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September 2024

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UGANDA

SELECTED ISSUES

August 16, 2024

Approved By
African Department

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MACRO-FINANCIAL LINKAGES IN UGANDA THROUGH THE LENS OF BALANCE SHEET ANALYSIS[1]

We analyze macro-financial linkages in Uganda using the "from-whom-to-whom" balance sheet approach (BSA) framework.[2] While the banking sector, which dominates the Ugandan financial system, remains fundamentally sound, there are pockets of vulnerabilities resulting from the growing sovereign-bank nexus and cross-border exposures of the NFC sector which require close vigilance.

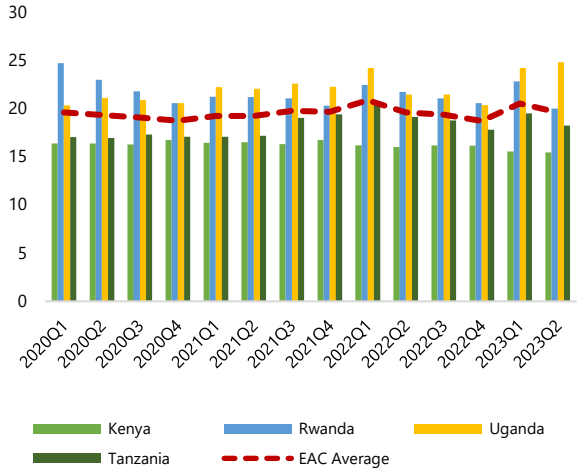
A. Introduction

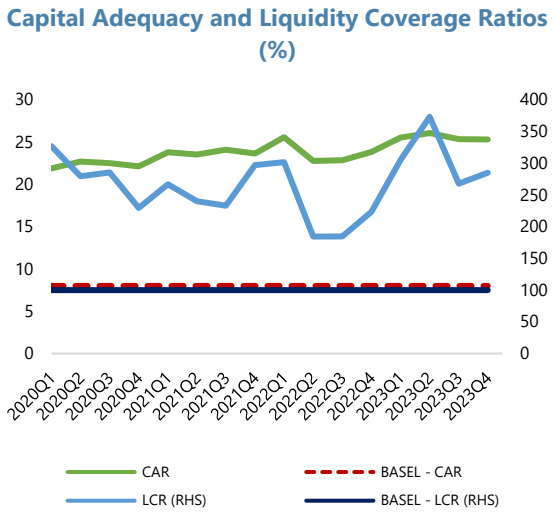
1. Understanding macro-financial linkages is an important cornerstone of financial stability surveillance as it facilitates identification of emerging risks from economic sectors. While financial stability analysis is often associated with monitoring of the soundness of the banking sector, an increasing interconnectedness across sectors makes it important to monitor macro-financial linkages between economic sectors to facilitate tracking of potential build-up of imbalances and vulnerabilities in their balance sheets. Moreover, the analysis of the network of cross-sectoral exposures allows us to pin down links between sectors and the channels through which shocks in one sector could spread throughout the entire financial system and in the economy, in general.

2. The banking sector in Uganda remains fundamentally sound[3]. The Bank of Uganda (BoU) authorities' continued efforts to strengthen its risk-based regulatory and supervisory initiatives contributed to the overall solid performance of the banking sector over time amid strong capital positions and ample liquidity buffers. Uganda's core capital to risk-weighted assets ratio is the highest among peers in the East African Community (EAC) region while both the capital adequacy and liquidity coverage ratios are well-above the minimum thresholds of BASEL III (Figure 1).

[1] This paper was prepared by Jean Christine A. Armas.
[2] See IMF (2015) policy paper for a detailed discussion on the construction of a BSA matrix and its application in Fund's macro-financial surveillance.
[3] The banking sector maintains strong capital position and adequate liquidity buffers, with both the capital adequacy and liquidity ratios well-above the minimum international standards of 8 percent and 100 percent, respectively.

Figure 1. Banking Sector Developments





Note: EAC average excludes Burundi due to data unavailability
Source: IMF Financial Soundness Indicators Database

Source: IMF Financial Soundness Indicators Database

3. This Selected Issues Paper analyzes potential macro-financial risks from cross-sectoral exposures in Uganda by leveraging on the Balance Sheet Approach (BSA) framework. We present evidence on the macro-financial linkages in Uganda using the Network Map (Section B) and Financial Input-Output (Section C) approaches. On the one hand, the Network Map analysis shows the cross-sectoral exposures in which potential build-up of macro-financial vulnerabilities may arise. On the other hand, the Financial Input-Output tool simulates relevant scenarios in the context of Ugandan economy such as currency depreciation and increases in government interest payments on debt held by banks. The purpose of the scenario exercises is to strengthen the monitoring of the developments in key economic sectors in Uganda.

B. Network Map Analysis

4. The "from-whom-to-whom" financial linkages of the economic sectors are illustrated in Figure 2. It presents a visual analysis of the evolution of financial interconnectedness before and after the pandemic.[4] Below are the key features of the network map:

- **Institutional Sectors.** These include the general government (GG)[5], central bank (CB), other depository corporations (ODCs) or the banks, other financial corporations (OFCs)[6] or the non-banks, NFCs, Households (HH), and the rest of the world (ROW) sector.

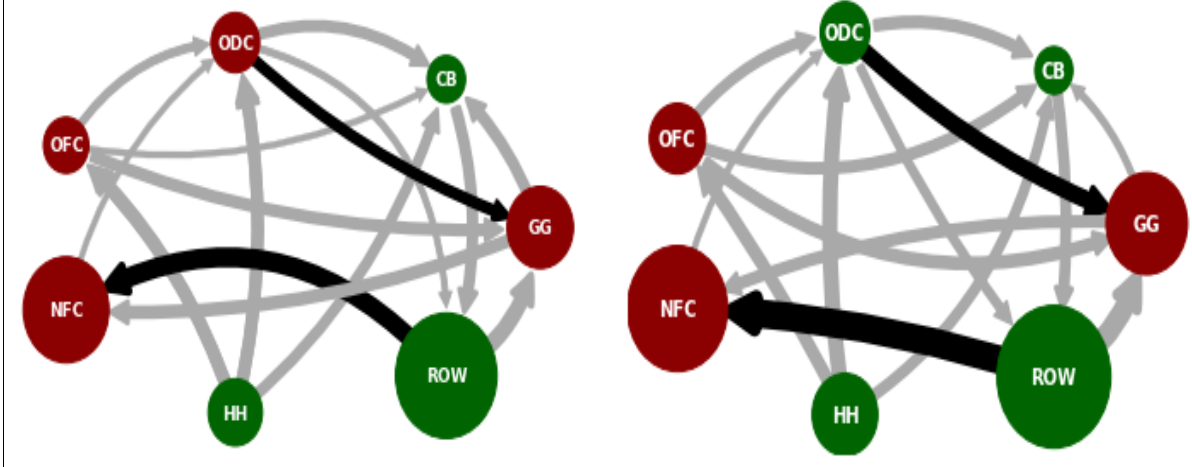
[4] While the network maps present some missing links in cross-sectoral exposures, reflecting some of the data gaps in the sector-level balance sheets, they do not significantly limit the depth of analyzing macro-financial linkages in key sectors of the economy.
[5] The general government sector comprises of national or central government, state and local government units.
[6] The OFCs sector include insurance, pension, and money market funds, which accounts for 38 percent of the total financial sector assets as of 2023.

- **Network map nodes.** The nodes reflect the size of each sector's aggregate net financial position as of periods indicated, while the node colors distinguish the net creditors (green) from the net debtors (red).

- **Network map arrows and arrowheads.** The thickness of the arrows indicates the relative size of each sector's net financial exposure to its different counterparts. The arrowheads correspond to the recipient of the funds (debtor) from the source (creditor).

- **Net debtors and creditors.** The NFC, GG, and OFC sectors remained net debtors while the CB, HH, and ROW sectors maintained their net creditor positions during the periods under review.

Figure 2. Network of Net Financial Exposures of Economic Sectors



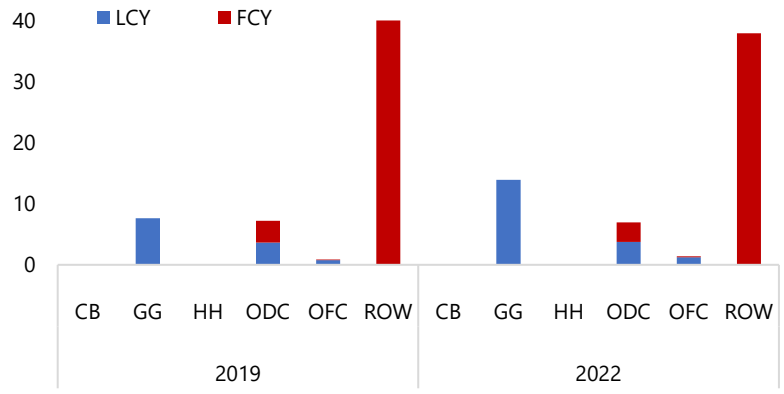
Source: IMF and IMF staff estimates

5. The analysis shows that the net external liability position of the NFC sector expanded significantly between 2019 and 2022. The NFCs are one of the important sectors in Uganda, with total assets and liabilities estimated to be about 14 percent and 60 percent of GDP, respectively.[7] The bulk of NFC sector's liabilities is held by the ROW sector. Relative to the size of the economy, gross external debt of NFC sector is recorded at 38 percent (Figure 3). The external debt of NFCs is dominated by foreign direct investment (FDI) in the form of inter-company lending. According to the 2022 Private Sector Investment Survey (PSIS), FDI in Uganda is predominantly in the mining, information and communication technology (ICT), and finance sectors, with Netherlands (38 percent), United Kingdom (37 percent), Mauritius (7 percent), and Kenya (5 percent) as the country's major investors. While FDI is considered as a stable and long-term source of financing, there are

[7] Source: 2022 Balance Sheet Approach (BSA) Matrix

potential risks of retrenchment or faster profit repatriation if external stability concerns become acute (see Section C for the exchange rate depreciation scenario).

Figure 3. Liabilities of the NFC Sector Held by Economic Sectors
(% of GDP, by type of currency)



Source: IMF; and IMF staff estimates

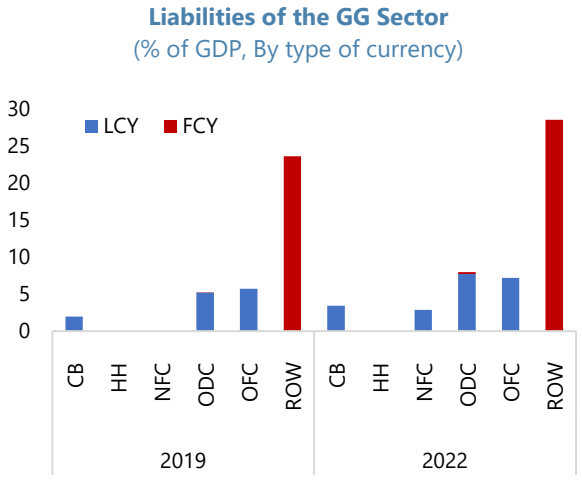
6. The analysis also shows that the NFC sector's liabilities to the GG sector are more than the banking sector (ODC) in the recent years (Figure 3). Government financing to NFC sector has recently been in the form of trade credits and export credit guarantees. The recently launched Export Credit Guarantee Fund (ECGF) by the government, which is yet to commence, aims to provide export-oriented firms accessible credit at favorable rates and address the challenge of high lending rates faced by these firms.[8] Meanwhile, the NFC sector's borrowing from the ODC sector exhibits a decelerating year-on-year growth from 12 percent in 2019 to just 4 percent in 2022. Some studies show that the weak correlation between the NFC sector credit growth and lending rates stems from underlying structural factors such as high operational costs, banks' growing preference for high-yield government bonds, and an oligopolistic market structure.[9] While the authorities consider the credit channel of monetary policy as strong based on their household-level study, they recognize that it works mainly in the long-run as evidenced by the downward stickiness in the lending rate adjustment.[10]

7. Cross-border exposure of the GG sector has increased but risks remain contained. In most low-income countries (LICs) like Uganda, external debt remains the largest component of total public debt (Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries). Net external liability positions of the GG sector expanded by 52 percent between 2019 and 2022, representing about 29 percent of GDP (Figure 4). This ratio remains below the 40 percent estimated threshold for the "moderate risk" category for the present value of external debt-to-GDP

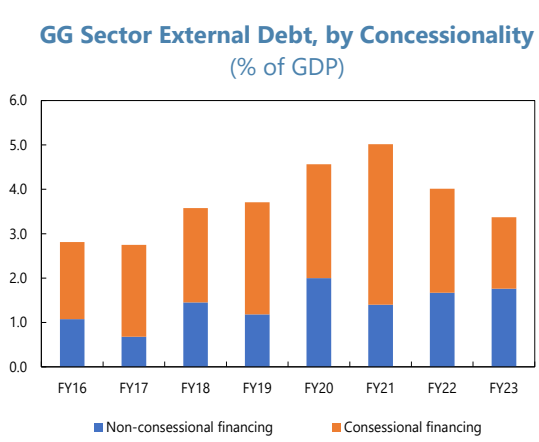
[8] Uganda unleashes ambitious 1trillion USD Export credit guarantee fund to boost private sector and expand regional trade.
[9] See Box 3 (Sticky Lending Rates and Monetary Policy Transmission) of Uganda's 2021 Article IV Consultations and First Review Under the Extended Credit Facility (ECF) program.
[10] See Selected Issues Paper on Uganda's Monetary Policy Transmission.

based on the Debt Sustainability Analysis (DSA) framework. External debt is largely medium-to-long-term, and more than half of the total external debt is held by multilateral creditors offering concessional terms. However, the risk of external debt distress for Uganda was assessed to be "moderate" and "with limited space to absorb shocks" based on the latest DSA framework.

Figure 4. GG Sector Charts



Source: IMF; and IMF staff estimates



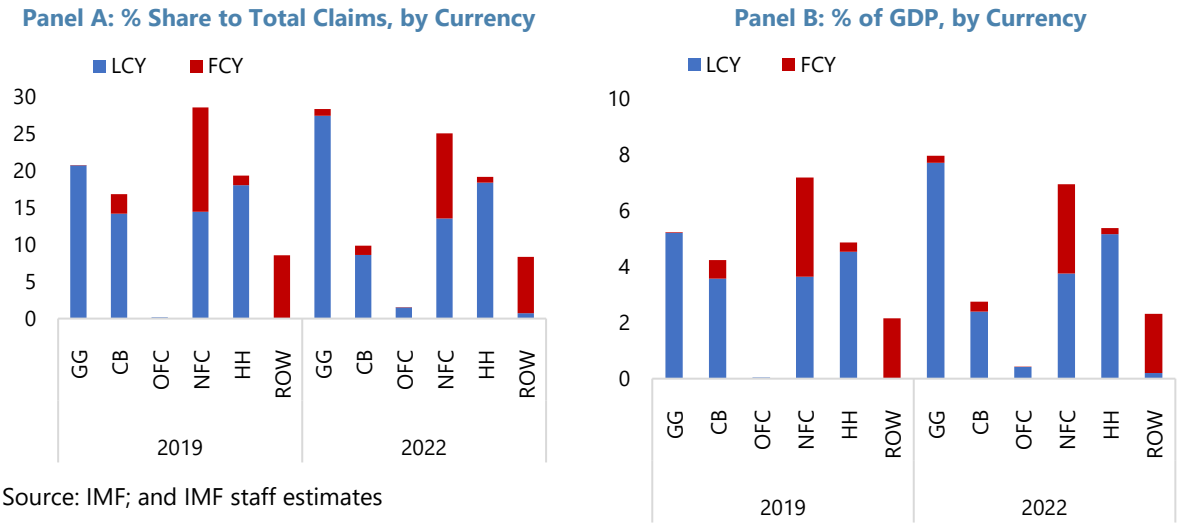
Source: BoU; and IMF staff estimates

8. OFC sector also holds GG sector's debt. As illustrated in Figure 4, liabilities of the GG sector to OFC sector have increased from 6 percent of GDP in 2019 to 7 percent in 2022. The BSA analysis shows that these transactions are holdings of government debt securities by pension funds and insurance companies. The National Social Security Fund, which is the largest pension fund in Uganda, is one of the top holders of government securities, next to the ODC or banking sector.

9. Rising sovereign-bank nexus warrants vigilance. In 2022, banks' holdings of sovereign debt reached 28 percent of their total assets, compared to 21 percent in 2019. As a share of GDP, banks' exposure to GG sector rose to 8 percent in 2022 from 5 percent in 2019 (Figure 5). The size and increase in the exposure of banks to government debt, especially during and post pandemic, was particularly evident in the context of emerging and developing economies (Hardy and Zhu, 2023; Deghi et. al, 2022). Such developments could be attributed to structural, regulatory, and cyclical factors; (i) structural, such as fewer investment diversification opportunities for banks, and liquidity management[11] and limited investors in the government bond market; (ii) regulatory, including statutory limits on central bank's direct financing or lending to government, treatment of sovereign exposures which allows banks to apply zero-risk weights on local currency domestic government bonds; and (iii) cyclical, where the significant rise in banks' holdings of sovereign debt was part of the countries' concerted efforts to mitigate COVID-19.

[11] Holding sovereign debt provides banks with readily available source of liquidity and safe asset status. Likewise, banks' holdings of sovereign debt may serve as collateral for securing funding from the central bank.

