

Event report

High level Economic Growth Forum Republic of Uganda

Accelerating economic
growth for shared
prosperity

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Introduction: challenges and opportunities for Uganda's economic growth

The Economic Growth Forum 2019 was hosted by the Ministry of Finance, Planning and Economic Development (MoFPED) and co-hosted by the International Growth Centre (IGC). Following two successful high-level growth forums in 2017 and 2018, the aim of this forum was to identify actionable policy recommendations that could drive the country's future economic growth performance and could be incorporated into the Government of Uganda's budget strategy for FY 2020-21.

The forum began with a framework session which focused on the drivers and barriers to recent growth in Uganda. The day commenced with a keynote speech from Prime Minister Ruhakana Rugunda, reflecting on the successes following the previous forums and challenges to recent economic growth in Uganda. This was followed by IGC Country Director Richard Newfarmer discussing the new global environment and the implications for Uganda's growth, concluding with an evaluation of Uganda's recent growth performance by Albert Musisi from MoFPED.

The Ugandan 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. Prime Minister Rugunda noted that the implementation of recommendations from the last two forums contributed significantly to this growth; infrastructure has been a particular area of focus, with the government having embarked on a number of projects in the transport sector, including the expansion of Entebbe international airport. There has also been significant growth in the service sector, as well as growth in the tourism sector which ranks as the country's highest foreign exchange earning sector. A number of challenges were also outlined that could threaten Uganda's long term growth trajectory. Agricultural production is growing but productivity has stagnated; high interest rates and costs of doing business limit the potential for private investment, which limits the growth of a high value and globally competitive industry. 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. Further, a decline in global growth as well as uncertainties such as Brexit pose risks to Uganda's economic growth and climate change is an urgent problem which could reduce Uganda's growth prospects.

Following the plenary session, the format of the day consisted of three parallel sessions on the six priority areas for growth: Agriculture and Agro-industrialisation, Private and Public Investment, Tourism, Urbanisation, Import substitution and Export Promotion, and Education and Skills. Each session began with a short presentation outlining the performance of the sector, with another 2-3 presentations outlining key ideas to drive inclusive growth. The sessions concluded with a Q&A with the presenters and audience, focusing on actionable policy interventions for the future. The participants then generated 5 policy recommendations for each sector which were presented at the final plenary session.

Policy discussions on drivers of growth

1. Agriculture

As with most countries in Sub-Saharan Africa, agriculture is Uganda's key economic sector. Despite the sector accounting for only about one-quarter of the country's overall economic output, agriculture provides livelihoods for the vast majority of the population and generates the raw inputs needed to fuel a small yet growing industrial sector dominated by agro-based manufacturing enterprises. Recognising the enormous potential of adding value to the country's sizeable agricultural output as a means of boosting inclusive growth and creating productive employment across the country, the government is aggressively promoting agro-industrialisation. For example, the upcoming National Development Plan III, Uganda's five-year plan for economic development, identifies, "*natural resource-led industrialisation, especially agro-industrialisation*" as one of its priority programs. In line with this, content on agriculture at this year's EGF concentrated on agro-industrialization and on how to enhance value of local produce.

Speakers and presentations:

Patience Rwamigisa: *Performance and policy implementation in the agricultural sector*

Martin Fowler: *Agro-industrialisation in Uganda – Current status, future prospects and possible solutions to pressing challenges*

Ameet Morjaria: *Quality Upgrading and Pass-Through in Uganda's Coffee Sector*

Key highlights from presentation and discussion

The session began with a presentation by Dr. Patience Rwamigisa (Head of extension services at the Ministry of Agriculture, Animal Industry and Fisheries) on policy implementation in the agricultural sector. He pointed out that many of the actions agreed upon at previous Economic Growth Forums were not (or only in part) implemented. Among the reasons he cited that the sector is drastically underfinanced, presenting figures showing the financing gap for extension services. Most importantly, he pointed to the issue of little communication between different Ugandan government institutions. For example, he himself as a senior officer at the Ministry of Agriculture was not made aware of many of the recommendations coming out of previous EGFs.

The second presentation was delivered by Mr. Martin Fowler (Senior Ag. Advisor at USAID Uganda). His presentation provided a broad overview of the features and challenges of the recent Agro-industrialization push by the Ugandan government. Among others, his presentation pointed out that the push for commercialization of agriculture in Uganda is likely to be undermined by a lack of coordination among relevant stakeholders, a lack of trustworthy statistics on the sector, the unravelling of the East African Community, as the country's most important export destination for agro-based exports and the constant underutilization of installed capacity in agro-processors.

Lastly, Prof. Ameet Morjaria gave a presentation focused on Uganda's coffee sector. Following an overview of the sector and showcasing that Coffee has been consistently the most important goods foreign exchange earner in the country, Prof. Morjaria assessed the question on how to enhance productivity and quality of coffee exports through quality upgrading. Based upon the fact that there is only a very small number of coffee exporters in the country, his key

recommendations would be to allow the Uganda Coffee Development Authority to impose quality export standards. These would then pass through the supply chain to traders and small scale farmers.

The discussions after the presentations largely centred around both issues presented by the presenters as well as the issue on how to improve the education of the unskilled and sizeable labour force of the country. Recommendations coming out of the session included the following: Improve statistics in the agricultural sectors, sensitize farmers and other stakeholders in agriculture about existing finance and insurance schemes, incentivize quality upgrading of Ugandan coffee throughout the value chain through enforcement of quality and standards at the exporter level and to develop a government programme aimed at improving the number and quality of extension workers in the country.

2. Private and public investment

While there has been significant progress in public investment in infrastructure in Uganda, 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 explored both issues of implementation associated with public investments, as well as policy options for attracting and promoting productive foreign and domestic investment.

