International Growth Centre

PROJECT MEMO

PUBLIC INVESTMENT AND GROWTH: IMPLICATIONS OF RECURRENT COSTS IN UGANDA

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IN BRIEF

- Public investment, especially in infrastructure, is a necessary condition for sustainable private sector growth
- The Ugandan government plans a major public investment programme but lacks a coherent analytical framework
- Researchers found the timing and amount of spending will largely determine how useful the investment will be
- The brief was used by the Ministry of Finance to help design sustainable monetary and fiscal policies in the interest of macroeconomic stability

Public investment, especially in infrastructure, is a necessary condition for sustainable private sector growth. The Ugandan government is planning a major public investment programme but lacks a coherent analytical framework to support this process.

In this project, the IGC's Christopher Adam and David Bevan build a macroeconomic model to include a richer set of fiscal choices. A Uganda-focused version of the model had been requested by the Secretary to the Treasury. This project complements a previous IGC Uganda study on domestic debt and builds on IGC Uganda's work on managing resources for growth and improving monetary management.

On the basis of the model, it becomes possible to compare policy choices with respect to investment, consumption transfers, public debt, and taxes through the use of policy scenarios. The scenarios highlighted that too steep an investment surge would be detrimental to achieving long-term results. Instead, a more gradual expansion of public investment was recommended. Incurring debt at market rates to invest quickly was found to show little payoff compared with a more gradual rise, as the recurrent costs of the investment largely outweigh the benefits of building, which is not the case with a slower pace of spending.

The paper was used in discussions of macroeconomic policy in preparation of the budget.

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