Figure 5. Gross Exposures of ODC Sector – Claims on Economic Sectors



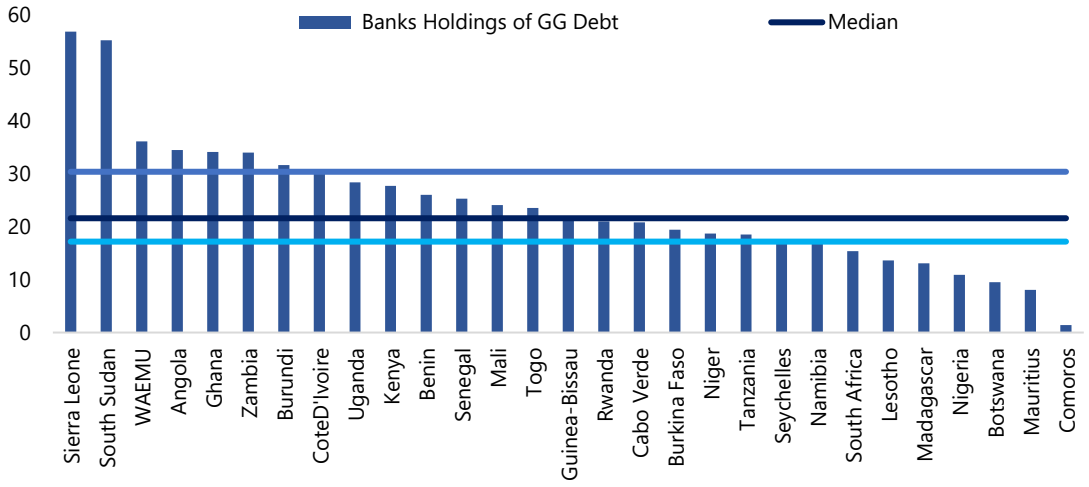
Source: IMF; and IMF staff estimates

10. From a regional perspective, Uganda ranks 9th among Sub-Saharan Africa (SSA) economies in terms of banks' exposure to sovereign debt, surpassing the median of 22 percent but still below the upper 25th percentile (Figure 6). Similar to regional trends, the sovereign's limited access to international financing has intensified the rising government-bank nexus, resulting in elevated interest rates and contributing to subdued private sector credit growth.[12] By regulatory standards, banks' holdings of sovereign debt as share of its Tier 1 capital remains well-below the 800 percent limit on large exposures. However, this trend has been rising overtime to reach 208 percent in 2022, from just 164 percent in 2019. While the regulatory limits leave room for banks to absorb more of sovereign debt, which may not pose serious concerns in the near-term, caution should be exercised to prevent potential crowding out of NFC (private) sector credit. Banks' claims on government as a share of claims on NFC sector, a rough indicator for crowding out, rose to 113 percent in 2022 from just 73 percent in 2019.

11. Likewise, as illustrated in Figure 5, ODC sector's claims on NFC relative to the former's total assets, which are mostly in the form of credit or loans, decreased to 25 percent in 2022 from 29 percent in 2019. While the subdued NFC sector credit in the recent years could be mainly due to structurally sticky bank lending rates and other structural factors discussed in ¶6, the rising sovereign-bank nexus could also crowd out private sector credit amid banks' stronger preference for high-yield government bonds, potentially reducing the availability of bank credit to the private sector. The muted private credit growth could also be due to low credit demand amid banks' stringent collateral requirements and high borrowing costs.

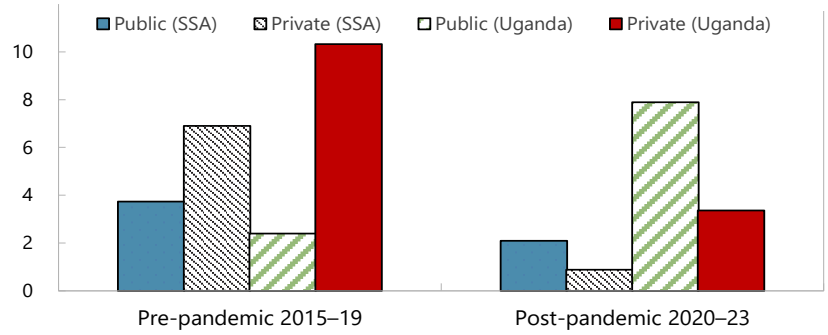
[12] See Regional Economic Outlook for Sub-Saharan Africa, April 2024 | A Tepid and Pricey Recovery.

Figure 6. Regional Comparison
Panel A: Banks' Holdings of Sovereign Debt in 2022, by SSA Economies
(% share to Total Bank Assets)



Notes: Includes available data from 29 SSA economies; Sovereign debt refers to general government debt
Source: IMF-STA's Balance Sheet Approach (BSA) data and IMF staff estimates
*2022 data downloaded as of December 2023

Panel B: Change in Banks' Holdings of Government Debt and Private Sector Credit
(percent of assets, average)



Source: IMF, International Financial Statistics, and IMF staff calculations

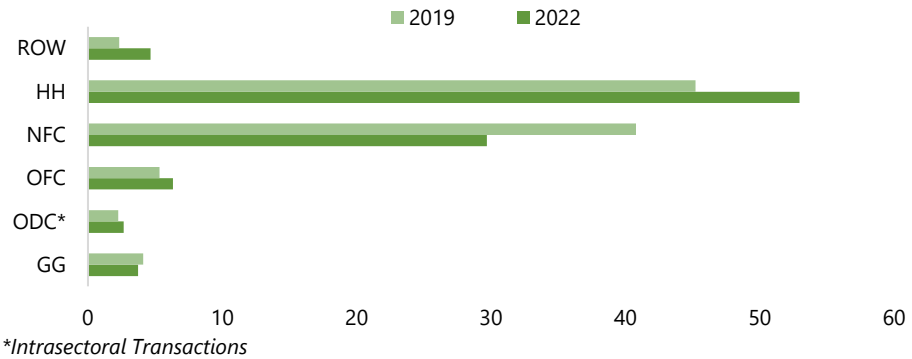
12. While most government securities are held-to-maturity and are highly liquid in normal economic conditions, they could be illiquid during periods of tight financial conditions or sovereign credit downgrade, especially in the context of a shallow domestic debt market in Uganda. The level of diversification in the Uganda government securities market has remained low, with banks and pension funds being the only dominant investors. A shallow debt market with low diversification, as is the case in Uganda, suggests that banks may have limited investment options and during periods of financial distress, illiquidity in the market can affect banks' ability to liquidate government securities relatively quickly thereby, affecting their liquidity positions. These developments could also be further aggravated by a sovereign credit downgrade where banks may experience capital losses on their existing holdings due to the decline in the market value of downgraded bonds. Such scenario could likely materialize considering the recent negative outlook

provided by Fitch Ratings, reflecting public financial management shortfalls, financing and liquidity pressures amid high government interest payments, and a weak reserve position. Thus, the growing exposure of banks to government underscores a potential detrimental cycle that links banks' financial position to government finances.

13. ODC sector's source of funding is predominantly from deposits. Deposits account for the bulk of the ODC sector's total sources of financing at about 70 percent. By depositor base, about 83 percent of banks' total deposit liabilities are held by the HH and NFC sectors in 2022. Deposits constitute banks' stable source of financing, serving as a cornerstone for their lending and overall financial intermediation activities in the economy. While the HH sector continues to accumulate deposits, suggesting a sustained confidence in traditional banking instruments, the NFC sector's holdings of deposits declined in 2022 (Figure 7). This development ensued as the NFCs tapped the debt securities markets as alternative investment options, demonstrating their preference to diversify investment portfolios beyond traditional bank deposits.

14. To provide a crucial safeguard against depositor losses and potential bank closure amid liquidity problems, the Uganda's Deposit Protection Fund (DPF) was institutionalized following the amendment to the Financial Institutions Act in 2016. Using the latest available 5-year data on average deposits from 2018-2022 and the mandated UGX 10 million insurance coverage per depositor, the proportion of deposits covered by the DPF is estimated at 86 percent on the average. This is a welcome development to boost confidence and trust in the banking sector among depositors.

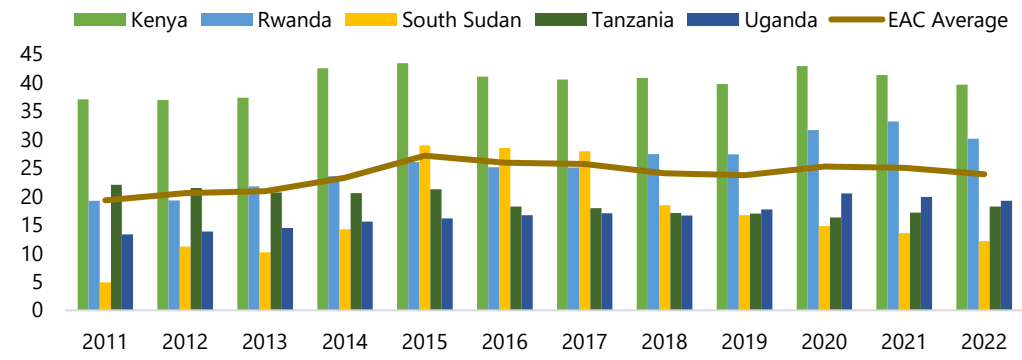
Figure 7. Deposit Liabilities of ODC Held by Economic Sectors
(% share to total ODC's deposit liabilities)



Intrasectoral Transactions
Source: IMF; and IMF staff estimates

15. Scaling deposits to GDP provides a rough measure of the liquidity available within the banking system relative to the size of the economy. Historically, Uganda's bank deposits-to-GDP has been broadly stable albeit, it has picked to 19.2 percent in 2022 from 17.8 percent in 2019. From a regional perspective, however, bank deposits-to-GDP in Uganda remains below the EAC average in the last 10 years (Figure 8). The relatively low ratio suggests lower level of financial intermediation activity where banks play a rather limited role in channeling savings from depositors to borrowers for investment and consumption purposes.

Figure 8. Bank Deposits-to-GDP (%) in EAC Region



Source: IMF-MFS data; IMF staff estimates

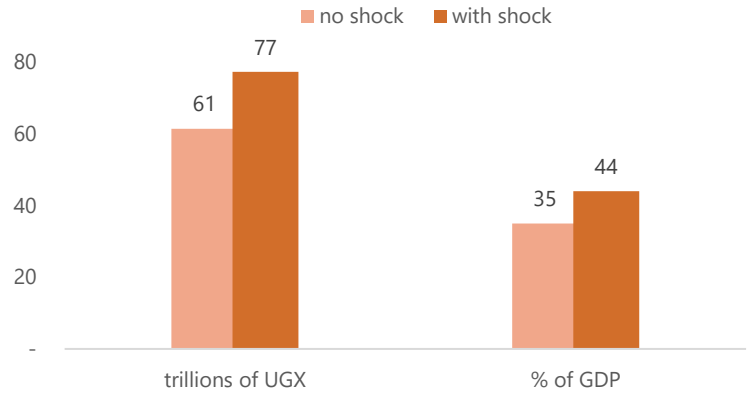
C. Financial Input-Output Analysis[13]

16. Two scenarios are used to conduct the financial input-output simulation analysis. Using the BSA matrix, this exercise underscores the importance of close surveillance of cross-sectoral exposures to strengthen overall financial stability analysis. Likewise, these scenarios are intended to roughly estimate its direct and first-round impact to economic sectors and are used to complement our network map analysis (see Section B). The first scenario models a 25 percent depreciation of Ugandan shilling against the US dollar amid lower capital inflows and evaluate the impact on net external debt of the NFC sector.[14] Historical data showed that Ugandan shilling depreciated against the US dollar by over 40 percent year-on-year in September 2015. The second scenario assumes a 20 percent increase in the interest payments on government debt held by banks and analyze the direct impact on the financial position of the banks, including the potential crowding out effects of this government-bank nexus.

17. Net external indebtedness of NFC sector rises following the shock. The simulation exercise shows that the NFC sector is vulnerable to large exchange rate movements – net external debt-to-GDP increased to 44 percent from the "no shock" scenario of 35 percent in 2022 (Figure 9). The results also highlight the imbalance in the currency composition of the NFC sector where the share of FX-denominated liabilities is significantly larger than its holdings of FX-denominated assets. As discussed in ¶5, while a significant portion of NFC sector's external liabilities is in the form of long-term FDI flows, sharp and sustained depreciation pressures could potentially result to reduced FDI inflows overtime amid faster profit repatriation and loss of investor confidence. Likewise, while foreign portfolio investments, which are more sensitive to exchange rate fluctuations, are relatively small, they still constitute a part of Uganda's total financial capital flows. Thus, close surveillance of the developments in the cross-border exposure of the NFC sector is warranted to stem negative implications on the country's external position.

[13] See Annex A for the methodology and limitations of the tool.
[14] Similar scenario used by IMF Asia and Pacific Department (APD) to trace out exposures of the NFC sector in Indonesia in 2016. Indonesia: Selected Issues in: IMF Staff Country Reports Volume 2016 Issue 082 (2016).

Figure 9. Scenario 1 - Impact of 25% Exchange Rate Depreciation
(Net External Debt of NFC, in levels and % of GDP)



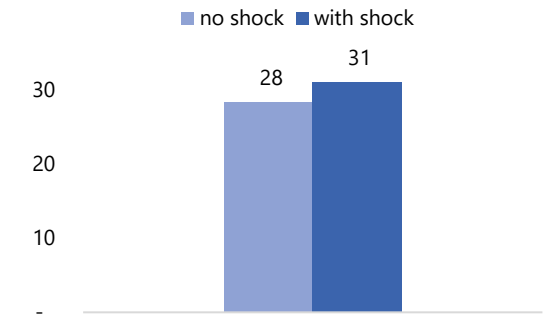
Source: IMF; and IMF staff estimates

18. Banks' exposure to government debt increases. The scenario of an increase in government interest payments would directly raise government's expenditure on debt servicing, including interest payments on its debt held by banks. Similarly, banks become more exposed to government as reflected in the increase in their holdings of government debt to 31 percent of banks' total claims from 28 percent of no-shock scenario (Figure 10). Under normal economic conditions, banks' earning income from holding government securities would benefit from higher interest payments and thus, could potentially lead to crowding out effects where banks are incentivized to allocate more funds to holding government securities and thus, reduce lending to NFC sector. Simulation results show that crowding out effects, banks' claims on government as a share of their claims on NFC sector, rose to 129 percent (Figure 10). However, if government defaults on servicing its debt interest payments amid tight financial conditions, this can negatively affect banks' profitability and potentially lead to a deterioration in banks' asset quality given an increase in non-performing loans (NPL).[15] This scenario highlights the importance of carefully monitoring growing sovereign-bank nexus in the country, especially with the recent negative investment grade outlook given by Fitch Ratings, noting that high interest payments will aggravate financing and liquidity pressures.[16]

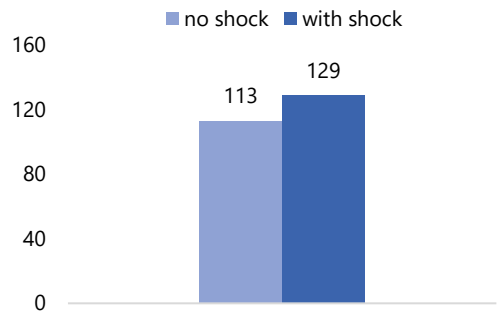
[15] While the scenario exercise, using the financial IO tool, does not fully account for the second-round effects of the shock on banks' NPL in terms of the magnitude, it nonetheless provides insight on the direction of the impact of shock (i.e., rise in NPLs).
[16] See Fitch Ratings (01 March 2024). Fitch Affirms Uganda at 'B+'; Outlook Negative. https://www.fitchratings.com/research/sovereigns/fitch-affirms-uganda-at-b-outlook-negative-08-09-2023

Figure 10. Scenario 2 - Impact of 20% Increase in Government Interest Payments

Panel A: ODCs' Holdings of Government Debt
(in % of ODCs' Total Claims)



Panel B: Crowding Out of Credit in NFC
(claims on GG/claims on NFC, in %)



Source: IMF; and IMF staff estimates

D. Key Messages

19. Potential macro-financial risks from cross-sectoral exposures in Uganda require close surveillance. Although the banking system remains fundamentally sound, the "from-whom-to-whom" BSA analysis highlights pockets of vulnerabilities from cross-border exposures of NFC sector and rising sovereign-bank nexus, especially in the context of sustained exchange rate depreciation pressures and higher interest payments on government debt held by banks.

20. The NFC sector's reliance on external funding has increased. While a significant portion of NFC sector's external liabilities is in the form of FDI, there are risks from sharp and sustained depreciation pressures that could prompt foreign investors to repatriate their profits, which could lead to FX outflows with negative implications for the country's external position.

21. In the recent years, the NFC sector has relied more from the GG sector than the banks for its domestic sources of financing. The balance sheet analysis provides information on government financing to NFC sector through trade credits and export credit guarantees with the aim of providing accessible credit at favorable rates to export-oriented firms and responding to the challenge of high lending rates faced by these firms. Meanwhile, banks' subdued lending to NFC sector could be potentially explained by structural factors such as high operational costs, banks' growing preference for high-yield government bonds, and an oligopolistic market structure.

22. Growing sovereign-bank nexus, while may not pose serious concerns in the near-term, could potentially cause crowding out effects. While the regulatory limits leave room for banks to absorb more of sovereign debt, which may not pose serious concerns in the near-term, caution should be exercised to prevent potential crowding out effects. Although empirical evidence points to muted NFC sector credit as driven by sticky bank lending rates and other structural factors, the rising sovereign-bank nexus could crowd out private credit amid banks' stronger preference for high-yield government bonds, potentially reducing the availability of bank credit to the private sector.

Annex I. Financial Input Output Methodology

1. The financial input-output (IO) analysis, which is based on BSA matrix, can be used to simulate the direct effects of shocks to economic sectors. This tool is an extension of the traditional input-output analysis by incorporating financial transactions between economic sectors. Using this approach, we constructed the Leontief inverse matrix (also known as input-output coefficient) to perform simple scenario or sensitivity exercises and analyze the effects of relevant shocks on economic sectors with relatively large exposures in Uganda. The matrix represents the coefficients of "investing" and "financing" relationships or transactions between economic sectors. More formally, the Leontief matrix is defined as follows:

$$\Gamma = (I - C)^{-1} = \begin{bmatrix} c_{GG,GG} & c_{GG,CB} & \cdots & c_{GG,ROW} \\ c_{CB,GG} & c_{CB,CB} & \cdots & c_{CB,ROW} \\ \vdots & \vdots & \ddots & \vdots \\ c_{ROW,GG} & c_{ROW,CB} & \cdots & c_{ROW,ROW} \end{bmatrix}$$

Where I is the identity matrix; C are the input coefficients, calculated as ${}^{c_{i,j}}/_{t}$ which is the outstanding claims of one sector on another (or liabilities of one sector to other sector) divided by the total assets or liabilities. The notation, $\Gamma = (I - C)^{-1}$, is the Leontief coefficient matrix, which allows us to estimate the sectoral impact of identified scenarios or shocks.