Speakers and presentations

- 'Public Investment Management Performance and Policy Implementation': Kenneth Mugambe (Ministry of Finance, Planning and Development)
- 'Tax Policy and Investment': Nada Eissa (Georgetown University)
- 'Special Economic Zones for Uganda': Matthieu Teachout (Columbia University)

The session was chaired by Gideon Badagawa (the Executive Director, Private Sector Foundation Uganda) while key responses came from: Cyprian Chillanyang (URA, Assistant Commissioner) and Moses Kaggwa (MoFPED, Ag. Director/Economic Affairs).

Key highlights from presentation and discussion

The session began with a presentation from the Ministry of Finance, Planning and Economic Development on the performance and policy implementation of public investments in Uganda. The Director Budget, Kenneth Mugambe pointed out that Uganda is estimated to lose up to \$300M annually due to inefficiencies in spending, thereby lowering the country's rate of capital accumulation and delaying the envisaged growth dividends from investments. As in the framework session on growth, he reiterated that the National Planning Authority's midterm review of NDP I and NDP II had found project performance was unsatisfactory, resulting in lower than projected expenditures. However, he noted that there was progress being made: absorption capacity had improved to 89.3% for externally financed projects and 95% for GoU projects, over the last two years.

He also reported back to the forum on the progress made thus far, in implementing some of key policy reforms identified in Economic Growth Forum I (2017), identified to improve the current state of public investment management (PIM) in Uganda. These he noted, included:

- Completing the streamlining of project selection, preparation and appraisal ahead of project approval and financing
- Review of the PPDA Act to fast track the procurement of complex projects: a draft bill, he pointed out is before Parliament
- Creation of the integrated Bank of projects to align project information and create a reliable source data for decision making
- Specialized training on Public Investment Management (PIM) for MDAs to improve absorption capacity and implementation
- Improving government's commitments to operation and maintenance by undertaking an annual stock flow and developing an asset management framework under the Accountant General's office.

Nada Eissa's presentation focused on tax policy for investment, and more specially, the role of tax incentives in stimulating local investment and attracting Foreign Direct Investment (FDI). Professor Eissa explained that whilst tax incentives are not 'directly observed' government expenditure, they do constitute a form of *tax expenditure* (defined loosely as revenue losses attributable to provisions of the tax code) and should thus be reflected in the budget as a form

of government spending - given that they are direct losses to tax revenue (in the form of revenue forgone) which would otherwise have been put towards government spending.

She noted that tax incentives, by definition, confer a preferential tax treatment to individual business, class of businesses or sectors - relative to the benchmark tax system, with the goal of: (a) attracting capital and jobs, (b) inducing competition within local firms or raising productivity and (c) ultimately improving standards of living. In practice, however, tax incentives are challenging to monitor, measure and administer – often leading to economic distortions (e.g. providing support to financially unviable firms), eroding the tax base, and aggravating fiscal deficits. In the case of Uganda, estimates put the revenue forgone from tax incentives and exemptions at an average of UgShs.1 trillion per year since FY 2010/11 to-date, or 1-2% of GDP. This is a significantly high cost to the taxpayer, especially given the country's low tax base and revenue constraints. Part of the problem, Professor Eissa suggested is that Uganda's current tax incentive structure covers all sort of sectors (without discretion) and takes different forms, namely: tax holidays/exemptions, investment-related customs exemptions, accelerated depreciation and income deductions.

To lower the cost and revenue loss from tax incentives, Professor Eissa recommended that the design of Uganda's tax incentives be reconsidered to target the cost of capital and not firm profit. She pointed out that in cases of developed and emerging economies, where the use of tax incentives had been successful in attracting investment (e.g. industrial development in East Asia¹), the incentive design was significantly skewed towards *expenditure-based* tax incentives (such as Investment allowances) and NOT *profit-based* incentives (such as tax holidays or exemptions). This observation is further supported by recent evidence² that suggests expenditure-based incentives tend to be more closely linked to firms actual undertaking of new investment, and are therefore a better policy tool for FDI attraction. Profit-based incentives, on the other hand, are likely to create distortions and few positive spill overs as they reward overall profits rather than crucial business investments. Consequently, profit-based incentives will tend to attract footloose companies (those that pack up when the incentives expire or reduce) or unfairly benefit firms at the expense of the taxpayer (e.g. companies that would otherwise have been unproductive and financially unviable or highly profitable firms that only gain a windfall profit from the tax benefit).

Apart from differences in policy design, developed and emerging economies differ from developing countries, in that they are less likely to use discretionary incentives or arbitrary rules for granting exemptions. Here, it was emphasized that the powers to grant tax exemptions should typically be held by only one government agency – and preferably the Ministry of Finance – as the latter would be responsible for the monitoring of government revenue and expenditure.

In conclusion, Professor Eissa emphasised that tax incentives alone are not a silver bullet, and for developing countries like Uganda, would not be enough to attract productive investment without a strong investment climate - something substantiated by several business surveys such as the 2014 IMF Investor's Survey which found that 90% of investment benefiting from incentives, would have taken place anyway. The best course of action, therefore, could be to redirect revenue forgone from tax incentives towards investments that improve the business climate and reduce the cost of doing business. (e.g. reliable electricity and water, road construction, good governance and rule-of-law, etc.)

Matthieu Teachout's presentation looked at the potential and policy options for Special Economic Zones in Uganda. He began by defining SEZs as geographically delimited areas with specific incentives aimed at attracting and promoting investment. He discussed the fact that though SEZs have proved to be particularly successful in boosting employment, exports

¹ Moore et al., *Taxing Africa: Coercion, Reform and Development* (London/New York: Zed Books, 2018)

² International Monetary Fund, *Options for Low Income Countries' Effective and Efficient Use of Tax Incentives for Investment* (Washington D.C: IMF, 2015)

and FDI in countries like China, this may have been due in part to China's transition towards an open market economy. In other countries, SEZs have had a notable mixed record, with many cases of failure in India, Latin America and in Africa. He discussed the fact that fiscal incentives have generally proven to be less important in determining investment decisions, and will not compensate for a poor business climate. As such, fiscal incentives may have a limited impact on investment but represent a large forgone tax revenue for government. Instead, Matthieu stressed the importance of improving the business climate through more streamlined procedures, infrastructure and improvements in trade logistics. Crucially, Matthieu stressed the importance of starting small, and conducting cost benefit analyses and effective monitoring and evaluation of SEZs to determine how best to use these instruments in achieving policy aims. In the medium-long run, he stressed the importance of thinking about spill-overs from these zones to rest of the economy, e.g. through local content units.

