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Executive Summary: Uganda Country Strategy Note

Economic and Political Context

Until the recent shock from the COVID-19 pandemic, the Ugandan economy was experiencing a significant economic recovery. With the economy estimated to have grown by 6.1% in the 2017-18 and 2018-19 financial years up from 3.9% in 2016-17. However, because of rapid population growth of 3.3%, these rates provided only modest increases in average per capita incomes, somewhat below East African averages. Sector specific growth has been led by increased rates of growth in recent years across the agricultural, industrial and service sectors. Uganda remains politically relatively stable, despite considerable unrest surrounding the 2021 elections.

The key economic priorities for Uganda include a significant need to raise both productivity growth and domestic savings in the economy to finance higher rates of investment. The Ugandan economy remains concentrated in low productivity subsistence agriculture and non-tradable services (such as informal trade), which collectively make up around 70% of GDP. Internationally competitive industrial and services are relatively limited, with falling levels of worker productivity seen in both industry and services. Efforts to raise productivity across and within sectors will be crucial in putting Uganda on an accelerated growth path, allowing foreign investment and export growth to replace Official Development Assistance (ODA) in the medium to long run.

The International Growth Centre has singled out several priorities to raise economic growth in Uganda over the next five years. These priorities were identified through discussions with government counterparts like the Bank of Uganda, the Ministry of Finance, Economic Planning and Development and various line ministries and implementing agencies (e.g., the Uganda Revenue Authority), as well as through multi-stakeholder events like the Economic Growth Forum event series and from the priorities set in various government strategy documents. A selection of key priorities for the Ugandan government are outlined below:

- Raising the productivity and efficiency of public investment
- Enhancing agricultural productivity and value addition
- Facilitating structural transformation for high value export promotion and job creation
- Improving Domestic Revenue Mobilization
- Investing in productive and liveable cities
- Improving policy coordination and implementation

Country Programme:

Overview

The IGC Uganda programme was founded in 2012 and has since delivered research and policy advice within priority areas identified by the Government of Uganda. The Uganda team comprises of a Country Director (Richard Newfarmer), a Lead Academic (Vittorio Bassi), and two Country Economists (Jakob Rauschendorfer and Priya Manwaring). The country office has generously been hosted at the Bank of Uganda since its inception. The programme's network of international researchers and permanent in-country presence has enabled it to offer collaborative assistance to government partners.

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IGC Uganda: Recent Work and Impact

Over the course of Phase II, the IGC Uganda programme commissioned substantial work across the IGC's thematic focus areas. Under the Economic Governance theme, key projects include work on the mobilization of public revenues for investment with a specific focus on improving tax compliance. Under Trade and Productivity, work was done on the integration of economic activity within the East African Community and projects to inform the review of the Common External Tariff, Uganda's most important tariff regime. IGC Uganda also conducted multiple policy workshops under this topic area, among others on how deepening domestic supply chains could increase export competitiveness within the context of the 'Buy Uganda, Build Uganda' (BUBU), an event which ultimately contributed to considerable changes to the supporting legislation, the Local Content Bill. Under Cities and Infrastructure, the country program conducted collaborative work with the Kampala Capital City Authority on valuation and compliance for property taxation as well as a cross-institutional *Cities that Work* workshop on first steps towards a multi-modal transport system in Kampala.

One of the programme's most prominent contributions during Phase II was the inauguration of the Economic Growth Forum in 2017. Co-hosted with the Ministry of Finance, Planning and Economic Development (MOFPED), the forum has been held annually since 2017 and is now a firm component of the country's budget circle. The event brings together key government officials, the donor community, and the academic and private sector to discuss obstacles to growth in Uganda and identify actionable policy proposals that can be incorporated into the budget strategy and work plans of relevant institutions.

IGC Uganda: Outlook

As the priorities of the Ugandan government evolve, the IGC, will expand to cover new research areas with a focus on four key drivers of growth: effective economic governance, trade and productive firms, liveable cities and sustainable energy.

In the area of **economic governance**, against the backdrop of uncertainty regarding when commercial oil production will commence and an overall decline in donor financing and aid inflows, domestic revenue mobilization will continue to be an important binding constraint to growth. During Phase II, the country program's research in this area focused primarily on tax compliance and administration. While this is likely to continue, going into Phase III, we expect to commission further analysis on tax policy and its impact on inequality, informality, technology choice and the choice between domestic versus external sourcing of factors of production. It is widely agreed that institutional weaknesses and a lack of coordination among related ministries and agencies poses a significant threat and constraint to Uganda's growth efforts. With the advent of Phase III, the country program would like to explore this policy concern further by: (a) analysing the incentive structures governing bureaucratic systems, (b) investigating determinants that lead to a better selection process of bureaucrats and (c) mechanisms for better policy coordination. Going into Phase III, the country program will also centre on public investment management and how to raise the productivity and efficiency of public investment through more efficient investment analysis and improved management.