2. The financial IO approach, just like any other tool or model, has its own strengths and limitations. The advantage of using this approach is that it is an easy to operate excel-based tool to simulate the first-round and direct effects of shocks to economic sectors. It is also useful in informing policymakers on the likely direction of the second-round effect of a shock. However, the tool does not capture the joint materialization or occurrence of multiple risks. While the direction of the impact can be inferred from the tool, the estimated size or magnitude of the impact is not accounted in the tool. For example, the tool does not show the estimated size of the impact of increased government debt on banks' NPLs. Thus, it is recommended to complement the financial IO tool with other macroeconomic models. Nonetheless, the use of financial IO as baseline analytical framework for simple simulation exercises is straightforward and important in informing macro-financial linkages in the economy.

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UGANDA'S MONETARY POLICY TRANSMISSION[1]

This paper revisits monetary policy transmission in Uganda, focusing on the credit and exchange rate channels. Despite inflation being below the target, the Bank of Uganda has maintained a tight monetary policy stance. The findings support the importance of exchange rate developments in shaping monetary policy actions in Uganda, offering several policy recommendations to further strengthen monetary policy transmission and enhance the inflation targeting framework.

A. Introduction

1. Monetary policy influences inflation and output via multiple channels, most notably the credit and exchange rate channels. While the credit channel modifies the cost and availability of bank loans by adjusting short-term interest rates, the exchange rate channel works through adjusting relative prices of domestic and foreign goods, thus affecting net exports and output. For instance, in the bank lending channel, a tighter monetary policy leads to fewer loanable funds. If banks cannot compensate for this drop, bank loan supply contracts. Firms and consumers reliant on bank financing, without alternate fund sources, may need to alter their investment and spending plans. Consequently, bank credit interruptions directly impact economic activity, emphasizing the bank lending channel's significant role in the monetary transmission mechanism.

2. Similarly, elevating policy rates can boost domestic interest rates, thereby heightening the appeal of assets denominated in the domestic currency to investors. Within the context of a small open economy characterized by a flexible exchange rate and perfect capital mobility, adjustments in monetary policy can significantly influence net capital inflows, leading to increased demand for the domestic currency and culminating in its appreciation in the foreign exchange market. This appreciation renders imports more affordable and exports less competitive, attributable to the higher relative cost of domestically produced goods and services. Consequently, such dynamics impose downward pressure on inflation, as the price of imported goods—a substantial component of the consumer price index in numerous economies—diminishes. Conversely, a reduction in the monetary policy rate detracts from the attractiveness of domestic investments relative to foreign ones, diminishing demand for the domestic currency. This scenario leads to the depreciation of the domestic currency, rendering domestic goods more competitively priced relative to foreign goods and spurring an increase in net exports and overall output.

3. The efficacy of monetary policy transmission in developing countries has been questioned due to several structural impediments. The effectiveness of monetary policy in developing countries is hampered by emerging and inefficient financial markets, low levels of central bank independence, limited capital mobility and less responsive economic agents. These factors, alongside rigidities in real and financial sectors, can weaken policy transmission, potentially nullifying the impact of interest rate adjustments expected by the Mundell-Fleming model. In Uganda, constraints include a weak link between credit growth and lending rates due to factors like

[1] This paper was prepared by Hany Abdel-Latif and Geoffrey Bannister.

high operational costs, banks' preference for high-yield government bonds, and an oligopolistic market. Moreover, subdued credit growth in the private sector could result from low demand, driven by strict collateral requirements and high borrowing costs.

4. This Selected Issues Paper (SIP) paper aims to empirically examine the mechanisms through which monetary policy influences economic variables in Uganda, with a particular focus on the credit and exchange rate channels. By synthesizing previous studies and introducing new empirical findings, this study evaluates the impact of fluctuations in the monetary policy rate on key economic indicators such as the exchange rate, lending rates, government bond yields, credit availability, and deposit growth rates. Employing both Autoregressive Distributed Lag (ARDL) and Vector Autoregressive (VAR) models, the research quantifies the effects of changes to the Bank of Uganda (BOU) policy rate on these variables. The objective is to furnish a nuanced understanding of monetary policy transmission in Uganda, thereby informing the formulation of more effective policy measures to enhance the efficiency of these transmission mechanisms.

B. Monetary Policy Framework in Uganda

5. In July 2011, the Bank of Uganda (BOU) transitioned to an inflation targeting (IT) framework after two decades of employing a monetary targeting (MT) approach. This shift was prompted by the MT method's diminishing efficacy, attributed to unpredictable changes in the financial sector and increased global integration. The period between 2000 and 2011 saw erratic fluctuations in money circulation velocity and the broad money multiplier, complicating the establishment of precise monetary targets. By focusing on policy interest rates instead of the monetary base, the IT framework offers a more consistent and resilient approach to monetary policy, impervious to shifts in money demand or multiplier. With the adoption of the IT framework, the BOU maintained its primary goal of controlling core inflation, preserving the numerical target of 5 per cent annual core inflation on average over the medium term. The BOU also introduced a secondary goal of stabilizing real output as close to the estimated potential output as possible.

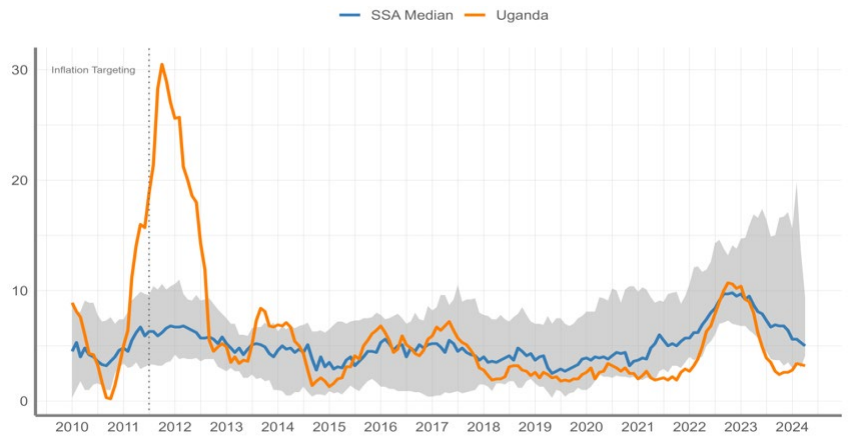
6. Since 2011, the BOU has pursued an inflation targeting regime (Mugume, 2016). The main operating instrument of monetary policy is the central bank rate (CBR) which the BOU Monetary Policy Committee sets bi-monthly (and sometimes more often when conditions warrant). The CBR is set in response to deviations of the medium-term inflation forecast from the target, considering other macroeconomic indicators including estimates of the output gap and exchange rate misalignment. Inflation forecasts are developed using several different models including VAR, Structural Vector Autoregression (SVAR) and (Forecasting and Policy Analysis System) FPAS estimates. Once the CBR is set, the BOU uses repo instruments to provide wholesale liquidity to banks to bring the 7-day interbank rate within a band of plus or minus 2 percent around the CBR, and uses other instruments, including open market operations with central bank paper and government paper, and cash reserve requirements, to influence liquidity in the system. In addition to other direct and indirect monetary policy instruments, the BOU could use direct intervention in the exchange rate market to fine tune monetary policy. However, in practice, BOU intervention in the foreign exchange market is primarily geared to smoothing out periods of excess volatility in the exchange rate.

7. The implementation of the IT framework by the BOU has yielded significant success in managing inflation rates. Following the IT adoption, there was a remarkable decline in the headline inflation rate in Uganda, plunging from around 30 percent in 2011 to about 5 percent by early 2013. Since its inception, the inflation rate has largely remained within single digits, barring the exceptional circumstances brought on by the COVID-19 pandemic. Notably, both headline and core inflation rates have consistently stayed below the median for Sub-Saharan Africa (SSA), even when compared to other SSA countries employing an IT regime. This performance underscores the efficacy of the IT approach and stands as a testament to its success in ensuring monetary stability in Uganda (Figure 1).

8. The BoU maintained a tight policy stance over the years. Historically, the policy rate remains relatively high above 10 percent for extended periods except for short periods most notably during the COVID-19 pandemic (Figure 2). The neutral rate, defined as the real interest rate consistent with output at potential and price stability, provides an anchor for monetary policy, presenting a guidepost as to whether monetary policy is tight, loose, or neutral. An estimate of the Uganda's neutral interest rate using the widely cited approach of Holston-Laubach-Williams 2017 (HLW) indicates a tight policy stance with a few exceptions (Figure 3). Moreover, Uganda has also maintained higher real policy rates compared to other East African Community (EAC) countries. More recently, real policy rates in other EAC countries are catching up to Uganda's level (higher in Kenya) putting pressures on portfolio flows (Figure 4).

Figure 1. Headline Inflation: Uganda versus Sub-Saharan Africa 2011-2024

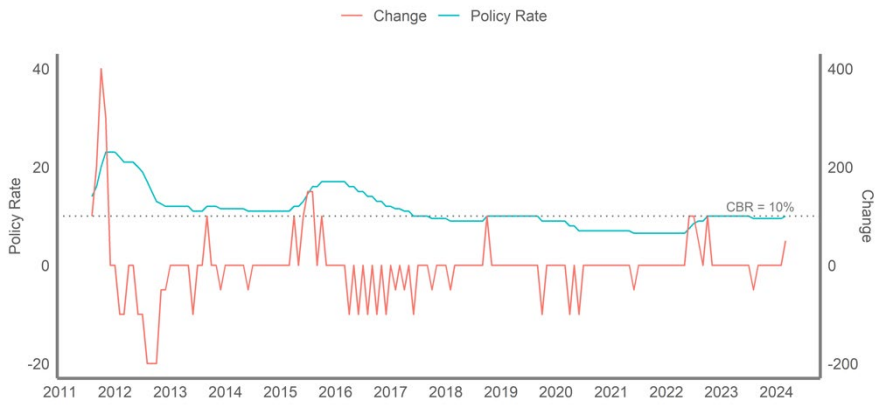
(Percent, year on year)



Source: Bank of Uganda and IMF staff calculations.

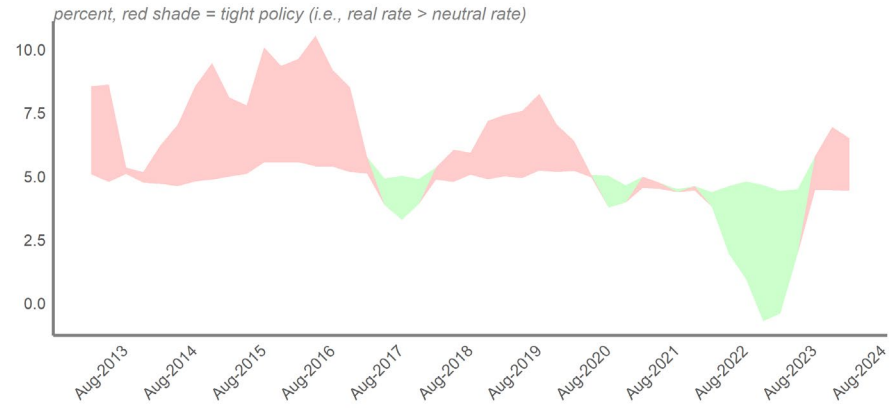
Figure 2. Policy Rate in Uganda, 2011-2024
(LHS= percent, RHS = basis points)

Source: Bank of



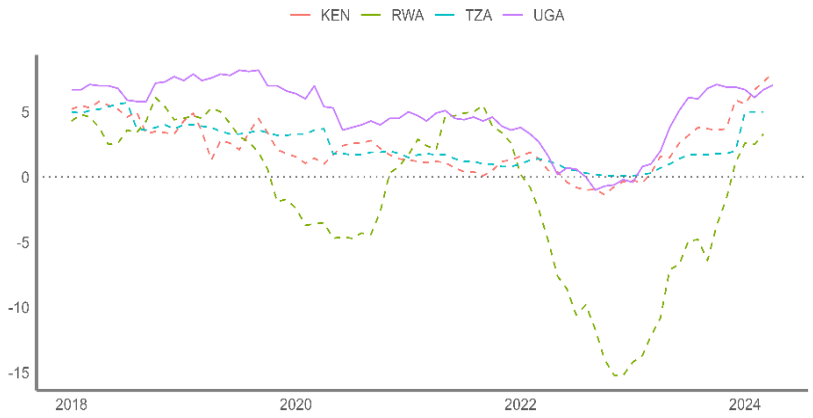
Uganda and IMF staff calculations.

Figure 3. Neutral Rate and Real Interest Rate, 2013Q1-2024Q1
(Percent, red shade = tight policy i.e., real rate > neutral rate)



Sources: Bank of Uganda and IMF staff calculations.

Figure 4. Real Policy Rates by EAC Countries, 2018Q1-2024Q1
(Percent)



Sources: Bank of Uganda and IMF staff calculations.

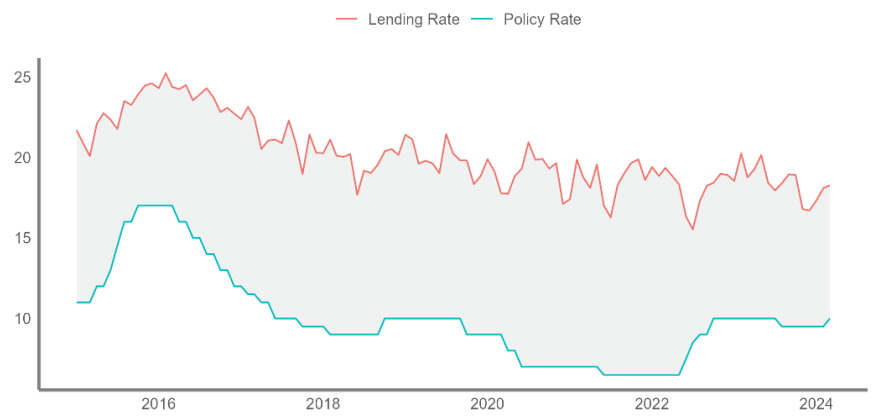
9. On average, Uganda's average nominal lending rates have consistently stayed around 20 percent since 2011, maintaining a notable gap from deposit rates, raising concerns regarding the efficiency of bank lending as a monetary policy transmission channel. An analysis in the IMF's March 2022 staff report found that Uganda's lending rates react to policy rate shifts mainly in the long run with no significant impact in the short run. Additionally, Mkai and Aikaeli (2020) found that the exchange rate is Uganda's primary monetary policy transmission channel. Recent inflation developments in Uganda, coupled with potential policy rate cuts to boost demand, have reignited questions regarding the efficacy of the bank lending and exchange rate channels. Moreover, the spread between lending rates and policy rates exhibited fluctuations over time, delineating distinct regimes. During the loosening period amid the COVID-19 months, this gap reached its peak at approximately 12 percentage points (Figure 5).

C. Previous Research Findings

10. Early studies of the monetary transmission mechanism in Uganda found a very weak transmission of monetary policy across all mechanisms (direct interest rates, credit, and exchange rate channels) (Montiel, 2013 and Mugume, 2011). This weakness was attributed to the lack of monetary policy credibility in the early stages of implementation of the inflation targeting regime, as well as structural characteristics of credit and foreign exchange markets, including: a limited degree of integration with world financial markets; a lack of large and liquid secondary markets for debt instruments and equities; and a relatively small and concentrated financial market. More recently, several studies have found a more robust transmission mechanism, albeit with some conflicting evidence on the main channel. Okot (2020) finds evidence for the lending channel, while Berg et al. (2019) find a broader effect through lending rates and the exchange rate. Finally, Mkai and Aikaeli (2020) also find evidence of a strong transmission mechanism in Uganda, mainly through

the exchange rate channel. Inefficiencies in bank lending channel may stem from high operational costs, notable loan loss provisions, banks' inclination towards high-yield government bonds over riskier loans, and an oligopolistic market. Recent studies emphasize that operational costs account for approximately 60 percent of the interest rate disparity since 2008.

Figure 5. Uganda's Bank Lending Rate versus Policy Rate, 2015 Q1-2024Q1
(Percent)



Sources: Bank of Uganda and IMF staff calculations.

11. Abuka et al. (2019), using micro-data examine the effects of monetary policy changes, find compelling evidence of a bank lending channel with sizable effects on real activity and prices. They also show that better capitalized banks transmit monetary policy less effectively than lower-capitalized banks, consistent with the behavior of banks in advanced economies. Furthermore, Abuka et al. find that banks with higher liquidity (mainly reflecting investment in government securities) are more sensitive to changes in monetary policy, lending more to the government which they argue reflects a 'crowding out' effect common in developing countries.

D. Empirical Results

Monetary Transmission Channels:

12. The analysis employs monthly data from the Bank of Uganda, covering the period from July 2011 to December 2023.[2] Due to the unavailability of detailed bank-level data, we use aggregate figures. Our approach involves estimating a series of bivariate Autoregressive Distributed Lag (ARDL) models, with the central bank policy rate (CBR) as the primary independent variable. We explore the effects of policy rate adjustments on the exchange rate, bank lending rates and credit supply, both in total and segmented into credit to the private sector and government. Additionally, we delve into the response of deposits (both time and demand) to shifts in policy rates. We further assess the correlation between the 91-day and 345-day treasury rates and the policy rate. Interest rate metrics, such as the CBR and bank lending rate, are expressed in percentage terms, while non-

[2] Monthly series are seasonally adjusted using the X-13 ARIMA method.

interest rate figures are denominated in billions of Shillings and have been transformed to logarithmic values.

13. Our findings (see Table 1) indicate that a one percent decrease in the policy rate is projected to lead to a 68-basis points reduction in the lending rate over the long run. This effect is not statistically significant in the short run. These results align with the findings of the IMF staff report (2022). Treasury rates, specifically the 91-day and 364-day rates, seem more sensitive to changes in the policy rate. Over the short- and long-term, treasury rates mirror the policy rate's direction, with fluctuations of around 70 and 77 basis points, respectively. In contrast, credit to the government displays an inverse relationship to policy rate shifts. In the short run, its effect is a negligible 2 basis points, but it escalates to 35 basis points in the long run. Other credit-related factors analyzed, like credit to the private sector, demand, and time deposits, do not show significant responsiveness to variations in the monetary policy rate. Furthermore, the exchange rate appears to be less responsive to changes in policy rates.