Discussions in the session centred around policies to both enhance public and private investment. In response to the response to the presentation by MoFPED on public investment, there was a plea from the ED, Uganda Road Fund and Chair Engineering Board to reform current revenue laws such that the URF could directly charge and access road fees, for the purpose of operations and maintenance costs. In addition, all participants agreed that coordination between implementing agencies was a critical aspect to lowering inefficiencies in spending and increasing the returns to public investment. Dr Richard Newfarmer highlighted the need to think about government policies to alleviate constraints to counterpart funding in addition to thinking about how to raise government revenues. When asked about the implications of this discussion for the informal sector, Kenneth Mugambe noted that efforts to improve public infrastructure delivery would be crucial in bringing down costs of business for formal and informal businesses.

Discussions on private investment focused on the key message that an effective business climate was more important to investors than tax incentives - especially given the current deficiency in infrastructure. Mr Moses Kaggwa, Ag. Director of Economic Affairs at the Ministry of Finance, highlighted the importance of evaluating the need for additional incentives beyond industrial parks. Verna Mbabazi, an architect, noted that it would make sense to start small and expend while learning for SEZ policy, to ensure that private and public investments are well coordinated. Phillip Muwanika from the Uganda Free Zones Authority highlighted the need to make SEZs in Uganda truly 'special' to be able to attract further investment, and discussions noted that this would likely require a blend of fiscal incentives and improved business climates. The importance of certainty in terms of who is getting tax incentives and for what kinds of activity was stressed as part of the discussion. Cyprian Chillanyang (Assistant Commissioner, URA) also called for increased monitoring of tax incentives to ensure that the envisaged social benefits and outcomes are being met.

3. Tourism

Travel and tourism is one of the fastest growing sectors in the world and one of the fundamental drivers for growth, job creation and foreign exchange earning in Uganda. Nonetheless, there exist several untapped channels for the promotion of this sector. Research presented at last year's 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. The session this year explored options for growing the tourism sector aside from providing investment in infrastructure and how both the government and the private sector can engage in product promotion and development.

Speakers and presentations

- Ochieng Bradford: Deputy Chief Executive Officer of the Uganda Tourism Board (UTB). "Uganda's Tourism: Performance and Policy Implementation"
- Wilber Ahebwa: Associate Professor at Makerere University, Kampala. "Tourism Product Development in Uganda: a Strategic Stance"
- Boopen Seetanah: Associate Professor in International Economics and Finance at the University of Mauritius. "How should government participate in the development of the sector to harness its full potential, apart from providing infrastructure?"

The session was chaired by Hon. Janet Mukwya (Minister of Gender, Labour and Social Affairs).

Key highlights from presentation and discussion

The session started by a presentation from the UTB. The presentation laid out the government's objectives for growth in the tourism sector. By 2020, the government is planning to increase the contribution of this sector to GDP from 9% to 15% and to double foreign exchange earnings from USD 1.35 billion to USD 2.7 billion. In addition to this, the speaker explained the importance of enhancing and diversifying the stock of tourism products, improving coordination and regulation of the sector, increasing the stock of quality of human capital along the value, and the creation of jobs. Mr. Bradford then spoke about the implementation and tracking of the recommendations stemming from the last two forums. He specifically mentioned the launch of coffee tourism as a new product and the upgrade of the tourism transport infrastructure. The speaker then discussed some of the challenges persisting in this sector like the overall low level of competitiveness of Uganda as a destination, low health and hygiene standards, limited knowledge of products other than animal trekking, inadequate IT infrastructure, and limited Meetings, Incentives, Conferences, and Exhibition (MICE) tourism. At the end of his presentation, Ochieng presented UTB's way forward for development of this tourism which included: the development and implementation of a product development strategy in collaboration with Ministry of Tourism, Wildlife and Antiquities (MoTWA), Uganda Wildlife Authority (UWA), community based associations and the private sector. He added that UTB is planning to use MICE as a new product, invest in marketing and branding, and IT of the sector alongside performing product audits and portfolios will be conducted and developed for Northern Uganda, Karamoja, L. Victoria and R. Nile.

Professor Wilber Ahebwa presented the results of an IGC project that he led alongside Dr. Philip English. Wilber started by providing an overview of the global growth in tourism and then delved into providing the results of their work on product development in Uganda. The research relied heavily on interview from active stakeholders in the private and public sectors. The speaker presented 9 products and services that has a huge potential: Gorilla trekking, wildlife safaris, bird-watching, chimpanzee trekking, the source of the Nile, mountaineering, cultural tourism, MICE, and Human Resources development. For all these products the

presenter noted that private sector contribution to product development is key as “the risks to the government going alone will be high”.

A third presentation was given by Boopen Seetanah. The overarching theme was how can the government provide further investments in this sector aside from infrastructure. Boopen also provided some insights on Mauritius experience with the promotion of this sector. The presentation started by listing key highlights from the travel and tourism competitiveness report for Uganda. The results show that Uganda is lagging behind neighboring countries of Kenya, Tanzania, South Africa and Mauritius etc. Boopen laid out the main investments that the government should consider: marketing promotion of the destination and branding, human capital formation and training, regulation of the market and hotel star rating, and air access and openness. The main recommendations are: increase the budget for tourism promotion, enhance tourism statistical and research base, joint marketing promotion by different stakeholders, skill-gap analysis and the need for investment in the hotel training institute etc.

Discussion in the session highlighted that any potential intervention in the sector must ensure a cooperative approach between all stakeholder, thus breaking the current soloing approach. In addition to this there was a debate on the plans for building a dam at the Murchison falls. All participations agreed that going forward monitoring and evaluating tourism interventions is important to guide the country's approach.

