International Growth Centre

Ministry of Finance, Planning & Economic Development

# High Level Growth Forum
# Republic Of Uganda

*Accelerated and inclusive growth for sustainable development*

**14-15 September 2017**

**Concept note**

## 1. PREAMBLE

The **Ministry of Finance, Planning & Economic Development** (MoFPED) will host a two- day high level Growth Forum to reflect on the state of the Ugandan economy, and identify policy solutions to drive the country's future economic growth performance. The conference will provide an opportunity to discuss key growth challenges, learn from policy experiences in other countries, and identify a course of policy actions to drive accelerated and inclusive growth in Uganda. The event will be co-hosted with the **International Growth Centre (IGC)**. The audience will consist of government officials and staff, the donor community, and the academic and business private sector.

The timing of the Forum is well aligned with the Government of Uganda's budget cycle. Any specific actionable policy proposal that is identified may be incorporated into the action plans of relevant institutions for 2018-19. Participants will therefore be encouraged to be as specific as possible. The Growth Forum will be a key opportunity for policymakers, development practitioners, the private sector and academia to connect and discuss ideas to reinvigorate the performance of the Ugandan economy.

## 2. CONTEXT

The Ugandan economy is estimated to have grown at 3.9% in FY 2016-17, compared to population growth of approximately 3% implying modest per-capita gains.[1] This also represents a decline compared to average annual growth of 4.5% during the five year period to FY 2015-16. Lower growth in the FY 2016/17 is largely attributed to a slowdown in the agriculture, forestry & fishing sector (25% of GDP) due to prolonged drought that affected many parts of the country. However, medium-term growth trends, especially compared to average annual growth of almost 7% from the 1990s to 2010 – suggest that the economy has fallen short of its post-reform growth pace in recent years.[2] The slowdown since 2011 is

[1] UBOS (2017), "Annual GDP Estimates Financial Year 2016/17 & Calendar Year 2016", http://www.ubos.org/2017/05/31/annual-gdp-estimates-fy-2016-17-cy-2016/

[2] World Bank (2017), "Uganda Economic Update – 8th Edition", January 2017.

related to a number of factors including both domestic and external headwinds that have created a less than supportive environment for economic growth and management. The national election in early 2016 coincided with political instability in South Sudan and the Democratic Republic of Congo - both key export destinations for Ugandan goods – were coupled with an overall slowdown in the global economy. Depressed global demand also resulted in tighter financing conditions and a sustained slump in commodity prices, a key driver of Uganda's growth in the past.

Accelerated execution of public investment projects in energy and infrastructure has been a primary driver of recent economic gains in Uganda.[3] The momentum in public investment suggests the potential for an investment-driven path to development and structural transformation in Uganda. However, risks such as under-execution of the development budget and volatile donor financing threaten to undermine these aspirations. In particular, improved **public investment management** (PIM) is critical for the country to realize the growth dividends associated with the increase in public investment. Another risk associated with the country's ambitious investment program is the potential crowding out of private investment. Indeed, private investment as a percentage of GDP has contracted (by about 5 percentage points since FY 2012/13), exacerbated by uncertainty related to the election period. This was accompanied by a sharp deceleration in private sector credit, on the heels of a surge in interest rates. More recently, whilst interest rates on government paper have receded in response to eased monetary policy conditions, lending rates remain high, constrained by a rise in non-performing loans.

In the face of rapid fiscal expansion and increased government expenditure, **domestic revenue mobilization** has been unable to keep up, resulting in a deterioration of the fiscal balance. Moreover, given uncertainty regarding revenues from commercial oil production, decline in donor financing and aid inflows, and slowing economic growth - Uganda's low domestic revenue mobilization will become an increasingly important binding constraint to growth. To address this underperformance, the Uganda Revenue Authority (URA) has made a commitment to raise tax revenues by at least one-half of one percentage point of GDP per year until 2020.

In terms of **external sector** performance, Uganda's current account deficit, in contrast to most countries in Sub-Saharan Africa, actually narrowed over the five-year period from 2012-2016, improving from 8.4% of GDP in FY 2011/12 to 6.3% in FY 2015/16. The improvement in Uganda's current account over the period is attributed to: delayed public investment expenditure, slower growth and a windfall from the drastic slump in the unit price of oil, all of which resulted in a lower import bill. Export performance, on the other hand, has stagnated at about 11 percentage points of GDP, hampered by weak global demand, falling commodity prices and the unrest in South Sudan. Shepherd (2016) suggests that the primary driver of Uganda's current account deficit seems to be the government's persistent fiscal deficit, i.e. public sector dissaving, which also outweighs the current account deficit as a percent of GDP.[4] The composition of exports has changed dramatically in recent decades - service exports have grown significantly, from about 15% of total exports in 1995 to 42% (almost half) in 2016. Trade in services is therefore expected to play an increasingly crucial role in improving Uganda's export performance and its efforts to facilitate structural transformation. However, the majority of Uganda's population, approximately three-quarters, is still employed in the agricultural sector and as such, efforts to improve

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[3] Ibid.

[4] http://www.theigc.org/project/improving-export-performance-in-uganda/

export performance must also tackle the issue of low productivity in agriculture if growth is to be inclusive and alleviate poverty.

In spite of the continued dependence on the agricultural sector for employment, the Ugandan economy has been undergoing a process of **structural transformation**. The share of value added by the agriculture sector in the economy has reduced from about 50% in 1995, to 25% at present (its contribution to value added has nearly halved). Over the same period, the share of the manufacturing sector in value added has remained stable at around 8%; although, the services sector has notably grown from 36% to 55%. The changing economic landscape, has also been accompanied by a rapid process of urbanization as 70% of the country's non-agricultural GDP is concentrated in urban areas. However the gradual pace of structural transformation and its form (whether it is fostering productive and inclusive economic growth) raises important policy choices for the Government, in terms of the sectors and spaces to prioritize for development. These include (but are not limited to): policies to help enhance **agricultural productivity**, value addition and rural-urban linkages; policies to foster 'learning' for the development of domestic **industrial capabilities**; policies to promote the development of export-oriented manufacturing and **tradable** services; and, public investments to improve connectivity and foster the development of **productive cities**.

Looking ahead to the medium term, Uganda's economic outlook remains favorable, despite the downside risks and aforementioned constraints. Growth is projected to reach 5 percent in 2017/18, and to remain on an upward trajectory after that.[5] To realize Uganda's middle income aspirations however, it will be critical to invest in **skills** and human capital development for the country's very young population (with the lowest median age in the world of 15 years) and fast growing labor force. The challenge is to raise Uganda's growth to the next higher plateau – the intended focus of the proposed High level Forum on Growth.

## 3. DATE AND VENUE

The event will be held from 08:30 - 17:30 hrs. on 14th & 15th September 2017 at the Speke Resort, Munyonyo.

## 4. FORMAT

The Growth Forum will comprise of one 'Framework Session' on Growth to contextualize succeeding discussions, followed by seven thematic sessions on the determinants of economic growth over the course of two days. Each session will begin with two presentations, followed by a lead discussant who will respond to the two presenters, and conclude with a Q&A session with members of the audience. The presenters and discussants have been selected in order to strike a balance between the perspectives of practitioners and academics. The session chairs will ensure that discussions focus on policy options, rather than theoretical analysis. As such, the Chair will seek to get questions and answers that elicit what the presentations mean for future policy in Uganda.

[5]https://www.bloomberg.com/news/articles/2017-04-04/imf-sees-ugandan-growth-rebounding-in-2017-18-on-infrastructure