Table 1. Uganda: Effects of 100 Basis Points Increase in the Policy Rate

Dep. Variable	Short Run Multiplier	Long Run Multiplier	Cointegration
Lending Rate	0.21	0.68***	Yes
91-day Treasury	0.70***	0.77***	Yes
364-day Treasury	0.70***	0.63***	Yes
Credit to Government	-0.02***	-0.34***	Yes
Credit to Private Sector	0.00	-0.09***	No
Total Credit	0.00	-0.25***	No
Demand Deposits	0.00	-0.12*	No
Time Deposits	0.00	0.08	No
Exchange Rate	0.64	-0.04	No

Notes: The estimation is based on a series of bivariate linear autoregressive distributed lag (ARDL) models. For each indicator, several models have been evaluated, with the selected model based on the AIC criteria. The findings reported above demonstrate symmetrical effects in response to a 100-basis points reduction in the policy rate.

Monetary Policy and Exchange Rates:

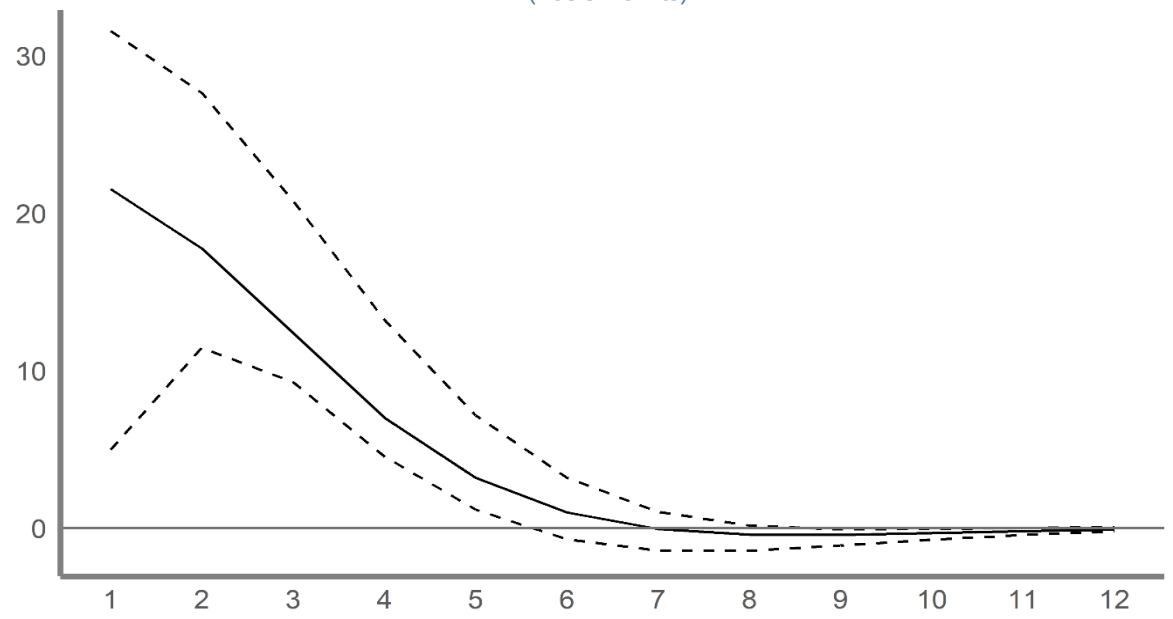
14. The exchange rate channel plays a crucial role in the transmission of monetary policy in economies with flexible exchange rate regimes, such as Uganda. In small open economies, monetary policy can influence the exchange rate, as suggested by the theory of uncovered interest rate parity (UIP). According to UIP, the nominal exchange rate adjusts in response to differences between domestic and foreign interest rates. An increase in demand for the domestic currency leads to a decrease in demand for foreign currency, causing the nominal price of the foreign currency to drop and the nominal price of the domestic currency to rise; consequently, the foreign exchange rate depreciates (increases) in nominal terms, and vice versa. This, in turn, impacts the relative prices of domestic and foreign goods, affecting net exports and output. In essence, the exchange rate channel allows monetary policy to influence economic activity through net exports. However, the effectiveness of the exchange rate channel, as suggested by UIP, has been empirically questioned

due to the need to consider a risk-premium term. This premium reflects the compensation that foreign investors require for expected depreciation and the risk associated with holding domestic assets. Furthermore, the efficacy of the exchange rate channel is influenced by several factors, including the exchange rate regime, the sensitivity of interest rates, and the degree of capital mobility.

15. This section delves into the dynamics of exchange rate shocks triggered by unanticipated events such as the World Bank's statement on Uganda's Anti-Homosexuality Act (AHA) or most recently the decision by the constitutional court to uphold this legislation. These events may cause disruptions in capital flows and potentially affect the exchange rate. It utilizes a Structural Vector Autoregression (SVAR) model that includes the exchange rate, policy rate, inflation rate, and a proxy for output as endogenous variables, facilitating bidirectional interactions between each pair of variables. The composite index of economic activity (CIEA) serves as a proxy for output. Unlike the Autoregressive Distributed Lag (ARDL) model, the SVAR model permits mutual influence between the exchange rate and policy rate. This bidirectional relationship captures the monetary authorities' consideration of external factors and subsequent exchange rate movements (alongside inflation trends) in shaping monetary policy decisions. Within this framework, the sign restrictions approach pioneered by Uhlig (2005) is used to identify two types of shocks: a monetary policy shock and an exchange rate shock, to assess the impact of a disturbance to one variable on the other. A monetary policy shock is characterized as follows: An increase in the domestic interest rate typically strengthens the currency (ceteris paribus), exerting downward pressure on the prices of tradable goods within the consumer price basket. Furthermore, a stronger exchange rate results in a decrease in both net exports and the aggregate level of demand. Conversely, an exchange rate shock, induced by external factors leading to currency depreciation, would increase domestic prices and capital outflows, potentially prompting a monetary tightening response.

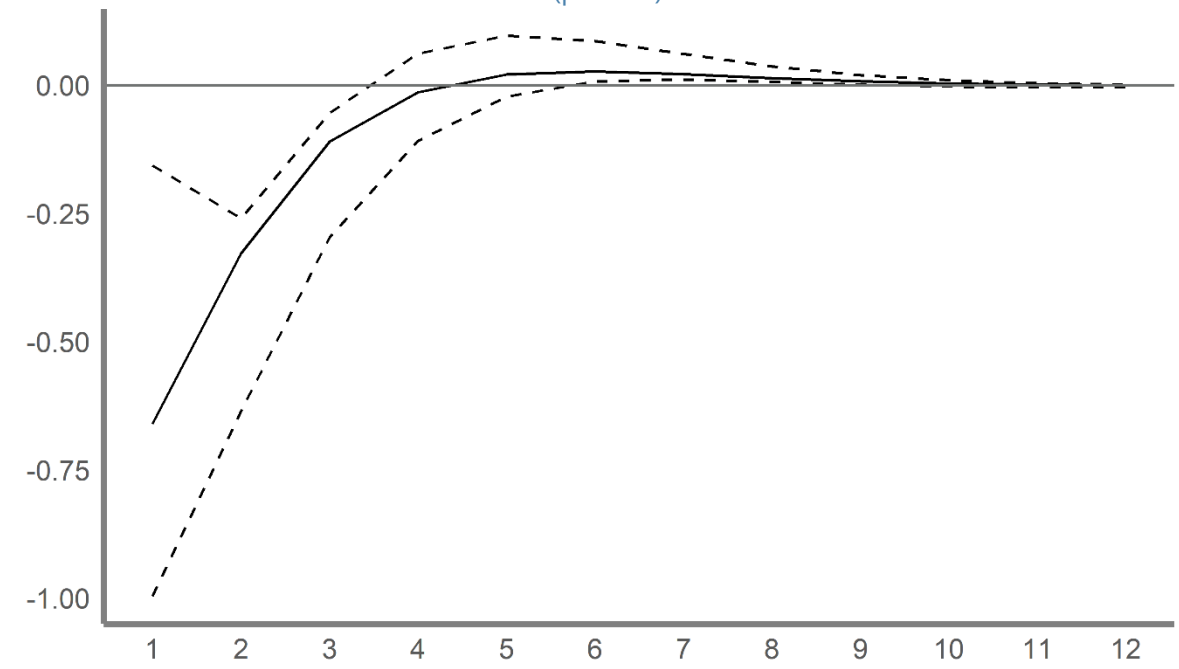
16. This exercise seeks to examine the interaction between the policy rate and the exchange rate, assessing how external shocks to the exchange rate have influenced policy rate decisions. For instance, despite the inflation rate being below the central bank's target with anticipation to remain below the target in the medium term, which would typically permit policy rate reductions, the Bank of Uganda (BoU) has recently raised its policy rate by 50 basis points, attributing this adjustment to increased external risks.

Figure 6. Policy Rate Response to Exchange Rate Shock
(Basis Points)



Source: IMF staff calculations.

Figure 7. Exchange Rate Response to Policy Rate Shock
(percent)



Source: IMF staff calculations.

17. The SVAR analysis of the interrelationship between exchange rate shocks and monetary policy adjustments provides compelling evidence of the dynamic response of policy rates to fluctuations in the exchange rate. Specifically, the impulse response functions underscore

the significance of monetary policy's reaction to a one standard deviation shock in the exchange rate, corresponding to a 15 percent deprecation. Initially, the policy rate exhibits a pronounced increase, peaking within the first two months as the central bank potentially tightens monetary policy to counteract the inflationary pressures and mitigate capital outflows triggered by the currency depreciation (Figure 6). This immediate response is characterized by a cumulative increase in the policy rate by up to 50 basis points in the first three month following the shock, demonstrating the central bank's proactive stance in stabilizing the currency and controlling inflation. The subsequent moderation in policy rate adjustment indicates a gradual return to baseline levels, suggesting that the initial sharp reaction was aimed at quickly addressing the immediate impacts of the exchange rate shock. After the third month, the policy rate's response becomes notably more tempered, reflecting the central bank's reassessment of the economic outlook and the effectiveness of initial response. Moreover, the Forecast Error Variance Decomposition (FEVD) corroborates the impact of exchange rate shock on monetary policy, revealing that such shocks account for approximately 12 percent of the variation in the policy rate. [3]This highlights the critical role of exchange rate movements in shaping monetary policy decisions, particularly in response to unforeseen events that trigger currency depreciation and necessitate a swift policy response to maintain economic stability.

18. Figure 7, derived from the SVAR model, illustrates the effects of a monetary policy shock—specifically, a 50-basis point increase in the policy rate—on the exchange rate. The results indicate a notable appreciation of the exchange rate immediately following the policy shock, with a median impact of a 0.5 percent depreciation in the first month and a cumulative depreciation of 0.8 percent after three months. This suggests that a hike in the policy rate directly influences currency valuation, likely through shifts in capital flows and investor perceptions. According to the FEVD, the monetary policy shock accounts for approximately 11 percent of the variation in the exchange rate. This highlights the substantial role of monetary policy in influencing exchange rate movements, especially within an inflation-targeting framework where policy rates are utilized as the main instrument for monetary policy. The findings imply that in a developing economy with an inflation-targeting central bank such as Uganda, increases in the policy rate may initially cause currency appreciation, though this effect might be transient as market conditions stabilize. Additionally, these results emphasize the delicate balance that central banks must strike between leveraging interest rates to curb inflation and managing the subsequent effects on the exchange rate.

[3] Given that Uganda is a small open economy the changes in FX could translate into higher inflation. However, the immediate impact is on EFU component of the core inflation targeted by BoU.

E. Conclusion and Policy Implications

19. When a central bank adjusts its policy rate, this action triggers a series of impacts on prices and output through several channels, notably the credit and exchange rate channels. While the credit channel works through the effects of policy rate changes on the cost and availability of credit, the exchange rate channel works through the impact on capital mobility and net exports. This note revisited the monetary policy transmission in Uganda focusing on the credit and exchange rate channels. The results suggest that a one percent decrease in the policy rate leads to a reduction in the lending rate only in the long run, suggesting a delay in lending rates to policy changes. On the other hand, treasury rates are notably more sensitive to policy rate changes and adjust in tandem with them. In contrast, government credit displays an inverse relationship with policy rate adjustments. Variables such as credit to the private sector, demand deposits, and time deposits seem to be largely unaffected by changes in the monetary policy rate. Moreover, the findings suggest that monetary policy decisions in Uganda have been partly influenced by shocks to the exchange rate with policy rate changes also affecting the exchange rate.

20. The following policy implications could be drawn from the above analysis:

- Clear and effective communication of policy action is crucial for anchoring inflation expectations. Unexpected increases in the policy rate, especially when the inflation rate is way below its target, if not effectively communicated, can lead to uncertainty, and destabilize inflation expectations. Continuous dialogue with market participants regarding the central bank's commitment to inflation targeting, despite temporary shocks to the exchange rate, is critical. Exchange rate fluctuations can impact monetary policy decisions. Thus, transparent communication of policy actions and a strong commitment to inflation targets are essential, especially when capital flows prompt interest rate adjustments.

- The central bank should be wary of over-tightening monetary policy in response to exchange rate shocks, as this could unnecessarily hamper economic growth. The initial response should be measured and closely monitored to ensure it aligns with the actual inflationary pressures rather than preemptive overestimations.

- When inflation is below target, the central bank may consider implementing a gradual reduction in the policy rate to encourage borrowing, boost domestic demand, and stimulate investment. However, this needs to be complemented by a clear and transparent communication strategy to ensure businesses and consumers understand the direction of monetary policy, instilling confidence and encouraging spending and investment. Moreover, as credit to the private sector does not show significant responsiveness to changes in the monetary policy rate, direct interventions and incentives may be necessary to stimulate credit uptake (e.g., loan guarantee schemes or partnering with commercial banks to reduce lending risks).

- Considering the sensitivity of the treasury rates to policy rate shifts, the central bank must vigilantly monitor these rates and be cognizant of their implications for international capital outflows and exchange rate pressures. A balanced approach should be taken to ensure stability and confidence in the local currency.

- The inverse relationship between government credit and policy rate changes, particularly in the long run, suggests the possibility of crowding out the private sector. The central bank and the government should collaborate to ensure that adequate credit is available for the private sector, even as policy rates are reduced. In the medium term, addressing structural impediments to the development of credit markets, including credit bureaus and facilitation of the recovery of bad loans and collateral will also help lower risk premia and facilitate lending.

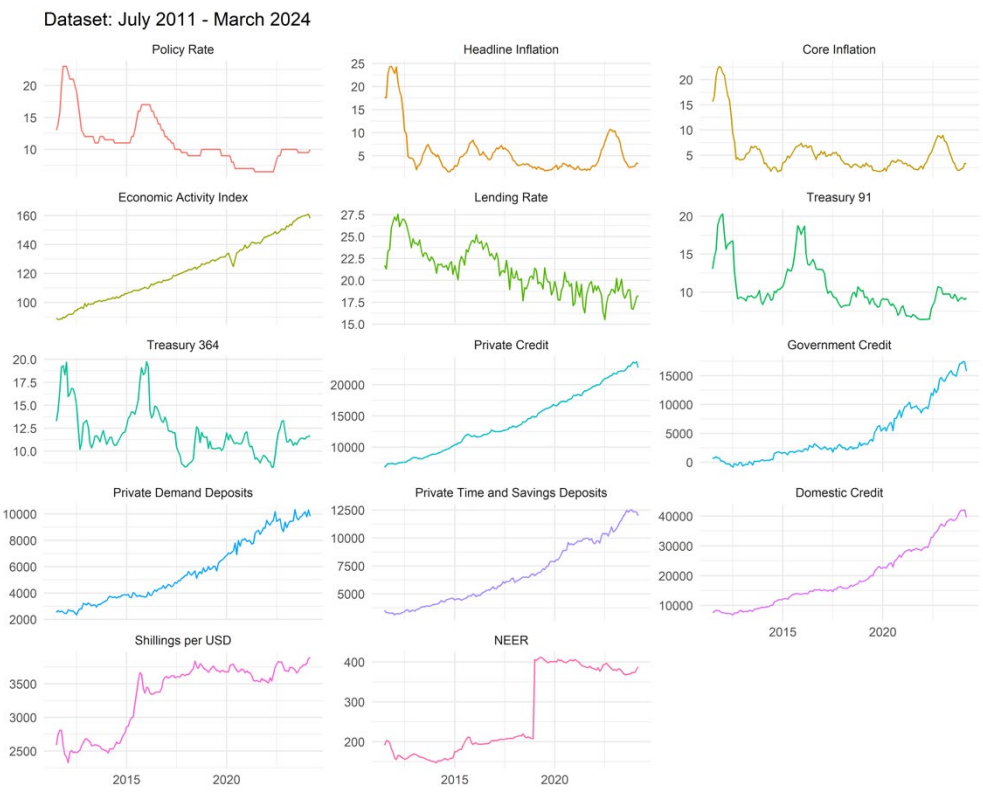
- The lack of responsiveness in demand deposits and time deposits to changes in the monetary policy rate indicates the need for diversification of financial instruments available in the market. This can help mobilize domestic savings and provide more avenues for investments.