4. Urbanisation

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 explored successes and challenges in implementation of urban policy, areas for cross-country learning for urban reform, and the potential for Kampala and secondary cities in promoting productive investment and job creation.

Speakers and presentations

- ‘Urban development in Uganda: performance and policy implementation’: Mukite Rosemary M. (Ministry of Lands, Housing and Urban Development) and Patrick Musoke (Kampala Capital City Authority)
- ‘Towards the Promise of Cities that Work: Examples of Successful Reform’: Astrid Haas (IGC)
- ‘Firm clustering in Kampala: how can the capital become a sustained growth centre for Uganda?’: Julia Bird, with Tony Venables and Tom Hierons (Vivid Economics/University of Oxford)
- ‘Transforming Secondary Cities for Job Creation: A Study of Uganda’: Miljan Sladoje (Just Jobs Network)

The session was chaired by Professor Pamela Mbabazi (National Planning Authority).

Key highlights from presentation and discussion

The session began with a joint presentation from the Ministry of Lands, Housing and Urban Development and KCCA on performance and policy implementation for urban development in Uganda. Commissioner Mukite highlighted that urbanisation can be an engine of growth for the country, and that effective policy for cities requires a multi-pronged approach: leveraging the benefits of connectivity that cities can provide, addressing the ‘downsides of density’, and encouraging positive linkages with rural development. With urban centres in Uganda already making up 21% of the population and average urban population growth at 8% per year between 2002 and 2014, she highlighted the daunting task before the government of accommodating huge inflows of people into cities. Crucially, she noted the importance of thinking about legal, institutional and financial arrangements for cities to allow them to effectively invest in the infrastructure needed for productive urbanisation. Further to this, Patrick Musoke noted in particular the need for forward-thinking land use planning to ensure proactive infrastructure investment and effective use of urban land that is often the subject of dispute.

Patrick Musoke considered the policy implementation of recommendations made in the first Economic Growth Forum in 2017. Key recommendations from EGF I included the need to coordinate transport and land use management, regulation of informal transport, supporting access to markets for informal enterprises, business engagement centers to support firms, piloting of affordable housing options, and coordination of policy across Greater Kampala. Mr Musoke noted that some progress had been made in regulating the operation and taxation of informal transport, aiming to integrate these forms into plans for a BRT in Kampala. At the same time, progress has been made on construction of urban roads and physical markets in

the city, as well as plans for land sharing agreements to support affordable housing in the city centre. However, more needed to be done in these areas to allow for effective urban connectivity, and limited progress had been made on the establishment of business support centres in KCCA. Mr Musoke noted the challenge in particular of informal employment and underemployment in Kampala city, and the importance of LED policy to tap into local competitive advantages.

Astrid Haas noted that policymakers in Uganda can see cities not just as a challenge, but as an opportunity for growth by bringing together large amounts of firms and workers to share markets, infrastructure and ideas. She presented on opportunities for learning from the successes of urban reform in other cities, looking at reforms to transport, housing, proactive planning, and the underlying requirements of municipal finance, urban governance and urban data for effective policy. She highlighted key lessons from transport reform in Lagos, where through a dedicated transport authority the city integrated existing *danfo* operators into the BRT system and started small to general buy in for further reform. She noted that transport reform is particularly important in a city where a third of people live within walking distance of work to avoid long commutes. In housing, she highlighted the promise of incremental housing schemes, allowing citizens to invest in building up their houses over time. Ms Haas noted that these schemes may be particularly valuable in a context of weak land transferability in Ugandan cities. In addition to coordinated institutions and good data, she noted the potential for land value capture as implemented in cities such as Bogota for implementation of policy. Through betterment fees, for example, city governments have been able to capture and reinvest the rising values of urban land that are in part the result of public investment.

Julia Bird's presentation focused on the potential and challenges of cities for productive firms, looking at Kampala in particular, that is estimated to produce up to 65% of the GDP of Uganda. According to the 2011 census of business establishments, the most common type of firm in Kampala is consumer services such as hairdressing and printing. She highlighted that in order to maintain and enhance productivity of firms, they need to be well located to access markets, suppliers, and workers – this is reflected in high degrees of centralisation of activity in Kampala, particularly for producer services that benefit from knowledge spillovers and personal connections with other firms. As such, clustering seems to be important for firms in Kampala, and other ways of connecting firms and workers across a wider area such as a BRT system are likely to be beneficial. By contrast, specialised manufacturing clusters emerge further out from the centre where land is cheaper and near transport corridors. This highlights the importance of specific policies to support these clusters such as specialised skilling and incubation centres. Further regression analysis highlights in particular the importance of **land tenure** and **main road access** for (particularly large) producer services and manufacturing firms. This highlights the importance of strengthening property rights and access to roads to attract and support productive firms.

Mr Sladoje's presentation explored the potential for job creation in secondary urban centres of Uganda, particularly pertinent in the context of nine new cities being declared in the country. He noted that while Kampala continues to dominate in providing economic opportunities, the capital city alone was unlikely to be able to sustain a large and growing population in search of economic opportunities – while 250,000 youth are joining the workforce every year, only 42,000 new wage jobs are being created in the Greater Kampala Metropolitan Area. Secondary cities offer an opportunity for further job creation across the country – but require active policy to support this. Currently, there are limited opportunities for productive non-farm

employment and high levels of vulnerable self-employed or unpaid labour in secondary urban areas. He noted that current government initiatives towards job creation are largely directed by a number of different ministries in central government, with limited ability of local governments to adapt these to local needs. At the same time, current policy is focused on self-employment, rather than on support for SMEs which may have greater employment potential. Current policies towards industrial parks often have limited linkages with local economies. To address these issues, Mr Sladoje recommended that in the short run, government support industries with specific locational advantages, supporting supplier linkages for job creation from industrial parks, and encouraging regional coordination on job creation. In the longer run, he recommended strengthening the ability of local governments to provide infrastructure and support to firms.

