



Ministry of Finance, Planning
& Economic Development



High Level Economic Growth Forum Republic of Uganda

Industrialization for job creation and shared prosperity
22nd August 2019 – Imperial Royale Hotel, Kampala

Draft concept note

Following two successful High-Level Economic Growth Forums held in September 2017 and 2018, the Ministry of Finance, Planning and Economic Development will host the third Economic 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 cutting edge research as well as policy experiences in other countries, and identify a course of actionable policies to promote and sustain inclusive growth in Uganda. The event will be co-hosted with the International Growth Centre (IGC). The audience will consist of government officials, the donor community, and the academic and private sector. The timing of the Forum has been deliberately set to align with the Government of Uganda's budget cycle such that any actionable policy proposals identified may be incorporated into the budget strategy and action plans of relevant institutions for FY 2020-21.

CONTEXT

The Ugandan economy has experienced a significant recovery since 2016. The economy is estimated to have grown by 6.1% in the FY 2018-2019, at the same rate as the previous year and up from 3.9% in FY 2016-17.¹ There has been increased levels of growth in recent years across the agricultural, industrial and service sectors.²

Agricultural production has benefited from favourable weather conditions, as well as active government policies to provide extension services and inputs. In particular, replanting and extension services have boosted coffee production, allowing this industry to become a major driver of export growth.³ At the same time, recent years have seen the emergence of a number of medium-skill industries that offer higher value added activities and have greater potential for long term productivity gains.⁴ Industries such as tobacco, pharmaceuticals and construction have driven industrial growth rates of 5.8% in 2019/20. Most significant growth has been seen in the service sector at 7.2% in 2018/19⁵, driven by, financial, insurance and tradeable services. Concerted efforts to promote tourism in Uganda have contributed significantly to the sector's growth over the last decade and helped build a promising

¹ Hon. Matia Kasajja, 'Budget Speech: Financial Year 2019/20' (Minister of Finance, Planning and Economic Development, 2019); Ministry of Finance, Planning and Economic Development, 'Performance of the Economy Report', September 2018.

² Ministry of Finance, Planning and Economic Development, 'Semi-Annual Budget Performance Report FY 2018/19', February 2019.

³ Office of the Prime Minister, Government of Uganda, 'Government Annual Performance Report 2017/18', October 2018.

⁴ Richard Newfarmer, John Page, and Finn Tarp, eds., *Industries without Smokestacks*, 2018,

⁵ Kasajja, 'Budget Speech: Financial Year 2019/20'.

industry for future growth. Tourism alone now ranks as the country's highest foreign exchange earning sector.

However, despite these successes, there remain significant development challenges that threaten Uganda's long term growth trajectory - particularly in the context of sluggish global growth prospects.⁶ Compared to an estimated population growth rate of 3.3% in 2017⁷, GDP growth in Uganda implies only modest per-capita gains. Whilst agricultural production is growing, productivity has stagnated, with slow progress in agricultural technology adoption and value addition.⁸ At the same time, the industrial sector's contribution to GDP has remained at around 20% since 2015, with almost half of this from non-tradeable activities such as construction – making it unlikely that Uganda will meet the NDP II target of increasing the contribution of industry to GDP to 27.9% by 2020. High interest rates and costs of doing business limit the potential for private investment, while skills gaps impede the ability of firms to productively employ growing Uganda's labour force.

As a result, there is limited growth of high value and globally competitive industry; exports continue to be mainly primary products, resulting in continued trade deficits and vulnerability to global commodity price shocks.⁹ Un- and under-employment is a growing problem, with 1 in 4 young Ugandans out of work and approximately 80% of the labour force informally employed.¹⁰ Adding to these challenges are growing regional conflicts that threaten to disrupt trade flows and limit markets for Uganda's products. At the same time, those gains from economic growth are not evenly distributed across the population. Growing inequality between rural and urban areas has resulted in rapid urbanisation rates that is outpacing the ability of local governments to provide infrastructure and services for productive urban development.

Underlying all these issues are challenges of policy implementation that severely affect the potential for reform across all sectors. According to the National Planning Authority's Certificate of Compliance of the Annual Budget FY 2017/18, overall compliance for the financial year was only 54%, declining from 58.8% in 2016/17.¹¹ Implementation of public investments core to NDP II are largely behind schedule, resulting in lower than projected expenditures.

To address these challenges and ensure a sustainable and inclusive growth path for Uganda's economy, the Ministry of Finance, Planning and Economic Development has identified six key areas for economic growth. The objective of the Economic Growth Forum is to assess performance and policy implementation in these sectors and identify actionable policies for improved performance:

- **Boosting agriculture and agro-industrialisation:** Crucial to Uganda's efforts to boost export earnings and promote inclusive growth is the need to increase productivity of the agricultural sector that currently employs 80% of the workforce but only makes up 26% of GDP. This session will look at policy implementation in the sector, options for enhancing productivity and quality of agricultural products for competitive export, as well

⁶ World Bank, 'Global Economic Prospects: Heightened Tensions, Subdued Investment', 2019.