Annex I. The Dataset

Table 1. Uganda: Descriptive Statistics

Variable	N	Mean	Std. Dev.	Min	Max
Policy Rate	153	11.219	3.77	6.5	23
Lending Rate	153	21.125	2.649	15.53	27.58
Economic Activity Index	153	121.946	20.389	88.306	160.987
91-day Treasury Rate	153	10.489	3.224	6.4	20.28
364-day Treasury Rate	153	12.084	2.582	8.26	19.74
Credit to Private Sector (log)	153	9.495	0.36	8.832	10.074
Credit to Government (log)	136	8.045	1.307	3.093	9.763
Private Demand Deposits (log)	153	8.554	0.439	7.74	9.227
Private Time and Savings Deposits (log)	153	8.735	0.417	8.064	9.434
Domestic Credit (log)	153	9.729	0.53	8.873	10.65
Exchange Rate (Shillings per USD, log)	153	8.098	0.16	7.753	8.268
Nominal Effective Exchange Rate (log)	153	5.52	0.39	4.994	6.021
Core Inflation	153	5.459	4.411	1.706	22.639
Headline Inflation	153	5.693	5.043	1.526	24.356

Figure 1. A1. Visualizing The Dataset



Annex II. Empirical Methodology

1. Estimating Neutral Interest Rate. The neutral interest rate is a theoretical concept, representing the level of a real (inflation-adjusted) interest rate that neither stimulates nor restricts economic growth when the economy is operating at its full capacity. This rate is crucial for monetary policy, as it helps central banks gauge the stance of their policy settings relative to the economy's underlying potential. The neutral interest rate results reported in section II are estimated based on the Holston et al. (2017, HLW) model. This a semi-structural model that employs a state-space approach and estimates the neutral interest rate dynamically over time, allowing it to adjust as economic conditions evolve. The model incorporates several key equations. Firstly, an aggregate demand equation traces the output gap's trajectory, while an aggregate supply (Phillips curve) equation tracks inflation trends. In this framework, the neutral interest rate comprises two elements: the potential output's trend growth rate and other determinants. The model is completed by connecting the nominal short rate to the real short rate and expected inflation via the Fisher equation.

2. Autoregressive Distributed Lags (ARDL) Model is particularly useful for estimating both short-term and long-term effects of one variable on another. It integrates both autoregressive components (previous values of the dependent variable) and distributed lag components (historical values of one or more independent variables) within its framework. This design enables it to effectively grasp the evolving interactions and feedback mechanisms among the variables across time. It exhibits versatility in accommodating variables of varying degrees of integration, specifically I(0) (stationary) and I(1) (first-order integrated). The overarching structure of the ARDL model is depicted as follows:

$$Y_t = \alpha + \sum_{i=1}^{p} \beta_i Y_{t-i} + \sum_{j=0}^{q} \gamma_j X_{t-j} + \epsilon_t$$

where Y_t is the dependent variable, X_{t-j} represents the independent variables at different lags, p and q are the lags for the dependent and independent variables, respectively, γ_j is a constant term, β_i and γ_j are coefficients, and ϵ_t is the error term.

3. Structural Vector Autoregressive (SVAR) Model with Sign Restrictions. The SVAR model with sign restrictions is commonly used to analyze the impact of structural shocks on an economy. It extends the traditional VAR model by incorporating theoretical and empirical knowledge about the sign and, sometimes, the magnitude of responses of certain variables to specific shocks. This method allows researchers to identify and interpret the effects of structural shocks in a more theoretically consistent manner. In its simplest form, a VAR model for (n) variables can be written as:

$$Y_t = A_1 Y_{t-1} + A_2 Y_{t-2} + \ldots + A_p Y_{t-p} + \epsilon_t$$

where Y_t is a vector of endogenous variables at time t, A_1, A_2, ..., A_p are coefficient matrices, p is the lag order, and ϵ_t is a vector of innovations (or shocks) at time t. In the SVAR model, the focus is on the structural shocks ϵ_t, which are assumed to have economic interpretations. To address the challenge of identifying the structural shocks from the observed VAR innovations, sign restrictions impose theoretical knowledge onto the SVAR model by specifying the expected direction of the response of certain variables to specific structural shocks. For example, a contractionary monetary policy shock might be expected to decrease output and inflation in the short run, which guides sign restrictions. The reported results represent impulse response functions (IRFs), which trace the effects of a shock over time.

Table 1. Uganda: Integration Order

Series	ADF	PP	KPSS
Policy Rate	1	1	1
Lending Rate	1	0	0
Economic Activity Index	1	1	1
Treasury 91	1	1	0
Treasury 364	1	1	0
Credit to Private Sector	1	1	1
Credit to Government (log)	1	0	1
Private Demand Deposits	1	0	1
Private Time and Savings Deposits	1	0	1
Domestic Credit	1	1	1
Exchange Rate (Shillings per USD)	1	1	1
Nominal Effective Exchange Rate	1	1	1
Core Inflation	0	1	1
Headline Inflation	0	1	1

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SOCIAL AND ECONOMIC PROGRAMS AND GENDER INCLUSION[1]

Across several social and economic dimensions Uganda scores relatively well in sub-Saharan Africa in terms of gender gaps. Yet, despite a progressive institutional framework, women continue facing higher poverty and vulnerability, lower education opportunities, and obstacles to acquiring productive assets. While existing social protection and economic (i.e. poverty-reducing) programs do not show gender exclusion given the need to close the remaining gaps in opportunities and outcomes consideration could be given to strengthening direct gender targeting and increasing programmatic support.

A. Introduction

1. The explicit objective of social policies is reduction of poverty and vulnerability for the entire population, with gender inclusion receiving residual attention. Social protection can, however, be instrumental in supporting women's basic food security as well as economic independence thus enabling them to pursue education and invest in small businesses. But if social protection benefits accrue to women and men in unequal proportions – after adjusting for differences in population distribution and other qualifying criteria – the system may be imposing an unintended burden on women or not taking into consideration potential constraints imposed by legislation and social norms regarding work, inheritance, or land ownership in addition to other barriers that generally hinder economic empowerment such as early marriages and gender-based violence.

2. A gender-sensitive social protection system can contribute to closing gender gaps though it may not be sufficient alone. When gender gaps in opportunities persist, a more systematic integration of gender issues into all stages of intervention—from design and implementation to monitoring and evaluation of social programs—may be needed to ensure that programs do not exacerbate existing inequalities (UNICEF, 2020). Other disparities between women and men in access to education, paid work, or ownership of productive assets may also preclude closing gender gaps. Social protection policies will then have to be combined with other measures such as land reform, gender budgeting, accountability, and sensitization of population, among others, and will complement efforts to reduce gender disparities (Ramírez López, 2021).[2]

3. We do not find systematic empirical evidence of gender exclusion in Uganda's social and economic programs. In this study, we look at the gender incidence of social protection and economic programs that are included in the Uganda National Households Survey 2019/20 (UNHS).

[1] This paper was prepared by Izabela Karpowicz and Franklin Sozi. It benefited from discussions with Lisa Dardis (UNWOMEN), Margaret Kakande (Budget Monitoring Unit, MOFPED), Margarita Gomez (WB gender expert), Beate Bull (Gender Equality and GEFD from Norad), James Ebitu and Angela Nakafeero (Directors, MGLSD) and Fatima Naqvi (WB social protection expert).

[2] For a discussion of gender gaps see Annex I.

Only in the case of one economic program focusing on boosting agricultural production females are slightly less likely to benefit directly from the support offered. This may be due to obstacles that are not imposed by program design itself but possibly by other factors, such as information asymmetries, physical, legal and social obstacles, and others. However, budget allocations for these programs have decreased over time while gender gaps persist. A combination of more explicit gender targeting of existing social protection programs and other complementary regulatory and social reforms may be needed to improve economic opportunities for women and narrow the gender gap in social outcomes if programs not captured in this study cannot play a greater role.

B. Social and Economic Programs: Overview

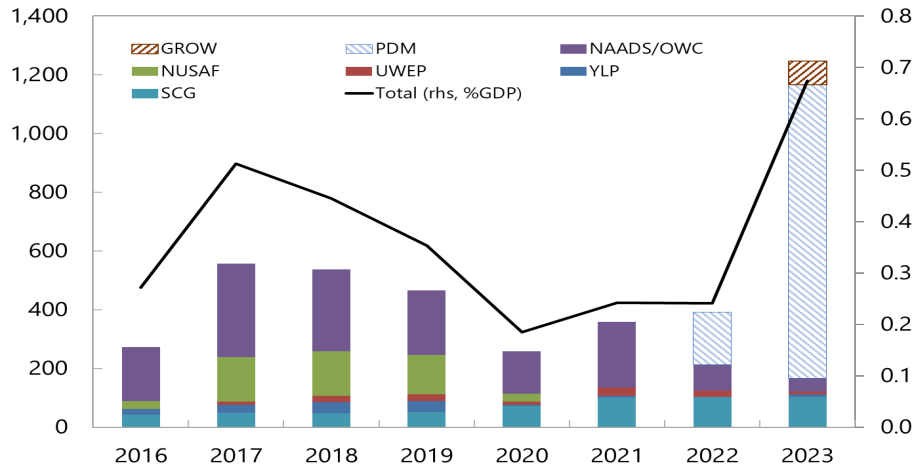
4. **Uganda has a comprehensive institutional framework for social protection and gender inclusion[1] and has implemented several programs that aim at eradicating poverty and improving population wellbeing.** While there are many small programs administered by various ministries, the most prominent ones are included in the UNHS and considered in this study. They target vulnerable groups, including elderly, youth, women, and population with disabilities. These are the Senior Citizen's Grant (SCG), Northern Uganda Social Action Fund (NUSAF), Uganda Women Entrepreneurship Program (UWEP), Youth Livelihood Program (YLP), and National Agriculture Advisory Services (NAADS)/Operation Wealth Creation (OWC). Four of these programs target some form of vulnerability, either age or gender related. The NAADS/OWC focuses on agricultural productivity and wealth creation (Box 1). The National Single Registry of Social Protection Programs launched in 2021 consolidates information on beneficiaries and is continuously updated. In addition to the programs above it includes scant information on Orphans and Vulnerable Children, Disability Grant, Girls Empowering Girls, National Gender Based Violence, and Food for Assets Program.

5. **Uganda spends a relatively small share of its budget on the social programs included in the survey. The budget share has declined over time, but new initiatives and family support may make up for the gap (Figure 1)**. The total budget for the programs fell from half percent of GDP in 2017 to less than 0.1 percent in 2023. This reflects in large part the lack of continuation of the NUSAF program and an ideological shift away from social protection transfers towards lending for agro-industrialization. Indeed, a new economic program–the Parish Development Model (PDM)–focusing on agricultural productivity of subsistence households was introduced in 2022 and also includes a gender component (Box 2). The financial inclusion pillar of the program is expected to run for five years, and the overall disbursement is about 0.5 percent of GDP per year. A recently launched project - Generating Growth Opportunities and Productivity for Women Enterprises (GROW) - financed by the World Bank aims at supporting transition of women-led enterprises from micro to small and from small to medium and improve productivity. Grant funding for $217 million will be disbursed over 5 years (0.3 percent of GDP) and benefit about 60,000 female enterprises, including 280,000 women entrepreneurs and their employees, among which also refugees. The project focuses on training for entrepreneurship, removing barriers to women's ownership of assets, and boosting access to finance and incomes through its cash support component (World Bank,

[1] For a discussion of the institutional framework for social protection and gender policies see Annex 2.

2022). Moreover, while government financed spending on social programs is comparatively low (Ebitu, 2020) social care and support are also provided by developing partners, traditional social networks, civil society organizations, and non-governmental organizations that contribute to filling part of the gap.

Figure 1. Social and Economic Programs: Annual Budget Disbursements
(Billions of shillings, unless otherwise indicated)



Sources: MOFPED and MGLSD.

C. Programs Effectiveness and Gender Outcomes: a Review of Literature

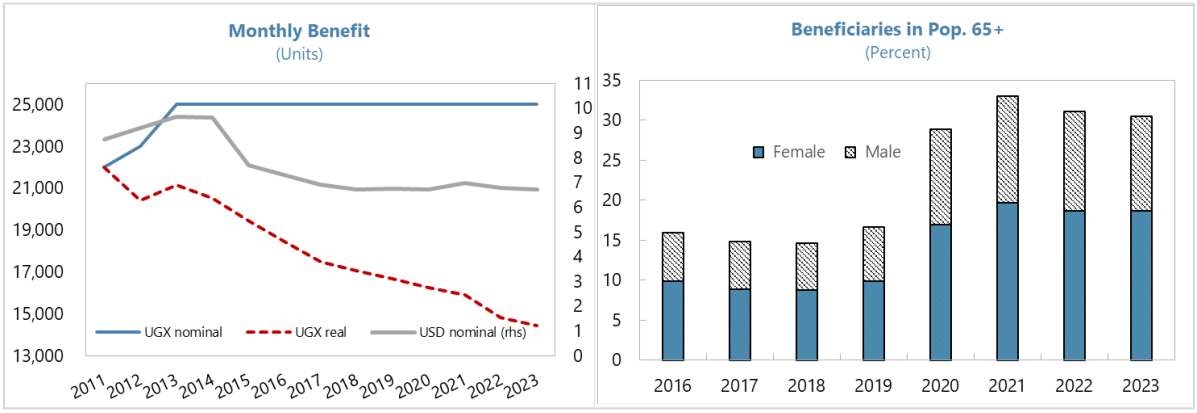
The SCG is the only program in the UNHS featuring cash transfers, but its value to beneficiaries has decreased over time.[1] The monthly benefit was increased from UGX 23,000 at start in 2011 to UGX 24,000 in 2012 and to its current value of UGX 25,000 in 2013 (Figure 2). According to UBOS (2019/20), the latter represented about 20 percent of the monthly household consumption of the poorest population.[2] The inflation-adjusted value of the SCG has declined over the past decade by more than 40 percent and constituted less than 4 percent of the living wage in 2018 (Trading Economics).[3] There is a proposal to increase the monthly transfer to at least UGX 45,000 and reduce the qualification age from 80 to 70 years (CSBAG, 2022).

[1] The Girls Empowering Girls program launched in 2019 also includes a cash transfer of UGX 60,000. This program is not captured in the UNHS.

[2] Throughout the paper CY are used to represent the FY in all figures. For instance, FY2015/16 is displayed as 2016.

[3] Living Wage computations are based on the cost of living for a predefined food basket derived from the FAO database distinguishing 50 food groups with national food consumption patterns in per capita units, for housing and for transportation, with a margin for unexpected expenses. The data about prices of these items is collected through an online survey.

Figure 2. The Senior Citizen Grant



Sources: MLGSD; and Fund staff estimates.

6. Evidence on SCG's targeting effectiveness is inconclusive. The SCG was associated with a strong increase in household expenditure (33 percent on average) and has reduced the poverty rate among recipients by 19 ppt) between 2011 and 2017 according to Gelders and Bailey-Athias (2019) and 15.7 percent according to MOFPED (2023). The transfer was largely spent on food, health, and education, and increased ownership of productive assets such as livestock, also marginally improving females' control of assets (Marttens et al., 2015). However, the SCG was found to display significant leakages toward with around 76 percent of total benefits going to non-poor households (IMF, forthcoming). Another study found no evidence of improved non-material well-being of women under the program, such as greater control over household decision making (Oxford Policy Management, 2015). The SCG has benefited a higher share of women, on average about 60:40 percent through the years (Figure 2) but information asymmetry may be hampering older women's participation (MLGSD, 2017).[1]

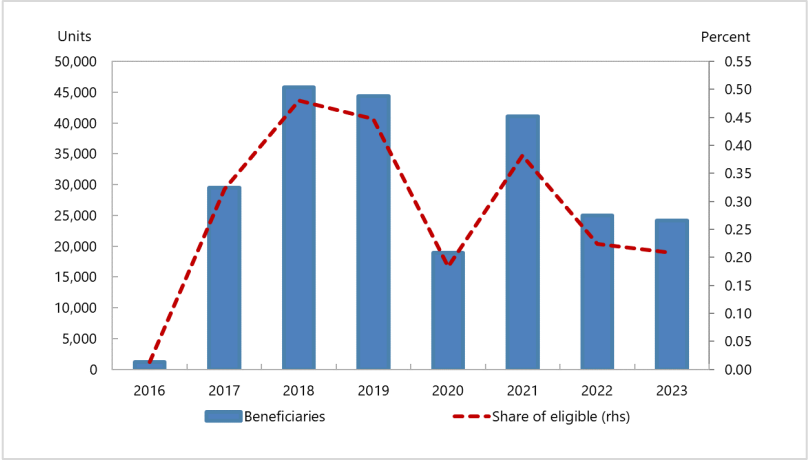
7. The NUSAF targeted female-headed households in its various components. About 61 percent of NUSAF2 financed households were female headed (World Bank, 2015). Women represented about 58 percent of all beneficiaries of NUSAF3. A randomization control group study of the Youth Opportunities Program (a component of NUSAF3) targeting youth willing to start a skilled trade in the North showed positive impacts on business assets, working hours and earning. These impacts were found to be qualitatively stronger for women because they begin poorer and their work and earnings stagnate without the program but takes off with it (Blattman et al., 2014).

8. The results from the implementation of UWEP were mostly unsatisfactory. Between 2016 and 2023, the program benefited 0.28 percent of the targeted population on average with variations across years (Figure 3). The average annual benefit per person was between 400,000 and 800,000 shillings ($100-$200). The variation in access was partly due to the inability of the groups to meet the required standards by the MGLSD (CSBAG, 2022). The program suffered from low

[1] Older women typically obtain information from their spouses or other persons in the community who may have heard about the program over the radio or from the Local Council Chairperson.

coverage, high administrative costs, and misalignment with the government's industrialization and food security agenda (Equal Opportunities Commission, 2023). Access to funds was made difficult also by weak monitoring systems and the lack of business registration documents (EPRC, 2017; Mbaziira and Nduta Njoroge). The program was challenged also by delayed funding of beneficiaries, limited focus on skills and capacity development, and inadequate coordination of partnering institutions (Office of the Auditor General, 2021).

Figure 3. Distribution of UWEP Beneficiaries



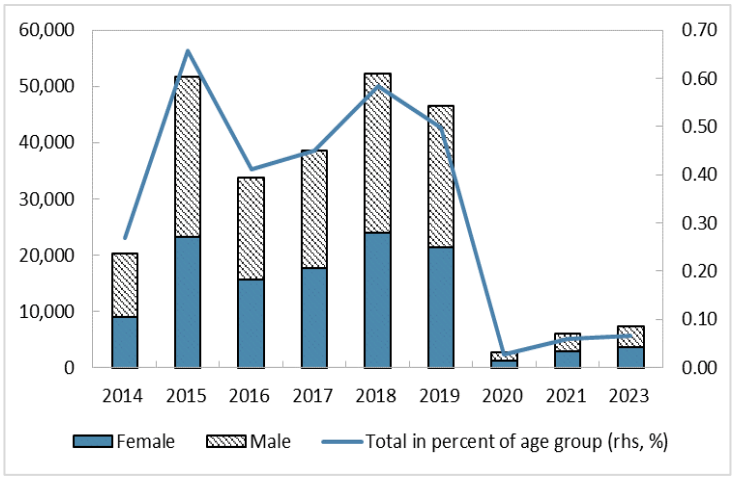
Sources: MLGSD; UBOS; and Fund staff estimates.