Discussions in the session highlighted the importance of forward planning, affordable housing provision, and working closely with the private sector for urban policy. PS Okalany (MoLHUD) noted the importance of aligning urban plans with tensure issues and policies towards industrial parks and free zones as well as greater coordination across Greater Kampala. Engineer Kijuka (National Housing) noted the importance of prioritising financing for housing and better regulation of the housing sector to encourage affordable housing.

5. Import substitution and export promotion

Like other LDCs, Uganda is keen to exploit regional and global opportunities for improved export performance. At the same time, the country is also keen to substitute imports that could be produced locally with domestic goods and services. This session explored possibilities of how Uganda could possibly achieve these two goals that are often seen as contradictory. For example, market access to foreign access might be hindered substantially if Uganda tries to encourage higher consumption of domestic produce with locally produced goods through higher external trade tariffs.

Speakers and presentations

- “Uganda’s trade: Performance and policy implementation”: Jakob Rauschendorfer (International Growth Centre);
- “Import substitution and export promotion for growth”: Davis Vuningoma (Ministry of Finance, Planning and Economic Development);
- “How to operationalize import substitution policy: Improving domestic supplier linkages and the role of search obstacles in Ugandan firm markets”: John Spray (International Growth Centre)

The session was chaired by Dr. Louis Kasekende, Deputy Governor at the Bank of Uganda.

Key highlights from presentations and discussions

The session kicked off with a review of Uganda’s trade performance and policy implementation presented by Jakob Rauschendorfer (International Growth Centre). The presentation highlighted that while the trade deficit increased over the previous fiscal year, additional imports were registered especially for capital goods and inputs into domestic production (e.g., fuel). Additionally, a long term trend is that Uganda is now exporting a greater variety of products, with

agro-based manufactures increasingly playing an important role in the composition of the export basket. Second, and in contrast to previous decades, regional markets in the EAC now play an important role in absorbing the country's exports. Key challenges to further improving the country's export performance include the prevalence of Non-Tariff Measures, the ongoing review of the Common External Tariff, disruptions in key markets (e.g., South Sudan), high transport costs as well as a lack in enforcement of relevant policies. With regards to the latter the presentation then proceeded to review the implementation status of various recommendations from previous Economic Growth Forums. Overall, the presenter reported that some progress had been made on most key recommendations, but in general implementation was lacking.

The next presenter, Mr. Davis Vuningoma from the Ministry of Finance, Planning and Economic Development, considered the question whether the policy directives of "export promotion" and "import substitution" can be pursued jointly and how Uganda should pursue the policy goal of reducing the import bill, while at the same time building a strong export oriented private sector depending on access to foreign markets. Mr. Davis started his presentation from the observation that Uganda runs a trade deficit and that trade deficits can be detrimental to growth due to outsourcing the production of goods that Uganda could possibly produce itself to other countries. He then proceeded to describing the evolution of the trade deficit over the years and pointed out which type of products and origin countries are most crucial in explaining the deficit. The presenter then considered the dangers associated with purely protectionist import substitution policies based on the experiences of other countries (e.g., in Latin America). He noted that protectionist import substitution policy alone could well lead to retaliatory measures of key trading partners, a decline in competitiveness, and so called "stunted stages of industrialization". Key recommendations from his presentation were that import substitution policy should be combined with a goal of harnessing exports for growth and job creation and that if protective measures are to be put into place that these should be combined with strong government supervision (e.g., setting export targets) and the enforcement of credible time limits to such policies. Mr. Davis ended his presentation with a review of recent government actions, measures and strategies targeted at implementing export promotion and import substitution policy, again re-iterating key recommendations pertaining to successfully combining imports substitution and export promotion into one coherent policy.

The final presentation entitled "How to operationalize import substitution policy: Improving supplier linkages and the role of search obstacles in Ugandan firm markets", extended the previous presentations of the session by considering one distinct policy opportunity for how Uganda could implement pro-competitive import substitution policy. Utilizing firm-to-firm transaction data on Uganda, Mr. Spray showed that one of the key obstacles holding back firms from sourcing their inputs domestically can be identified in high search costs about producers in Uganda. Reducing such search costs for supplier firms, for example by establishing firm-to-firm peer groups, encouraging the utilization of modern trading platforms or establishing *Supplier Development Programmes* that link large "anchor firms" to a network of local suppliers has the potential of reducing the import bill without reducing competition in Uganda.

Following these three presentations, Dr. Louis Kasekende, Deputy Governor at the Bank of Uganda opened up to questions from the audience. Key topics addressed in the discussion concerned issues around the perceived need to raise consumption of domestically produced products through initiatives like the *Buy Uganda Build Uganda* programme with a protectionist stance as well as the need to address various supply side constraint to improved export

performance (e.g., Non-Tariff measures or the cost of high transport costs). Another topic discussed was whether or not monetary policy, i.e., making exports more attractive to foreign buyers through a competitive exchange rate, should be one of the instruments under consideration to achieve better export performance. Dr. Kasekende, Deputy Governor at the Bank of Uganda, rejected this notion this on the grounds that the responsible institution for such measures (Bank of Uganda) already fulfils a host of other tasks and should not add this function to its responsibilities.

6. Education and skills

With over 500,000 new entrants estimated to be coming into the labour force every year³, 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 universal access to primary education, Uganda is lagging behind in the quality of education, teacher absenteeism rates, and resultant learning outcomes. Consequently, this session explored possible policy interventions that could address these issues, with specific emphasis placed on: (a) policy options that would better match worker's skills with productive employment and (b) human capital skills required to harness the digital revolution.

