation support and periodic monitoring and dialogue with the relevant line ministries and other stakeholders to ensure timely implementation and adequate monitoring of indicators and outcomes of the program.

8. **Additional governance commitments include fiscal transparency practices and anti-corruption safeguards.** Government has committed to high fiscal transparency standards, including quarterly audits of the COVID-related budget spending and publishing documentation on the government's website of large procurement contracts of COVID-19 expenditures, together with the names of awarded companies and their beneficial owners.

F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

9. **Overall, the proposed operation is expected to have a positive impact on poverty and inequality, helping to curb the rise in poverty and inequality that are expected as a result of the COVID-19 crisis.** The COVID-19 outbreak is likely to have long-lasting economic and social impacts of unknown proportions given the direct and indirect effects of the illness, the preventive behaviors of people, and the transmission control policies of governments. For poor and vulnerable households, in Uganda and elsewhere, these impacts are expected to be especially severe. Thus, measures that increase Uganda's preparedness to manage the outbreak and provide the necessary health and emergency services (including ensuring the availability of materials needed to manage the outbreak) to help curb the expansion of the outbreak (first pillar), will lower the transmission among the most vulnerable. At the same time, actions aimed at protecting the most vulnerable segments of the population (first pillar), will have notable positive effects on wellbeing, in terms of both monetary and non-monetary indicators. Finally, actions that help to buffer the effect of the shock in terms of earnings and employment and boost the productivity of rural households (second pillar), will benefit those at the bottom of the



distribution.

Environmental, Forests, and Other Natural Resource Aspects

10. **The specific reforms supported by the proposed operation are unlikely to have significant negative effects on the country's environment, forests and other natural resources.** The support under PA#1 to ensure access to critical medical equipment will likely lead to increased imports and domestic production of this equipment and materials. The disposal of such equipment, and other materials related to the pandemic response, poses EHS risks and impacts, which will need to be managed with the direct participation of NEMA, MGLSD and MoH, to ensure that such impacts are taken into consideration and any mitigation adequately resourced. In this context, the Bank is helping strengthening waste management through the COVID19 health project by ensuring health care waste management plans are developed (for laboratory investments and related equipment) and that there is capacity to implement these plans. Ensuring continuation of access to basic utilities and support to businesses is expected to sustain existing operations, even at a lower level, so no additional environment concerns are expected. The proposed tax reforms should not compromise environmental quality and/or contribute to environmental degradation. In this respect, it is expected that URA will continue to work with NEMA to ensure the usual adherence. Finally, the e-voucher input subsidy program is not expected to harm significantly the environment and other natural resources. This is because the program is intended to increase efficiency in the distribution of inputs in the supply chain, including by eliminating middlemen, rather than expanding the use of potentially dangerous products like fertilizers. This program will be rolled out following the Integrated Pest Management Plan and guidance under existing systems set up under the ongoing Agriculture Cluster Development Project that first piloted the e-voucher system

G. Risks and Mitigation

11. **The political, governance and stakeholders' risks remain high.** The Country is headed into an election in February 2021, and this creates various levels of uncertainty for the possibility of policy reversals and limited policy implementation. Also, possibilities of skewing eligibility criteria for the measures of tax deferment and cash transfers to senior citizens as well as labor-intensive public works to support political incentives remain high. These risks are mitigated by deferment across the board without selectivity, more transparency and monitoring of impact of the tax deferment, and objective and transparent selection criteria for temporary labor-intensive public works. A deliberate effort to share information on beneficiaries of the policy programs with CSOs will be undertaken. In addition, the GoU has committed to quarterly audits of the COVID-related budget spending and its publication as well as publishing documentation on the government's website of large procurement contracts of COVID-19 expenditures, together with the names of awarded companies and their beneficial owners. The government is also facing other governance challenges, and an increasingly ineffective public sector. While some key governance and accountability institutions have been strengthened, such as the Auditor General's Office and Inspector General's Office, decisions at the top political levels still interfere with the authorizing environment. Policy initiatives and changes are sometimes introduced without sufficient consultation, adequate resources and associated capacity. The creation of an anti-corruption unit in State House in 2018 seems to send some positive signals and has improved the response rate to allegations of misappropriation of government resources and abuse of office. This was complemented by the creation of the anti-corruption division in the High Court, which has improved the prosecution of high-level corruption cases. The Bank and other donors also support measures to improve governance in Uganda, including the REAP programs and other Bank programs that will complement the DPF such as: (i) UgIFT, whose major objective is to strengthen government service delivery at the local government and facility level; (ii) numerous Bank initiatives to strengthen country procurement systems; and (iii) a new project to support the further digitalization of government services and systems. Finally, with some of the prior actions requiring Parliamentary approval, there is a residual risk that these measures will not be approved, which would undermine the program. Nevertheless, the executive



branch of the government has done everything in its power, in the form of drafting and submitting the bills to Parliament, but since Parliament is a separate and independent branch of Government, there is a residual risk.

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APPROVAL

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Approved By

Country Director:	Carlos Felipe Jaramillo	30-Apr-2020
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