9. The YLP was shown to have had positive effects on skills development and livelihoods despite low coverage. Since inception in 2014, the program has benefited about 6.5 percent of the target population (245,870 youth), 46 percent of whom are female (MGLSD, 2021). The YLP has contributed to job creation by 4 percent, has led to better access to financial services by 4.5 percent and to an increase in youth with businesses paying taxes (24.7 to 29.1 percent) (MLGSD, 2021). A study by Bukenya et al. (2019) evidenced female participants moving from unskilled to skilled and unpaid to paid occupations, while also reporting enhanced access to credit, reduced tendencies for alcohol consumption and smoking.

10. The gender imbalance in NAADS/OWC program is pronounced. By 2015, over 80 percent of program beneficiaries were male. The program lacked mechanisms for dealing with gender barriers, such as limited access to land and advisory services by women, male dominance in decision making in the use of family land, long distances to collection centers, and inadequate access to information by women (USAID, 2017). In 2021, 77 percent of women were estimated to engage in agriculture as opposed to 67 percent for men making this a missed opportunity (Leon-Himmelstine et al., 2021). Some of the realized benefits included adoption of improved production practices and technologies, improvement in food and nutrition security, increased household

Figure 4. Distribution of YLP Beneficiaries

(Units)

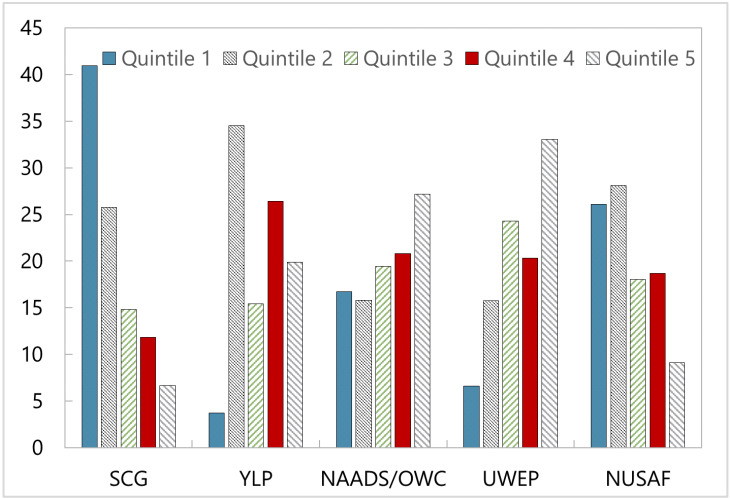


Sources: MLGSD; UBOS; and Fund staff estimates.

incomes and productivity. Key implementation challenges included late delivery, loss and theft of inputs, poor quality of planting materials and low germination rates (MOFPED, 2017).

11. Based on data from the UNHS, the programs' ability to reach the poorest was poor with SCG displaying the greatest progressivity. The SCG mainly accrued to the population in the lowest income quintile, with about 40 percent of benefits reaching the bottom 20 percent of the population and less than 7 percent accruing to the top 20 percent. The NUSAF program also displayed some progressivity with a higher share (54 percent) reaching the bottom 40 percent, followed by NAADS/OWC. The YLP and UWEP were most regressive, with only 4 and 7 percent respectively reaching the population in the poorest quintile (Figure 5).

Figure 5. Poverty Incidence of Programs
(Percent)



Source: UNHA, and Fund staff estimates.

D. Regression Results

12. We are interested in whether women are more likely to be excluded from social assistance programs regardless of program objectives and design. We run two types of cross-sectional probit regressions using data from the UNHS 2019/20 covering about 14,000 households (Box 3):

i) a regression with a dependent variable that includes all the beneficiaries of at least one of the social programs and

ii) a set of regressions with beneficiaries of each individual program separately including the same regressors.[1]

The deterministic variable of interest is a male/female dummy (Female =1). Control variables include individual's age, age^2, income (households' level), schooling (grade completed), as well as location (rural/urban) and regional dummies (Northern, Western, Central and Eastern).

[1] We do not run a regression on UWEP beneficiaries because they are all women by design.

Table 1. Uganda: Regression Results

	All Programs			SCG			NAADS/OWC			YLP			NU SAF		
Observations	28,077			3,610			28,077			10,911			28,077		
Determinants	Coeff		Marginal effects	Coeff		Marginal effects	Coeff		Marginal effects	Coeff		Marginal effects	Coeff		Marginal effects
Female	-0.079	***	-0.007	-0.121		-0.002	-0.130	***	-0.009	-0.012		0.000	-0.042		-0.001
Schooling															
Primary	-0.028		-0.002	-0.256	***	-0.034	0.135	**	0.008	0.003		0.000	-0.182	***	-0.003
Secondary low	0.151	**	0.015	-0.100		-0.014	0.254	***	0.016	0.545	**	0.005	0.023		0.001
Secondary high+	0.145	*	0.015	-0.446	**	-0.054	0.270	***	0.017	0.566	**	0.005	0.052		0.001
Urban	-0.238	***	-0.200	-0.048		-0.006	-0.296	***	-0.017	-0.086		-0.001	-0.154	*	-0.003
Region															
Eastern	-0.067		-0.005	0.327	**	0.035	-0.216	***	-0.013	0.209		0.002	1.105	***	0.005
Northern	0.223	***	0.023	0.765	***	0.104	-0.152	**	-0.010	0.465	**	0.005	1.625	***	0.020
Western	0.097	*	0.009	0.279	**	0.029	0.022		0.002	0.009		0.000	1.128	***	0.006
Income	0.000	*	0.000	0.000		0.000	0.000		0.000	0.000		0.000	0.000	**	0.000
Age	0.017	***	0.002	0.464	***	0.061	0.065	***	0.004	-0.190		-0.002	0.046	***	0.001
Age2	0.000		0.000	-0.003	***	0.000	-0.001	***	0.000	0.005		0.000	0.000	***	0.000
Constant	-2.468	***		-21.456	***	0.000	-3.466	***		-1.418		0.000	-4.452	***	

Source: UNHS 2019/20; and Fund staff estimates

13. The results from specification (i) in Table 1 suggest that women are marginally less likely to be beneficiaries of social programs captured in the survey. On average, female's probability of program participation is 0.7 percent lower than it is for males. The gender coefficient remains highly significant even when we exclude the beneficiaries of the UWEP program which includes only women (not shown). Controls have the expected signs: higher education level is associated with higher likelihood of being beneficiary of a program. On average, individuals who have completed lower and upper secondary have a 1.5 percent higher chance of inclusion into at least one of the programs compared to those with no schooling. Higher household's income is associated with lower probability of being in a program though the coefficient is small. Population in rural areas and in the Northern region has a higher probability of accessing social programs which is consistent with higher poverty level in those areas and may be a sign of system's progressivity.

14. The results from the 4 regressions on subsamples of beneficiaries of individual social programs suggest the likelihood for females to be included in the programs is lower only for NAADS/OWC. In the other three regressions the coefficients are not significant which means that the results from NAADS/OWC are likely driving the significance of the combined government programs regression in (i). This finding is in line with literature (USAID, 2017; BMAU, 2019) which attributes lower participation of women in this program to lack of transport means to distant sub-counties to collect inputs, lack of information about input delivery dates, among others, but also to strict eligibility requirements, such as land, which do not favor women who are less likely to own it or make decisions related to its use.

15. Where significant, controls usually bear the expected signs. Across various specifications rural location increases the likelihood of being included in a government program. This is true for

programs with an agricultural component or that target the poor who are more likely to reside in rural areas. The probability increases with age for all programs except for the YLP which targets youth and is large for the SCG beneficiaries for which old age is the only eligibility criterion. Having a schooling degree is generally associated with higher probability of benefiting from a program except for the case of the SCG where older generation is probably unschooled or reports no formal degree. Region coefficients mostly indicate higher marginal effects for the North (the poorest region), except for the NAADS/OWC which is more prevalent in the Central and Western regions.

16. Different specifications of independent variables do not alter the results materially. Occupational dummies were attempted but were not significant possibly dure to many missing responses and a further breakdown of regions into 15 administrative units did not alter results significantly. Results are robust also to the inclusion of a schooling variable defined as number of years spent in the education system.

E. Conclusions and Policy Recommendations

17. Uganda has a mature and comprehensive social protection and gender policy framework that has evolved over time. Gender policy was mainstreamed across government units and levels, and into other policies and government initiatives, including, most recently into the Climate Policy (the Nationally Determined Contributions). Uganda was one of the first countries in Sub-Saharan Africa to adopt gender budgeting starting from the late 1990s and features an innovative Certificate on Gender and Equity Compliance to monitor compliance with gender-oriented goals (Kolovich, 2018).

18. The budgets of the once most prominent social programs have declined over time. There are numerous small social programs scattered across various ministries, some of them funded by development partners, addressing a wide range of vulnerabilities. But the main programs have suffered cuts over the past decade. This reflects an ideological shift by the government away from transfer-based social protection towards industrialization and in favor of lending for development. The NAADS/OWC economic program, and more recently the introduction of the PDM focusing on increased productivity of subsistence households operating in agriculture, embody more clearly this strategic change.

19. Social and economic programs could play a greater role in closing remaining gender gaps alongside other policies. Uganda has made important strides in narrowing gender gaps but inequalities across several dimensions persist, namely access to education and business enterprise growth as women enterprises remain locked into smallness never growing past the micro level, while male-owned firms are twice as likely to move from micro to small size (The World Bank, 2022). While government programs examined in this paper (other than UWEP whose access is restricted to women) do not appear to have discriminated against women overall, they have been at best gender neutral by design and outcomes. This is certainly the case of the largest (in size) program, the NAADS/OWC with a strong agricultural component from which women benefit indirectly as members of the recipient households but could benefit more if circumstances allowed a higher uptake of female-headed households beneficiaries. Increasing women's uptake in agricultural

programs, including the PDM, would be consistent their higher representation along the value chain and would support their economic potential as the country scales up agro-industrialization.

20. Higher female beneficiaries' social program uptake would need to rely on a multifaceted strategy. At program design level, assigning a higher quota to female-headed households and enterprises would be a welcome target that would have to be mainstreamed consistently along all the stages of the cycle, including implementation, monitoring, evaluation and validation. The latter should include participatory social accountability mechanisms which are currently lacking, such as community scorecards, social audits, and female-headed grievance platforms (FAO, 2028). Promoting gender awareness in communities about women's participation in programs should be an integral part of the strategy and could also help identify training needs across the different challenges to access. To realize the full potential, there is need to analyze and highlight men and women needs, and therefore design some government programs to specifically address these differing needs. Crucially, however, program design improvements would have to be accompanied by other gender-sensitive reforms to strengthen women's access to social and economic programs, some among which include cultural and social norms, unequal household work burden sharing and childcare, practices surrounding land and inheritance rights, and schooling.

21. Further insight into the government programs will be possible with the release of the first post-COVID-19 households survey expected in 2025. Government's programs' effectiveness in reaching women may have changed over time. Moreover, new programs, such as the PDM, may have proven more successful in closing gender gaps which will be possible to examine only with some distance.

Box 1. The Design of Social and Economic Programs Included in the 2019/20 UNHS

The SCG targets elderly poverty. Launched in 2010, the SCG is a minimum unconditional social income (cash) transfer to the elderly population. The SCG was a component of the SAGE program, initially rolled out in 15 districts, extended to 47 districts in 2017/18 and rolled out nationally in 2021. At the pilot stage in 2011, the eligibility age was 65 and over (60 and over in the Karamoja region) and remained such for the first 50 districts but was restricted to 80 and above in the other 99 districts during the national roll out. Beneficiaries younger than 80 and registered prior to July 2020 maintained their eligibility. Currently there are about 330,000 beneficiaries enrolled in the program, of which about 60 percent are female and 40 percent male.

The objective of NUSAF was to address poverty in northern Uganda where it is more extreme and prevalent. It consists of a series of five-year social protection and affirmative programs funded by the World Bank. The first phase (NUSAF1) that closed in 2009 dealt with the issues of insurgency vulnerability through mostly humanitarian type interventions as well as rehabilitation services. The second phase (NUSAF2) that closed in 2016, focused on recovery and rehabilitation, and included access to basic social economic services, institution building, and infrastructure. The third phase (NUSAF3) running to 2021 introduced temporary employment (public works), skills and mindset training, and engagement in productive income-generating activities as tools for boosting income and reducing vulnerability.

The UWEP aims at improving access to financial services for women and equipping them with skills to grow their businesses. It was implemented as a rolling fund, initially in 19 districts and the capital city in 2015/16 and rolled out to the entire country in 2016/17. The program comprises mobilization and sensitization of communities, training and capacity development, access to credit, technology and markets thus enhancing financial inclusion and promoting female entrepreneurship. The target beneficiaries are women of age 18-79 years. The program emphasizes integration of unemployed women and vulnerable ones, such as single young mothers, widows, and gender-based violence survivors (UNICEF, 2023).

The YLP seeks to address high unemployment and poverty among the youth. Launched in 2014, the program targets unemployed and poor youth aged 18-30 years across the country, including school dropouts, youth without formal education, single parents, youth with disabilities, those living with HIV/AIDS, and unemployed youth with education. The YLP is designed as a revolving fund and stipulates that 30 percent of the recipients should be female (MLGSD, 2013). Female youth already benefiting from YLP are not considered as beneficiaries for UWEP (MLGSD, 2019).

The objective of the NAADS is to increase farmer's access to agricultural information, knowledge, and technology. Launched in 2001, the NAADS was redesigned in 2014/15 to deliver a new but similar mandate called Operation Wealth Creation (OWC) focusing on procurement and distribution of agricultural inputs to farmers to support interventions across the value chain - from production and value addition to agri-business development and marketing. The target is to raise households' incomes to a minimum of UGX 20 million (US$5,400) per household per year (about six times the per capita income) (MAAIF, 2021). Inputs are distributed twice a year during the two rainy seasons.

Box 2. The Parish Development Model

The PDM is a public service delivery strategy for interventions to boost income and employment at the level of the parish which is the lowest economic and planning subnational unit in rural areas. The program targets about 1/3 of subsistence households in the more than 10,000 parishes intending to include them in the formal economy under the NDPIII pillar "sustainable industrialization for inclusive growth, employment and wealth creation". The households are expected to undergo a socioeconomic transformation with their productivity increased and agricultural value-added enhanced. There are about 3.5 million subsistence households in Uganda.

The PDM consists of central government transfers to subnational savings institutions that on-lend funds to households organized in enterprise groups. The PDM follows efforts to deepen fiscal decentralization that started in 1992. It was approved by Cabinet in March 2021 with the implementation slated to commence in FY2021/22. The strategy relies on agricultural production, storage, processing, and marketing; provision of infrastructure and economic services; financial and social inclusion; and statistical development. The Organizations for Savings and Credit Cooperative Societies (SACCOs) that distribute revolving credit to are expected to use a computerized payment systems and finance projects at low interest rate (5 percent), with repayment expected over 3 years, targeting in equal shares women, youth, and disabled population. Over time, the PDM also aims at consolidating delivery of social services such as primary health care, education, access to clean water, transport, and communication.

It is envisaged that the PDM will initially be funded for 5 years with the cumulative amount of funds disbursed amounting to 2.5 percent of GDP. In FY2021/22, USh180 billion were allocated for the pre-implementation plan which includes the rollout of the program and revolving credit distributed through about 300 SACCOs in 5 pilot districts. The FY2022/23 budget included Ush1 trillion (0.5 percent of GDP), Ush100 million per parish. In the first phase of implementation 10,585 SACCOs were established and fully capitalized, implementation guidelines developed, communities mobilized and sensitized, and households organized into enterprise groups. Out of the 10,594 established SACCOs, 10,585 (99 percent) have received the full dedicated revolving fund as of end-June 2023. About 877 billion shillings in loans were disbursed (83 percent of target) reaching 880,000 households (88 percent of targeted beneficiaries).

It is too early to assess the economic and social impact of this program as statistic are still being collected. The PDM could contribute to community mobilization, social cohesion, and financial inclusion through the extension of micro credit for MSMEs and support to households. It may also help formalize economic relations and contribute, over time, to financial literacy. Data collection could inform future efforts to strengthen social protection and help commercial banks build credit scores thus addressing informational asymmetries that are one of key barriers for financial deepening and gender inclusion.

Box 3. The Households Survey: Stylized Facts

The 2019/2020 UNHS is the seventh in the series of household surveys conducted by UBOS since 1999/2000. The survey collected socio-economic data required for the measurement of human development and for monitoring social goals, with emphasis on measurement of poverty and unemployment, for the SDGs and the Third National Development Plan (NDP III). In addition to the three main modules–socio-economic, labor force, and community–an informal sector (household enterprises) and small-scale establishments module was administered. Over the years, the UNHS modules have evolved and the 2019/2020 survey is the first one to include questions on the beneficiaries of government's programs. The survey covers 129 districts and allows generation of separate estimates at the national level, for urban and rural areas, and for the 15 sub-regions. Close to 14,000 households provided answers to the questionnaires. The next survey is planned for the second half of 2024 together with the population census.

The distribution of beneficiaries of social programs was broadly in line with actual outcomes. Male beneficiaries are overrepresented in the NAADS/OWC program while the SCG has benefitted more women in the sample and reality. In the survey, NUSAF has favored women marginally although the actual female beneficiaries' share over the course of the program was somewhat larger, at 58 percent. Only the YLP displays a higher share of women beneficiaries compared to official data. In terms of schooling, the majority beneficiaries of NAADS/OWC, UWEP and NUSAF completed primary school level and only in the YLP the largest share accounted for some secondary schooling. Not surprisingly, almost 60 percent of SCG beneficiaries are over 80 and have completed no schooling. In line with its design, NUSAF benefited mostly the population in the Northern region.

Box 3. Figure 1. Distribution of Program Beneficiaries

(Percent of total)

Sources: UBOS, UNHS 2019/20; and Fund staff estimates.