Speakers and presentations

- 'Economic development and human capital in Uganda: a case for investing more in education': Kirill Vasiliev (World Bank)
- 'Skills miss-match in the labour market: How can educational institutions help to equip the labour force with skills and raise labour productivity?': Anna Vitali (IGC/University College London)
- 'Human capital requirements in a digital economy': Diana Sekaggya Bagarukayo (World Bank)

The session was chaired by Professor Ezra Suruma (Head, Prime Minister's Delivery Unit – Office of the Prime Minister) while the key discussants were: Victoria Brown (Ichuli Consulting) and Mr Aggrey Kibenge (Under Secretary, Ministry of Education and Sports)

Key highlights from presentation and discussion

The session began with a presentation from the World Bank on the state of economic development and human capital in Uganda. Education Specialist, Kirill Vasiliev pointed out that Uganda was falling behind on education and learning outcomes when compared with peer countries in the region: according to the World Bank's Human Capital Index (HCI)⁴, which measures the contribution of human capital towards productivity of the next generation of workers, Uganda was ranked 137 out of 157 countries (the lowest quartile of the distribution). More specifically, the index showed that a Ugandan child born today is expected to complete only 7 years of education by age 18, compared to a regional average of 8 years. Adjusted for quality of learning, the 7 years is equivalent to only 4.5 years of learning, with 2.5 years 'lost' due to poor quality.

Mr Vasiliev indicated that there were several factors driving the country's poor HCI result, among them a high dropout rate throughout the education cycle: in 2017 the primary survival rate stood at 44%, considerably below the primary survival rate in Kenya (close to 100%), Ethiopia at 68% or Rwanda at 51%⁵. Compounding the problem of high primary dropout rates, is an extremely low transition rate to lower secondary. Statistics show that since 2010 the Gross Enrolment Rate (GER) for lower secondary, the minimum education level expected, has stagnated between 31-

³ Ministry of Finance Planning and Economic Development, 'Background to the Budget FY 2019/20'

⁴ The Human Capital Index ranges from 0 to 1. An economy in which a child born today can expect to achieve complete education and full health will score a value of 1 on the index.

⁵ Sajitha et al., *Facing Forward: Schooling for Learning in Africa* (Washington D.C: World Bank Group, 2008)

35% compared to neighbouring Kenya and Rwanda where it stood at 58% (2009) and 37%(2016), respectively⁶. These factors, the presenter noted, culminate to a low quality of education when measured by traditional quality indicators, such as qualifications of primary school teachers or basic numeracy and literacy skills (not more than 55% of pupils in Grade 3 could read or do basic numeracy).

To address the above challenges and improve the quality of education, Mr Vasiliev called for an increased budget allocation to the education sector, pointing out that at 2.6% of GDP, Uganda's current budget expenditure on education was the lowest in the region compared to Kenya, Tanzania, Rwanda, Burundi which spend between 3.2% and 5.2%.

Other policy solutions he suggested were: rolling out the new lower secondary education curriculum and the expansion of secondary schools based on efficient financing models.

Anna Vitali's presentation focused on the findings of a recent [IGC study](#) that aimed to understand the mismatch between labour demand and supply; by exploring on the supply-side: constraints to workers' skill acquisition, and on the demand-side: limitations to firms' take-up of new labour. For the study, the researchers conducted a labour market experiment (involving 1700 workers and 1500 firms over four years) that contrasted two different policy interventions: (i) *sector-specific, in-class vocational training* for workers before they enter the labour market (i.e. a supply-side policy intervention), and (ii) *firm-specific on-the-job training* that offered firms' a 6-month wage subsidy as an incentive to train and hire new labour (i.e. a demand-side policy intervention). The researchers then tracked the outcome of the two interventions on worker's skills, employment, wages, productivity.

Findings from the study showed that, whereas both vocational training (VT) and on-the-job training (FT) were equally effective at increasing workers' skills and productivity, those with vocational training were in fact more likely to find a job when unemployed. Consequently, over time, employment rates for workers with vocational skills were significantly higher than those of the control and apprenticeship group. The key difference, according to the study was the verifiability and transferability of skills acquired with vocational training. The certified skills acquired during the training proved useful up to four years after the intervention. Apprentices, on the other hand, learned firm-specific skills that were harder to certify and were valued less by other firms in the market. To translate this evidence to policy, the presenter recommended that the government increase its return on investments in vocational training by emphasizing certifiable skills. This, she added, could be achieved through various interventions such as accrediting all vocational training Institutions (VTIs), instituting formal certificates, and encouraging the use of reference letters.

Diana Bagarukayo discussed the human capital skills Uganda would need to harness the digital revolution and be digitally-enabled by 2030. Being 'digitally enabled', Ms. Bagarukayo explained, implied having digitally-enabled access to services, markets and opportunities such as: digital financial services, digital platforms for provision of government services, digital entrepreneurship and more crucially digital skills (to create and adopt digital technology tools relevant to the Ugandan context, would require a digitally savvy workforce). Digital skills, she noted, were categorized in three levels: first, Digital User skills which are the basic skills required for effective use of ICT tools, systems and devices – these skills would be the minimum skill-level expected of an average citizen or school student, enabling them, for example, to make use of a financial

⁶ UNESCO Institute of Statistics, (2019).

services application or log in to an online digital services platform. The second level of digital skills, Digital Specialist skills, are more advanced in that they involve researching, developing, installing and managing ICT tools and systems and would be the skill-level expected of certain professionals such as doctors, engineers, scientists, etc. The final and most advanced of the digital skills – e-Business Skills – involve being able to identify and create new digital technologies for business models and service delivery. Of the three levels, Ms. Bagarukayo, advised that the government needed to focus its efforts at the bottom of the pyramid, i.e. on basic Digital User skills for technological investments to be inclusive and transformative (going beyond incremental ‘islands’ of success). For instance, improving rural farmer’s basic digital user skills, would enable them use mobile phones to identify potential buyers for their produce. However, you cannot improve what you cannot measure. To measure improvements in the level of digital skills, the World Bank has recommended the following indicators and targets:

1. Percentage of 15-year old who have basic digital skills (target: all 15-year old by 2030) and
2. Number of graduates produced annually with advanced digital skills (target: 100,000 annually by 2030). Ms. Bagarukayo, emphasised however, that these targets would not be achieved without improvements in learning outcomes at the basic level of education and without raising the basic literacy and numeracy skills.