⁷ World Bank, 'Population Growth (Annual %)', 2017.

⁸ Office of the Prime Minister, Government of Uganda, 'Government Annual Performance Report 2017/18'.

⁹ Office of the Prime Minister, Government of Uganda.

¹⁰ Kasajja, 'Budget Speech: Financial Year 2019/20'.

¹¹ Asuman Guloba, NPA, 'The Certificate of Compliance of the Annual Budget FY 2017/18', (2019).

on how to practically operationalize the “nucleus farmer” model recently championed in the budget speech of the Ministry of Finance.

- **Accelerating private and public investment:** While there has been significant progress in public investment in infrastructure, issues of public investment management and procurement continue to cause delays and limit potential growth dividends. Similarly, whilst private investment is increasing, an uncompetitive business climate limits the potential for competitive production. This session will explore both issues of implementation associated with public investments, as well as policy options for attracting and promoting productive foreign and domestic investment.
- **Enhancing a growing tourism industry:** Research presented at the last Growth Forum on the role of government in tourism has led to an increase of the budget to the sector by about 60% and has helped the government in prioritizing infrastructure projects crucial to the sector. This year’s session will consider promising avenues for further reform and government support to the private sector to harness the sector’s full potential as the government seeks to increase tourist visitors to 1.92 million annually and annual tourism earnings to \$1.95 million by 2020. A distinct focus will be on product development in tourism and the sector’s potential for job creation and boosting overall economic growth.
- **Productive urban development:** Leveraging rapid urbanisation in Uganda as an engine for growth requires active policy to facilitate public and private investment and address the ‘demons of density’ – congestion, overcrowding, and contagion - while encouraging productivity gains in the rural sector to support urban activity. This session will consider the linkages between rural and urban productivity, as well as key areas for policy reform in delivering urban infrastructure and services to overcome barriers to growth.
- **Import substitution and export promotion:** External trade offers a significant opportunity to enhance economic growth and employment creation in Uganda. With 80 percent of Uganda’s formal exports in raw agricultural products and in the context of stagnating global commodity prices, there is a need to consider how best to support businesses in tapping into domestic and regional markets and diversifying into higher value activities for export. To inform policy in these areas, the session will explore recent trends and challenges of Uganda’s export performance and will present research based a unique dataset of Uganda’s formal firms network to assess the role of policy in mitigating shocks to the economy. As part of this session, the Ministry of Finance will present research on the link between import substitution and export promotion, while a presentation by the IGC will suggest actionable solutions to implement policy in this area.
- **Education and skills:** With an estimated 700,000 new entrants coming into the labour force every year¹², investment in human capital and skills of the growing workforce is increasingly critical for Uganda’s long term per capita growth. Whilst there have been impressive strides in enrolment and providing universal access to primary education, Uganda is lagging behind in the quality of education, teacher absenteeism rates, and resultant outcomes. This session will explore interventions that offer promise in raising

¹² Ministry of Finance Planning and Economic Development, ‘Background to the Budget FY 2019/20’

education outcomes, as well as options for vocational training to better match workers with productive employment. A distinct focus will be laid on the question what skills will be needed by Ugandans to gain employment in the country's future high growth sectors.

By exploring these issues, the Growth Forum seeks to provide evidence for an actionable policy agenda for sustainable and inclusive growth in Uganda.

DATE, VENUE AND FORMAT

The event will be held from **08:00 - 17:30 hrs on 22nd August 2019** at the **Imperial Royale Hotel, Kampala**.

The Economic Growth Forum will begin with a Framework Session to explore and discuss the drivers and barriers to recent growth in Uganda, as well as future strategies for Uganda's economic growth in a rapidly changing global economy. This will be followed by two sets of three parallel sessions on the six priority areas for growth explored above: Agriculture and Agro-industrialisation, Private and Public Investment, Tourism, Urbanisation, Import substitution and Export Promotion, and Education and Skills.

Each parallel session will begin with a short presentation outlining performance of the sector as well as successes and challenges of policy implementation in recent years. Each session will then have 2-3 presentations outlining key ideas to drive inclusive growth, and conclude with a Q&A and general discussion with members of the audience on actionable policy interventions for the future. The presenters and discussants have been selected in order to strike a balance between the perspectives of practitioners and academics. The session Chairpersons will ensure that discussions focus on actionable policy options, rather than theoretical analysis.

After the conclusion of the parallel sessions there will be a Plenary Session where presentation will be made by the Rapporteurs (Permanent Secretaries of the respective line Ministries) on five actionable policies and three key ideas that emerged from each session. These ideas and policies will be examined as part of a panel discussion of Permanent Secretaries.

Finally, representatives from the donor community, IGC, and Ministry of Finance, Planning and Economic Development will provide their closing thoughts on next steps for policy and how external partners can best support the Government of Uganda in achieving this.