Annex I. Gender Gaps

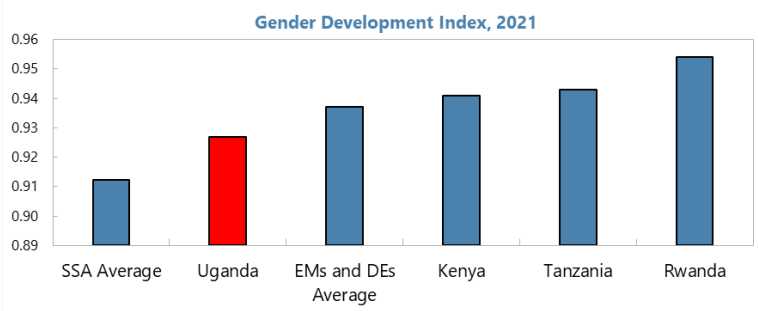
1. Uganda scores relatively favorably in terms of the gender gap across a few social indicators. Female labor force participation rates have been historically higher than those in other countries in sub-Saharan Africa, which tends to have higher rates than other developing regions (Figure 1). Women comprise 40 percent of all business owners–making Uganda one of seven countries in the world to achieve gender parity in entrepreneurial activity. Women also fare relatively well in financial inclusion: in 2019/2020, 49 percent had access to some form of financial services, compared to 57 percent for men. Moreover, women held 46 percent of local government positions, 33 percent of parliamentary seats and 43 percent of cabinet positions (UNDP, 2022). Uganda ranked 78 in a group of 148 countries according to the Global Gender Gap Index[1] in 2023, though it lost 17 places from 2022, scoring highest in health and survival and lowest in educational attainment (WEF, 2023). Ownership of assets by women (for instance, agricultural land) improved to 27 percent in 2016/17 from 15 percent and joint ownership increased to 40 percent in 2016/17 from 23 percent in 2012/13 because of a law recognizing customary marriages and co-habiting of partners who have been living together for more than 5 years. There is also evidence of reduced gender-based violence (GBV) on account of awareness campaigns and enforcement of the GBV policy. (Ministry of Gender, Labour, and Social Development (MGLSD) and UBOS, 2019b).

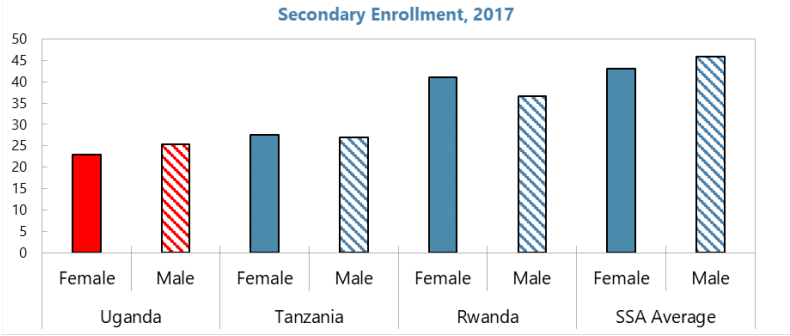
2. However, the gender gap across a few indicators persists and has been exacerbated by the COVID-19 pandemic. The Uganda National Household Survey (UNHS) shows that female-headed households had a higher poverty rate (22 percent) than male households (19.5 percent) in 2019/20 and were more likely to slip into poverty if not poor. The incidence of multidimensional poverty was also higher in female-headed households (48.9 percent compared to 39.4 percent in male-headed households) (MOFPED, 2023). Poor outcomes in female leadership persist, only 5 out of the 146 district chairpersons are female, only one is female city mayor out of the ten city mayors and only 1 out of 31 municipalities has a female mayor (UNDP 2023). COVID-19-related lockdowns around the world have widened gender gaps in paid work and business ownership, because school closures resulted in a greater share of unpaid care work for women (World Bank, 2021 and C. de Paz Nieves et al., 2021). Although social protection was a key policy lever during the crises globally, less than one in five social protection measures incorporated gender considerations by supporting women in informal employment, mitigating violence risk, and confronting the unequal distribution of care work during COVID-19 (Gavrilovic, 2022). Only 4 percent of households received any type of social assistance by March/April 2021, with direct cash transfers having reached no more than 1 percent of households (World Bank, 2021). A study of the effect of the COVID-19 on women workers in Uganda's showed increased vulnerabilities experienced by women in the informal sector and recommended intentional targeting in the recovery (Wandera N. et al., 2021).

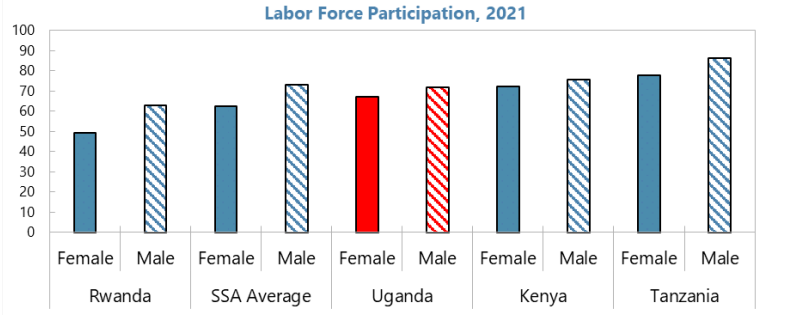
[1] The Global Gender Gap Index benchmarks the current state and evolution of gender parity across four dimensions: Economic Participation and Opportunity, Educational Attainment, Health and Survival, and Political Empowerment (Index = 0-1, with 1 indicating full parity).

Figure 1. Gender Gaps Indicators, 2017-21

(percent)







Sources: UNDP; ILO; WB; and Fund staff estimates.

Annex II. The Institutional Framework for Social Protection and Gender

1. Uganda has an encompassing legal and institutional framework for gender inclusion and social protection which have evolved over time. The first gender policy dates to 1997 and was revised in 2007 to address emerging development needs such as accelerating economic growth, reducing poverty, decentralizing fiscal policy, moving privatization forward, and making better use of public private partnerships (MLGSD, 2007). The 1997 policy increased awareness among policy makers and implementers on gender as a development concern, influenced government programs to address gender gaps and strengthened partnerships for advancement of gender equality. The 2007 policy became an integral part of national development policies linking all government initiatives and programs with the long-term goal of eliminating gender inequalities. It introduced a gender perspective into all levels of planning, resource allocation, and implementation of development programs. This policy gave a mandate to the MGLSD to oversee the mainstreaming of gender and equity in social protection interventions and assigned other line ministries the duty to integrate gender and equity in their operations. The priority areas for integration of gender policies were improved livelihoods, promotion and protection of rights, participation in decision-making and governance, recognition, and promotion of gender in macro-economic management.

2. The social development and inclusion objectives are outlined in three government documents that provide the basis for the design of social protection and economic programs. The Uganda Vision 2040 (NPA, 2013) underscores the importance of social protection for addressing risks and vulnerabilities. The NDP III (NPA, 2020) is founded on Uganda Vision 2040 and highlights social protection as one of the key strategies for transforming Uganda from a "prevalently agricultural society to a modern and prosperous country". The National Social Protection Policy (2015), launched as part of an effort to expand the scope of social protection, describes social protection as a set of interventions whose objective is to reduce social and economic risks and vulnerabilities, and to alleviate extreme poverty and deprivation while improving quality of life of the citizens.

3. The National Social Protection Policy (Policy) establishes two pillars for intervention: social security and social care and support services. *Social security* is composed of direct income support and social insurance. *Direct income support* consists of non-contributory, predictable cash and in-kind transfers that provide relief from deprivation to the most vulnerable individuals and households. *Social insurance* consists of contributory arrangements to mitigate livelihood risks and shocks such as retirement, loss of employment, work-related disability, and ill health. The Policy defines social care and support as a range of services that provide care, support, protection, and empower vulnerable individuals who are unable to fully care for themselves.

- **Direct income support programs** currently and previously implemented include the Social Assistance Grant for Empowerment (SAGE) and NutriCash. The Northern Uganda Social Action Fund (NUSAF) and Urban Cash for Work are public works programs. There are also livelihood programs such as the Karamoja Livelihoods Improvement Program (2010-15) and Agricultural

Livelihoods Recovery Program (2010-15) and other social protection initiatives, such as the Orphans and Other Vulnerable Children Program and the Community-Based Rehabilitation Program for the Disabled. Development partners have also developed some initiatives: the Development Initiative for Northern Uganda (DINU) by the European Union aims at consolidating stability in Northern Uganda, eradicating poverty and under-nutrition; the Development Response to Displacement Impacts Project (DRDIP) by the World Bank provides direct income support to the poor and vulnerable within refugee hosting districts in Uganda and aims to improve access to basic social services (health, education, water and sanitation).

- **Social insurance.** While public sector workers enjoy a non-contributory public service pensions scheme, about 24 percent of those employed in the private sector are insured under the contributory private pension schemes (Uganda Bureau of Statistics (UBOS, 2021)). There is no formal social insurance for those employed in the informal sector except for a few cooperative savings schemes that support members in times of financial difficulties. Extending social security to informal sector workers remains a challenge (MGLSD, 2017).

4. As the 2015 National Social Protection Policy (MLGSD, 2015) highlighted gender mainstreaming as a prerequisite for social protection, the MGLSD developed the Gender and Equity Strategy for Social Protection in 2017. This strategy seeks to enhance access to equitable social protection services for men and women, boys and girls of all categories and indicates that social protection can make important contributions to gender equality outcomes, recognizing that gender inequality exacerbates vulnerability that social protection policies can mitigate. The strategy identifies the main obstacles for successful gender policy implementation as the limited capacity, inadequate gender disaggregated data, inadequate systems and structures for coordination, and inadequate financing. It proposes to eliminate discrimination in the selection criteria in social protection interventions by addressing the specific geographical, climatic, socioeconomic, and household contexts, creating awareness of various initiatives aimed at addressing gender and equity concerns, and harmonizing targeting criteria for direct income support programs across regions and sub-regions (MGLSD, 2017).

5. With developments on the international front, including adoption of Sustainable Development Goals in 2007 and changes in fiscal programming and budgeting, the new Gender Policy is currently under discussion in Cabinet. The revised policy considers emerging global issues such as the effects of the COVID-19 pandemic and emergency response, climate change and the role of clean water and energy in shifting the burden of unpaid work away from women, regional conflicts and refugee issues, digitalization and gender divide, and others. It prioritizes interventions to address social and cultural norms and practices that are contributing to the resistance to gains in gender parity trends leading to high levels of gender-based violence and low levels of income (MGLSD, forthcoming).

6. There are many government and non-governmental actors involved in gender initiatives in Uganda. The MLGSD oversees and coordinates gender issues across Ministries, Departments and Agencies. Other stakeholders include CSOs, international organizations, United Nations agencies, development agencies of diplomatic missions, and regional bodies. The Uganda

Women Network promotes women's access to economic opportunities (UWONET, 2022) while the Forum for Women in Democracy has led the way in nurturing transformative leadership for women's rights (FOWODE, 2022).

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REDUCING INFORMALITY TO RAISE PRODUCTIVITY AND PROMOTE INCLUSION IN UGANDA[1]

This paper leverages the 2015 International Labor Organization (ILO) School to Work Transition Survey (SWTS) for Uganda to examine the determinants facilitating the transition of youth workers from informal to formal employment. SWTS enables analysis using micro data pertaining to youth's prevailing conditions. The analysis indicates that fostering private sector led growth, investing in education and skills development, implementing targeted programs and, advancing gender parity are essential strategies to mitigate informality.

A. Introduction

1. Agriculture is the core of the economy and the primary source of employment in Uganda. Despite economic growth, a significant proportion of Uganda's population does not benefit optimally from this growth. Rather, most of the country's labor force is involved in low productivity activities. This is largely because the most productive, fastest growing economic sectors are often more capital intensive than labor-intensive and employ only a small proportion of the workforce. The majority of people continue to work in agriculture, primarily in subsistence farming activities, with a few engaged in high-value, commercial crop cultivation. In urban areas, a significant proportion of the population works in the informal sector, which is hindered by limited access to capital, insufficient support and recognition by the authorities, and a lack of proper workspaces and other facilities. These constraints prevent them from achieving high levels of productivity.

2. Informality, particularly among youth, may constrain growth, fiscal space and social inclusion. A large informal sector is typically associated with reduced tax revenues, and increased poverty and income inequality (Ohnsorge and Yu, 2021). Informal labor and business activities, which evade regulatory and tax authorities, often involve low-skilled youth working in poor conditions with limited access to social protection (Williams and Lansky, 2013; Williams and Horodnic, 2019). This situation limits young people's access to credit and government services, trapping them in a cycle of low-income and unstable employment. High levels of youth informality result in the loss of potential tax revenues and resources necessary for public investment, thereby constraining the country's overall economic growth and social progress.

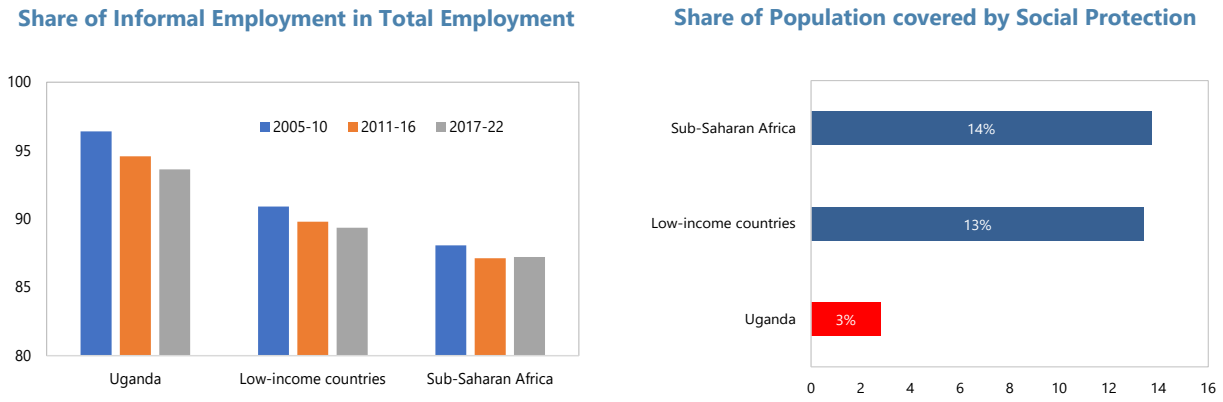
3. Designing formalization policies starts by distinguishing between "normal" and "excess" informality. Effective policy recommendations for promoting inclusive growth must align with the prevailing nature of informality. Reducing informality below a certain threshold that is considered "normal" (based on the country's structural characteristics) can increase poverty and unemployment, and in some cases can lead to social tensions (Lyoaza, 2018). Therefore, structural reforms also need to be put in place to steadily reduce this "normal" level of informality to enhance productivity, and growth. Conversely, "excess" informality arises from policy distortions and market

[1] This paper was prepared by Khushboo Khandelwal.

segmentation. Reducing this "excess" informality involves designing and implementing formalization strategies to eliminate these inefficiencies.

4. Reforms to ensure smooth functioning of the labor market are critical to ensuring an inclusive and sustainable economic growth. Uganda is in the unique position of being a relatively young country, with a rapidly growing youth population. The youth population (ages 0 to 14 years) in Uganda is projected to rise from 21 million to approximately 29 million by 2060[1]. This brings with it much potential, but also some challenges. Uganda's labor market is plagued by high structural unemployment and high levels of informality, even compared to other low-income and sub-Saharan African countries, which reflect high-levels of skill mismatch, and incentives to create low-productivity small informal firms (Figure 1). Carefully crafted labor market and education policies, and addressing barriers to formal sector growth can help create greater number of productive employment opportunities, making optimal use of labor resources. Understanding the path to formal employment, and considering the constraints faced by the informally employed, will help design policies to reduce informality and support inclusive growth.

Figure 1. Informal and Formal Employment, 2020
(In percent)



Source: ILO and IMF staff calculations

5. This paper aims to better identify the factors behind the transition of youth to formal and informal sectors in Uganda. Specifically, the empirical work will focus on the youth labor market experience and the implications of the school-to-work transition for long-term employment outcomes. The rest of the study is structured as follows. The first two sections analyze Uganda's labor market and youth employment trends and challenges. The third section discusses the data and methodology used to analyze the youth transition into jobs, while the last presents the findings and conclusions.

[1] See World Bank (2021) blog for a detailed discussion on Uganda's population trends. https://blogs.worldbank.org/en/africacan/demographic-boom-explainer-ugandas-population-trends#:~:text=The%20youth%20population%20(ages%200,to%20nearly%2070%25%20by%202060.

B. Uganda's Labor Market Trends

6. Unemployment remains a challenge. Data from latest National Labor Force Survey indicates that both labor force participation and employment rates have declined in FY20/21 compared to in FY16/17 (Table 1). Unemployment rate has also edged up and remains very high for youth. The survey result showed that of the 20.5 million working persons in 2021, the majority (51%) were own-use production workers[1], followed by (49%) in employment. Agriculture, forestry and fishing has been the dominant sector over time counting for 60 percent of employed people[2]. The employment to population ratio (EPR) was 43 in 100 persons, down from 48 percent (Table 1). The youth population (aged 18-30 years) was estimated at 9.3 million. Majority of the youth (52%) were employed in the services sector. Four in every ten youth (41 percent) - an equivalent of 3.8 million young people - are neither in employment nor pursuing education or undertaking any form of training. Findings further show that females (52%) and rural youths (45%) were more likely to be in this category.