Discussions in the session highlighted the importance of developing a Skills Development framework that coordinates effort across the public and private sector. It was also noted that there was a need for the government to play an active role in ensuring that digital skills training is also provided for rural schools, to avoid unequal opportunity. A key issue that was also raised was the need for the government to address human resource and teacher motivation – which the Under Secretary, Ministry of Education and Sports (Mr Aggrey Kibenge) noted was being addressed in new The National Teacher Policy, approved in April 2019

Policy options for growth

The Economic Growth Forum III aimed at identifying **actionable policy options** to accelerate inclusive economic growth in Uganda. Below is a list of these recommendations, across the six thematic areas covered in the Forum.

Thematic area 1: Agriculture and Agro-Industrialization

1. Undertake value chain specific assessments in order to identify solutions to the problem of low capacity utilization among agro-industries (e.g. enhance market demand through product level information-sharing with existing and potential export partners).

Institution responsible: MAAIF/sector working group.

2. Improve the collection of statistics in agriculture that are crucial for policy and private sector planning as well as monitoring and impact assessment. Begin with a review of existing survey instruments, capacity and available staff to collect data, as well as timing and data publication based upon a survey of agriculture economists and other users.

Institution responsible: UBOS and MoFPED.

3. Inform farmers and agro-processors of existing agricultural insurance products and preferential access to finance schemes to promote uptake. This could for example be achieved through quarterly sensitization workshops or similar vehicles. Additionally, conduct a review to ascertain other impediments to higher up-take of such programs and share findings with the private sector to improve product quality.

Institution responsible: MAAIF (farmers); MoFPED/cross-sector working group in cooperation with the Bank of Uganda (agro-processors).

4. Incentivize quality upgrading of Ugandan coffee throughout the value chain by reviewing the design and enforcement of standards aimed at ensuring uniform quality of coffee exports and support exporters in meeting set standards. Fast track the approval and implementation of the Uganda Coffee Act.

Institution responsible: Uganda Coffee Development Authority.

5. Develop a program to improve on the number and quality of extension service workers, among others through closing the current financing gap for extension services, improving training, and building in performance assessments.

Institution responsible: MAAIF and MoFPED.

6. Develop a program to address the issue of low quality of inputs into agricultural activities like seeds, fertilizers and veterinary medicine by addressing the issue of counterfeits, poor storage and handling. Begin with a review of the implementation of existing laws and acts addressing the quality of agricultural inputs.

Institution responsible: MAAIF and MoFPED.

Thematic area 2: Trade and export development

1. Finalize the review of the EAC *Common External Tariff*, with a focus on a.) resolving misclassification issues, b.) collapsing the list of *Sensitive Items* into the peak tariff band and, c.) ensuring that the economic implications of tariff changes are fully considered in Uganda's negotiation position, including their effects on industrial competitiveness and consumer welfare.

Institution responsible: *National Working Group for the review of the CET/MoFPED.*

2. Work towards the goals of the *Buy Uganda Build Uganda* strategy of increased usage of locally produced products by emphasizing pro-competitive import substitution policies that encourage entry instead of competition-restricting policies (such as tariff surges). Pro-competitive measures that encourage entry include supplier development programs, establishing a program to overcome search constraints among Ugandan firms, and promoting electronic commerce. Achieve these goals for example by organizing quarterly training sessions with the *Uganda Manufacturers Association* on the usage of internet trading platforms (Alibaba etc.).

Institution responsible: MTIC and MoFPED (*Private Sector Development Department*).

3. Reduce the cost of trading in Uganda through resolving *Non-Tariff Barriers* (NTBs) domestically (eliminate burdensome procedures and improve government services) and regionally (strengthen the dialogue with other EAC members through the EAC secretariat). Begin with a review identifying the most important obstacles to trading that Uganda could resolve domestically.

Institution responsible: MTIC (through the *National Response Strategy on the Elimination of NTBs*), in cooperation with UNBS, MAAIF and MoFPED.

4. Revise and work towards the implementation of the *National Export Development Strategy*, by conducting a review of progress on each component and developing an implementation schedule of revised actions.

Institution responsible: Export Promotion Board and MTIC.

5. Expand Uganda's export base by sensitizing companies on export procedures, standards and regulations as well as opportunities to access finance through publications or workshops.

Institution responsible: MTIC and Export Promotion Board.

6. Conduct a joint, comparative review of the *National Export Development Strategy* and the *Buy Uganda Build Uganda* strategy to ensure that the two guiding documents on import substitution and export promotion are mutually consistent and contain monitorable benchmarks of action. Use the review to inform the formulation of NDP III's comprehensive import substitution and export promotion strategy.

Institution responsible: MoFPED, NPA as well MTIC and Export Promotion Board.

Thematic area 3: Private and public investment

1. Re-design existing tax incentives to quantify costs to the budget and to improve their effectiveness, allocation and monitoring by:
 - a. opting for instruments that affect the cost of capital (tax credit, accelerated depreciation) rather than profits (tax holidays, exemptions); and
 - b. tying these incentives to specific and measurable outcomes such as investment commitments, number of jobs to be created, export volumes to be achieved, etc.

Institution responsible: MoFPED.

2. Set up a coordinated monitoring system to conduct Cost-Benefit Analyses for existing and new tax incentives in order to ensure a.) value for money and b.) monitor that measurable outcomes of the kind mentioned under the first recommendation are achieved (e.g. number of jobs). This would necessitate the collection of firm-level statistics across various agencies to evaluate the different tax incentives and their fiscal externalities. In the long run, existing beneficiaries of tax incentives should be listed on the Uganda stock exchange to improve transparency and accountability.

Institution responsible: MoFPED supported by URA, UBOS, NSSF, UIA and UFZA.

3. Shift policy attention towards improving business services for firms in industrial parks and free zones in lieu of providing financial incentives. Actions could include the provision of one stop shops within zones, more streamlined procedures to limit the number of government agencies firms have to engage with to obtain documents, and a simplification of trade related procedures (e.g. customs clearance process).