Table 1. Uganda: Key Labor Market Indicators
In percent of working age population (14-64 years), unless stated otherwise

	2016/17			2020/21		
	Male	Female	Total	Male	Female	Total
Labour Force Participation Rate (LFPR)	61.1	44.8	52.6	57.9	39.3	48.3
Employment to Population Ratio (EPR)	56.2	39.8	47.6	51.9	33.8	42.5
Unemployment Rate (UR)	8.2	11.5	9.7	10.4	14.1	11.9
Proportion of youth (aged 18-30) not in employment, education or training (NEET)	29.0	50.5	40.7	28.0	52.2	41.1

Source: Uganda Labour Force Survey, 2021

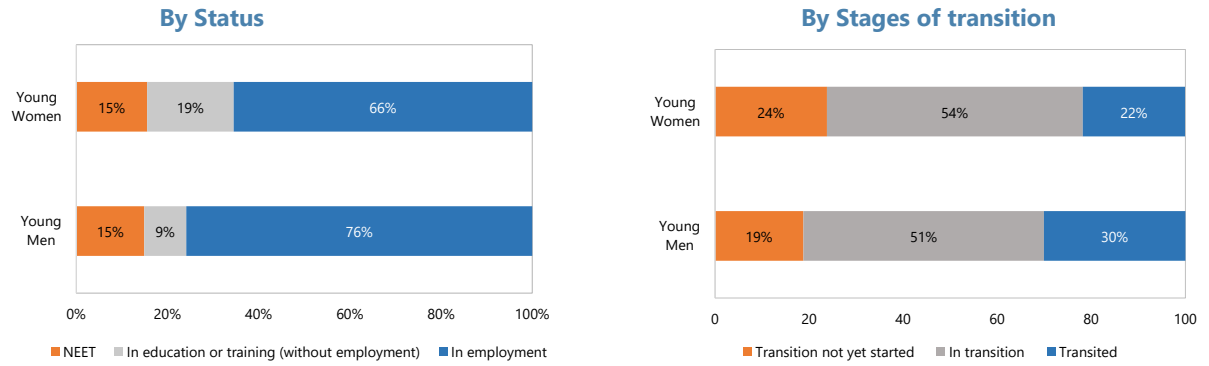
7. The pandemic has also highlighted the need to transition workers to the formal sector due to the increased vulnerabilities faced by informal workers, such as lack of social protection and job security. This is in addition to the ongoing priority of raising overall employment to support economic recovery and resilience. The vulnerability of young people has increased due to not just high levels of unemployment, but also low-quality jobs, as well as a longer and less-secure school-to-work transition. While the NEET (Not in Employment, Education or Training) rate is a measure for youth labor underutilization, it refers only to the quantity of employment and does not reflect on the quality of the jobs (Figure 2). The 'stage of transition' indicator gives a more detailed classification of job quality and young people's transition path in the labor market. According to the 'stage of transition', completion of the transition from school to work is achieved when a young person obtains either a stable job, or satisfactory self - or temporary employment, not just employment of any kind.

[1] Own-use production work refers to activities performed to produce goods or provide services intended for final use by the producer, their household and/or family.

[2] See National Labor Force Survey (2021) Main Report.

8. The charts (Figure 2) show that the share of young people who had completed the transition (who found satisfactory or stable employment) was always significantly smaller than the share of young people in employment as a whole. Not only this, more young men than young women had completed the transition. Meanwhile, most young women (78%) either had not yet started the transition or were "in transition". Further the data suggested that young women who had not started their transition or were still in transition, most of them were not attending school.

Figure 2. Share of Youth Population (15-29) by Status and Stages, 2021
(In percent)

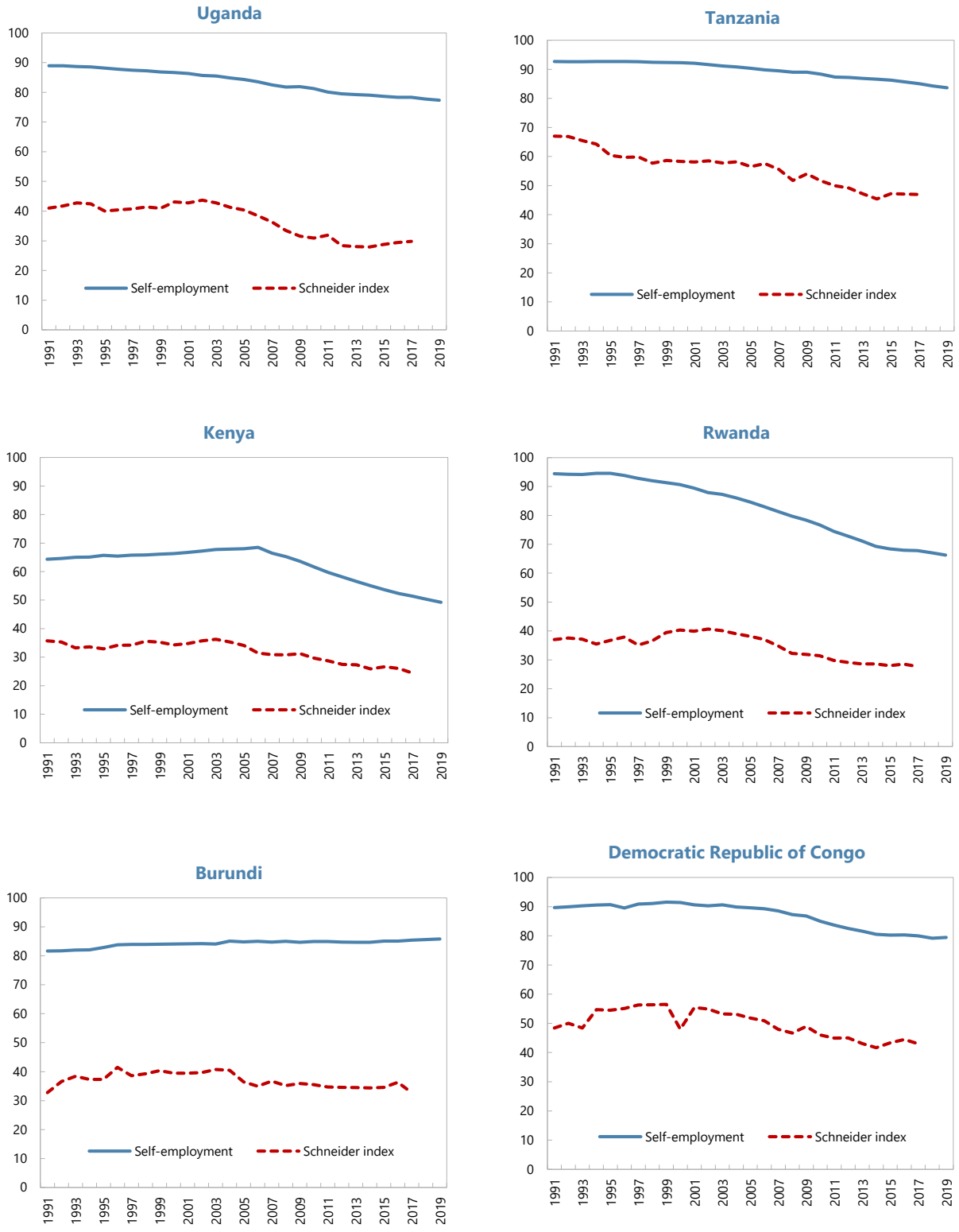


Source: ILO and IMF staff calculations

9. Although Uganda's informality rate has declined over the past two decades, it remains high. We compare the trends of two informality indicators (Figure 3) - self-employment in percent of total employment and the Schneider Index (Medina and Schneider, 2018) - from 1991 to 2019 for both Uganda and neighboring countries[1]. The Schneider Index estimates the size of the shadow economy, providing insights into the scale of informal economic activities. This index is crucial for understanding the extent of informality in Uganda and how it compares with neighboring countries. As shown by both indices, the level of informal employment has generally declined in Uganda, from an estimated 43 percent in 2000 to about 30 percent in 2017. This trend is similar to that of Tanzania, Kenya, and Rwanda.

[1] Self-employment - the ratio of self-employment to total employment. Schneider index (*Shadow Economy*) - is an estimate of the share of production not declared to tax and regulatory authorities. It presents estimates on the size of the shadow economy for 158 countries across the globe.

Figure 3. East African Community: Informality Estimates, 1991-2019

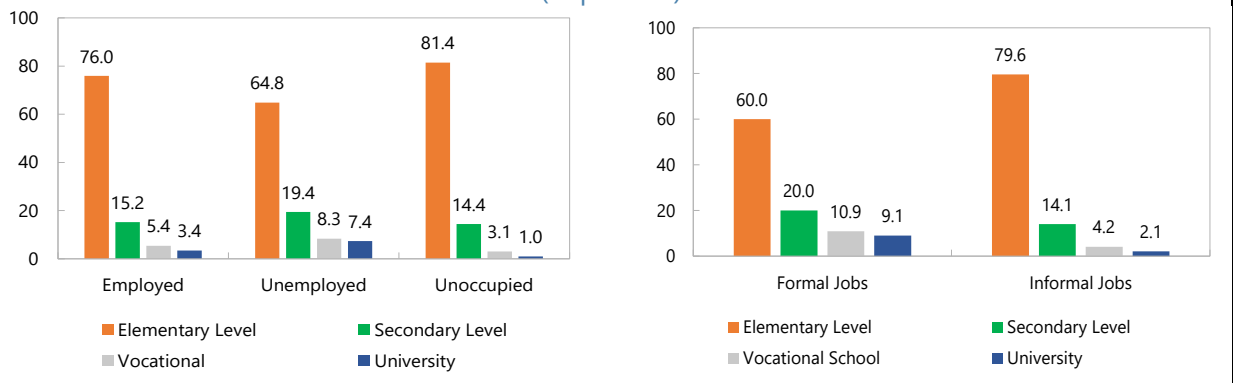


Source: WDI, Medina and Schneider (2018), IMF staff calculations

C. Youth Employment Trends in Uganda

10. Youth unemployment is high across educational attainment, although relatively lower for those with university education or vocational skills. To understand the youth labor market in Uganda, we investigate data from the International Labor Organization's School to Work Transition Survey (ILO SWTS) from 2015. Around 7 percent of unemployed youth have tertiary education. For youth that are not in labor force, education nor training ("unoccupied youth"), about 81 percent have elementary education and only 1 percent have tertiary education (Figure 4). Youth with only elementary education dominate the informal sector. In contrast, individuals with vocational or university education have significantly higher formal employment rates, highlighting the importance of higher education in securing formal employment.

Figure 4. Labor Market Outcomes by Education Level, 2015
(In percent)



Source: ILO's SWTS and IMF staff calculations

11. The length of past unemployment spells can play an important role in the transition to formal jobs. Prolonged job searches are associated with a higher likelihood of ending up in informal employment (Shehu and Nilsson, 2014; ILO, 2023). Among unemployed youth, around 40 percent of young men and women have been looking for jobs for more than a year, increasing their chances of informal employment (Figure 5). While 97 percent of youth workers, both men and women, are employed in the private sector, this high employment rate includes both formal and informal jobs. The challenge lies in ensuring that these private sector jobs are formalized to provide better job security and social protection.

Figure 5. Employment Statistics Among Youth, By Gender, 2015
(In percent)

Source: ILO's SWTS and IMF staff calculations

D. Transition from School to Work: Evidence from Youth in Uganda

12. Understanding the factors driving young people into informal employment is essential for developing effective policies and design targeted interventions to promote formal job creation. The ILO SWTS on youth labor market transitions covers ages falling between 15 and 29. Each country's 'National Statistics Office' typically conducts this survey, which asks all participants questions about their personal information, family background, education, experience, and employment status. 2015 Uganda SWTS is the only micro survey that captures detailed individual characteristics and provides data that can be analyzed for informality. This allows for a comprehensive study of the factors influencing youth transition to informal employment. While there have been changes since 2015, the fundamental challenges in Uganda's labor market have remained largely consistent, making this data a valuable foundation for understanding persistent structural issues. Therefore, using this dataset is justified in identifying long-term trends and informing policy recommendations. The main objective is to shed light on the significant barriers to

youth's employment within the formal economy, while also informing policy about the relevant reforms that could help ensure sustainable and decent work opportunities.

13. To evaluate the factors affecting youth's transition from education to formal and informal jobs, we undertake logit model analysis. The Logit estimates help identify the impact different factors play in affecting the transition of youth into the different labor market outcomes after controlling for demographic and educational characteristics. These covariates include age, gender, relationship status (head of household), marital status, education, parents' level of education, and job search duration. Table 2 presents the estimation results, which help understand how certain youth characteristics affect transitioning to an informal instead of a formal job

Key Findings

14. These estimates suggest the following:

- **Education:** Education consistently shows significant negative coefficients across all levels, indicating that higher education reduces the likelihood of transitioning to informal employment. For instance, individuals with tertiary education are 18 percent less likely to end up in the informal sector compared to those with lower education levels, as higher education correlates with higher earnings and better access to formal jobs (Honorati et al. 2019).

- **Gender:** Gender plays a crucial role in employment outcomes, with female coefficients generally positive. This suggests that females have a higher likelihood of informal employment compared to males. The predicted probability of informal employment increases from around 75 percent for males to approximately 85 percent for females, highlighting significant gender disparities in the labor market.

- **Marital Status and Motherhood:** Marriage is associated with a higher incidence of formal employment compared to informal jobs, although this effect is not always statistically significant. However, motherhood significantly increases the probability of transitioning to informal sector, likely due to additional responsibilities and potential biases in the labor market.

- **Parental Education:** Higher parental education, especially the mother's, has significant negative coefficients. This reduces the likelihood of informal employment for individuals whose parents have higher education levels. The probability of informal employment decreases by around 25-40 percent for youths with educated parents, suggesting that parental education positively impacts the chances of formal employment.

Table 2. Uganda: Transitioning to Informal vs. Formal Jobs[1]

Logit (1=informal, Base=formal)	(1)	(2)	(3)
Age	0.002	-0.013	-0.050*
	(0.028)	(0.024)	(0.027)
Head of the Household	0.001	0.007	0.014
	(0.068)	(0.058)	(0.073)
Father's Education		0.026	-0.274**
		(0.107)	(0.107)
Mother's Education	-0.411*		
	(0.212)		
Female		0.596***	
		(0.164)	
Secondary Education		-0.535**	
		(0.209)	
Vocational Education		-1.119***	
		(0.289)	
Tertiary Education		-1.794***	
		(0.361)	
Married			0.216
			(0.225)
Female * Mother	0.459***		0.333**
	(0.150)		(0.138)
Transition Period	0.092		
	(0.089)		
Time looking for jobs * Secondary	-0.247**		
	(0.098)		
Time looking for jobs * Tertiary	-0.776***		
	(0.207)		
Time looking for jobs * Vocational	-0.296*		
	(0.154)		
Constant	1.639**	1.617***	2.536***
	(0.756)	(0.626)	(0.695)
Observations	757	1,039	767
r2_p	0.0449	0.0552	0.0221

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

[1]This study is based on ILO's School to Work Transition Survey (SWTS) data for Uganda from 2015. The dependent variable in this case was looking at the likelihood of transitioning to the formal versus informal sector.

- **Length of Job Search:** Longer job searches have negative coefficients for all education level interactions, indicating that prolonged job searches reduce the likelihood of transitioning to informal jobs, particularly for those with higher education. For example, the coefficient for tertiary education holders is 0.78, compared to 0.25 for secondary and 0.30 for vocational education holders. This suggests that more educated individuals are less likely to compromise on employment outcomes despite longer job searches.

- **Demographic characteristics:** Older youths are less likely to transition to the informal sector compared to younger ones, though the age coefficient is not always significant. This might suggest that general work experience, proxied by age and education level, is a contributing factor to securing formal employment.

- **Overall,** these findings underscore the importance of investing in education, addressing gender disparities, supporting working mothers, and leveraging parental education to reduce youth informality and promote sustainable economic development.

E. Conclusion and Policy Implications

15. Providing young people with sustainable job opportunities necessitates sound macroeconomic and structural policies. These policies should also strive to be inclusive, for the most vulnerable youth and those facing discrimination when it comes to opportunities, including through active labor market policies and training. At the same time, determining the challenges behind limited formal employment opportunities in Uganda is a key first step to improving the situation.

16. From the demand side, structural transformation needs to be mixed with macroeconomic policies to create more jobs by addressing constraints that hinder firm growth and formal employment.

- The formal sector, which is largely concentrated and urban-based, is the source of innovation and the driver for shifting Ugandan workers from relatively low-productivity activities to higher ones. Survival and moving up the production value chain are key challenges for firms, that need to be mitigated by providing quality infrastructure, managing infrastructure costs, improving access to finance and enhancing appropriate labor skills through education and training.

- Providing quality infrastructure fosters and supports formality at the individual firm and national levels. For firms, La Porta and Schleifer (2008) have noted that informal businesses suffer from inadequate access to infrastructure and mainly electricity. Thus, by equipping them with the tools needed to thrive, such enterprises would formalize.

- Providing targeted training and technological support for small and medium enterprises, self-employed and entrepreneurs can increase connectivity to different value chains. For instance, advice can be provided to small firms on how to formalize, including related to record-keeping requirements (Islam and Lepeyre, 2020).

- Supporting formalization by ensuring a simple, transparent, efficient, and fair regulatory environment, especially for startups (La Porta and Schleifer, 2008). Many informal businesses remain unregulated because the regulatory environment is uncooperative (Chen, 2007). Public institutions with strong governance and transparency should enhance trust amongst investors.

- More generally, economic diversification would ensure that growth is less volatile and dependent on domestic consumption and remittances. This can be through rechanneling resources towards sectors with high productivity and potential for job creation.

17. From the supply side, addressing skill mismatches and skills gaps to enhance transition to formal employment is crucial. Our empirical findings highlight the importance of addressing demographic characteristics, educational attainment, and job search duration.

- Enhancing the quality of education and making it accessible is crucial. This includes focus on relevant curricula, scholarships, and partnerships between educational institutions. Enhancing cooperation between the private sector and educational institutions through providing apprenticeships or internships can offer work-based experience that can facilitate the youth's transition to formal employability. Providing orientation and career guidance in schools also benefit young people as they transition from school to work.

- Providing targeted support for female employment, especially for young mothers, will ensure gender parity. This can be achieved by providing easy access to affordable childcare, flexible work arrangements, and by implementing maternity / paternity leave policies and anti-discrimination policies.

- Establishing job matching services to connect job seekers with employers will help reducing job search time. Not only this, offering vocational training and internships aligned with market demands to enhance employability and facilitate transitions to formal employment.

- By developing region-specific policies, the government can address local employment disparities. This includes investing in regional infrastructure, supporting local industries, and providing targeted training programs for youths. It is also important to ensure that decentralized support services are accessible to youths in remote areas.

- Creating targeted support programs for NEET (Not in Education, Employment, or Training) youths to re-engage them in the labor force or education will also be an important step in this direction. This may include outreach efforts, skills training, and educational reintegration. Encouraging youth entrepreneurship through access to finance, training, and mentorship can be very effective.

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