Institution responsible: MOFPED, UIA, UFZA.

4. Conduct a review of plans for the expansion of zones and parks with the objective of prioritizing a selected number of zones and parks that will attract significant investments and job creation (e.g. near big cities). The review would include an analysis of budget expenditures (including tax expenditures) with the purpose of focusing limited resources on effective priority areas.

Institution responsible: MOFPED, UIA, UFZA.

5. Fast-track Public Investment Management (PIM) Reforms, to streamline coordination within implementing MDAs and between technical and political leadership, by institutionalizing joint selection, appraisal, planning & monitoring for related projects

Institution responsible: MOFPED.

Thematic area 4: Tourism Development

1. Increase returns from Gorilla trekking through the following actions:
 - a. As demand begins to exceed supply for Gorilla Trekking, there is need to increase the fee charged during the high season by July 2020;
 - b. Explore opportunities for increased and improved living environments for gorillas;
 - c. During high season, give preference to tourists booking a full 7-14 day trip to Uganda;
 - d. Exploit opportunities from Chimpanzee trekking.

Institution responsible: Ministry of Tourism, Wildlife and Antiquities (MTWA).

2. Review regulation in the tourism sector through a review of the tourism legal framework so as to identify and resolve potential legal constraints to increased sector growth (e.g. requirements to set up a business in the sector).

Institution responsible: MTWA.

3. Establish a program to conduct regular inspection of higher quality hotels and other tourism enterprises to ensure product quality, for example with a 1 to 5 star certification system.

Institution responsible: MTWA.

4. Fast track the construction of the *Jinja Hotel Training School* in order to improve quality of the human resources in the tourism sector.

Institution responsible: MTWA.

5. Support and incentivize private sector efforts towards the development of new products in the sector, for example by upgrading the *Pian Upe Wildlife Reserve* into a national park.

Institution responsible: MTWA.

6. Improve the marketing and branding of Uganda as a destination (e.g. through participation in tourism fairs, using social media platforms and other means, such as airline magazines).

Institution responsible: MTWA with MOFPED.

7. Enhance the research and statistical base around tourism in order to better inform policymaking and improve on tourism products.

Institution responsible: MTWA in cooperation with UBOS and the BoU.

Thematic area 5: Urbanization

1. Develop and implement integrated urban physical plans that proactively plan core urban infrastructure, e.g. roads and water, in advance of settlement.

Institution responsible: Ministry of Lands, Housing & Urban Development (MoLHUD).

2. Strengthen the governance of urban areas by:
 - a. Developing and implementing a strategy for the institutional and financial governance of 9 new cities approved for by Cabinet in May 2019.

Institution responsible: MoLHUD, Ministry of Local Government.

- b. Providing greater policy autonomy and strengthen local governments to improve their local economic development functions by being able to respond to local constraint and opportunities for job creation;

Institution responsible: MoFPED, MTIC.

- c. Implementing a delivery unit for the implementation of programmes requiring coordination across the Greater Kampala Metropolitan Area and establishing clear institutional arrangements for improving the coordination of policy design across the Greater Kampala Metropolitan Area.

Institution responsible: Ministry of Kampala and Metropolitan Affairs. NPA.

3. Establish business engagement centres in the KCCA to work with the private sector e.g. on tax education, assistance in business plans. These centres could implement spatially sensitive policies to support specific clusters across a city e.g. specific training for particular industries.

Institution responsible: KCCA.

4. Develop policies to attract private financing for affordable and planned housing e.g. incremental housing schemes in central urban areas and land sharing agreements between private firms and existing occupants of land, where investors pay for and provide affordable housing on a portion of the land currently occupied in exchange for land for productive investment. This would require engaging with local communities and developing business cases for specific sites.

Institution responsible: MoLHUD, KCCA.

5. Review owner occupancy exemptions to property rates in Kampala, and provide KCCA with legal means of enforcement of tax payments before legislative action e.g. fines for late payments.

Institution responsible: KCCA with MoFPED/URA.

6. Enhance mobility in Kampala city by:
 - a. Developing and implementing a strategy to formalise the informal transport sector with the view to integrate existing operators into the ownership, management and operation of a Bus Rapid Transit system along selected routes in the city;
 - b. Identify key corridors for the implementation of a Bus Rapid Transport system;

- c. Increase public funding and coordinate private investment for land access and for the procurement of high capacity buses to operate along these routes

Institution responsible: KCCA, MoKMA, MoWT, MoFPED.

Thematic area 6: Education and skills for growth

1. Shift focus on improving the quality of learning in order to raise basic literacy and numeracy rates (e.g. by investing in education for teacher, improving on the learning environment and review of incentives that may be responsible for teacher absenteeism).

Institution responsible: Ministry of Education and Sports (MoES).

2. Increase lower secondary education enrolment rates with a focus on effective learning and acquisition of skills, by fast-tracking the rollout of the new Lower Secondary curriculum.

Institution responsible: MoES.

3. Increase returns to investments in vocational training by ensuring certifiability. Specifically:
 - a. Ensure all Vocational Training Institutes under the Directorate of Industrial Training are assessed and accredited;
 - b. Promote and facilitate the certifying of workers' skills through national assessments and formal certificates;
 - c. Request and encourage firms to provide trainees with reference letters for on-the-job training.

Institution responsible: MoES (Directorate of Industrial Training).

4. Invest in basic digital literacy to harness the digital revolution (e.g. target Number of graduates produced annually with advanced digital skills).

Institution responsible: MoES.

5. Monitor and assess skill provision, by:
 - a. Investing in an annual information and labour market survey that will construct a database of reliable statistics and measurable outcomes on vocational training (e.g. number of accredited VTIs, number of certified BTVET graduates, number of trainers, etc.)
 - b. Including annual follow-up surveys of graduates to ascertain effectiveness of each school in enhancing employability; publish effectiveness results for each school on an annual basis.

Institutions responsible: MoES (Directorate of Industrial Training) with UBOS.

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