Trade and productivity will continue to be a key focus of the IGC Uganda programme. The country programme will continue research efforts targeted at advising the government on how to harness trade for higher economic growth and job creation through work on trade

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agreements (EAC-CET, CFTA and others), non-tariff barriers and trade facilitation, as well as develop its more recent work on the revenue aspect of international trade and the household impact of tariff reform. At the same time, the country programme will study the role of services both as a driver for economic growth and job creation (with particular focus on the recovery of the tourism sector) as well as a crucial input into other economic activities (e.g. manufacturing and trade).

In the areas of domestic manufacturing and value addition, the programme will aim to inform current government strategies for job-rich industrialisation by focus on analysing which sectors bear the promise of structural transformation, productivity growth and job creation (especially youth and women), analysing factors of relevance to attracting FDI (investment promotion, tax incentives), opportunities for supplier development linkages, as well as advising the government in its approach to industrial policies, including industrial parks and export processing zones. Policy options for job creation and employment have become particularly pertinent in light of recent job and income losses from the COVID-19 pandemic. At the same time, the country programme will aim to evaluate and advise programs affecting domestic competitiveness, such as technology adoption, search frictions and digitization adoption.

Under the **Cities and Infrastructure theme**, based on ongoing demand from stakeholders at both the national and local level, the country programme plans to engage in four main areas: urban land, infrastructure and service delivery, local economic development policy, and urban governance and financing. With the costs of retrofitting infrastructure after settlement up to three times as costly and access to land a key constraint to public and private investment in cities in Uganda, proactive and tenure-responsive urban planning (and research to guide this) will be crucial in allowing governments to realistically and credible provide for rapidly growing urban populations. At the same time, informing policies towards the delivery of affordable housing, sanitation and transportation options in cities will be key in providing the connectivity that will allow cities to be engines of growth for the country, rather than sites of congestion, contagion and overcrowding. This is particularly important for cities such as Kampala, where there is no high capacity system of public transport in place to date. Another key area for engagement, particularly as the country embarks on the establishment of nine new cities, is urban governance. This includes research to inform appropriate structures and incentives for metropolitan and municipal governments, support on systems for data collection and use in urban policy design, and perhaps most importantly, research to inform city governments in enhancing resources available to provide necessary infrastructure and services in cities.

Under **Energy and Environment**, in the face of an ambitious energy access program and significant investments by the government in energy infrastructure, there will be need to assess the returns to investment in the energy sector and the effectiveness of public expenditure on energy infrastructure (e.g. the incidence of electricity connection subsidies), as well as examine the consequences and advisability of energy subsidies to power development. As climate impacts become larger and are felt year by year, developing countries today, will have no choice but to design policies that will help their populations adapt to and mitigate the risks brought by a hotter, more variable and disaster-prone climate - Uganda is no exception. Going into Phase III, there will be a need to evaluate the efficacy and costs of these policies.

Country Team's Inclusive Growth Strategy

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Promoting inclusive growth requires tackling several cross-cutting issues affecting all dimensions of policy. 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. The team will continue to work on research in this area. An important marginalized group in Uganda is the large refugee population from South Sudan and the Democratic Republic of Congo. The country’s refugee policy has been praised internationally and offers key benefits to refugees but access to labour markets remains challenging.

Uganda’s regional position also exposes it to the effects of regional conflicts which often affect marginalised groups such as women, persons with disabilities and religious and ethnic minorities adversely. The team’s strategy includes building on work on regional economic spillovers from the South Sudanese civil war: Evidence from formal and informal cross border trade. Cross border trade in the region is dominated by women who rely on this economic activity to secure their livelihoods and is particularly affected by the COVID-19 pandemic.

Partnerships, Policy Engagements and Collaborations

The country team has developed strong engagements with key policy counterparts including: the Ministry of Finance, Economic Planning and Development, the Bank of Uganda, the Kampala Capital City Authority, the Uganda Revenue Authority and the Ministry of Trade, Industry and Cooperatives. In addition, the Uganda country team is working on deepening relationships with a number of line ministries and agencies specifically: the Ministry of Lands, Housing and Urban Development, Ministry of Local Government, Ministry of Agriculture, Fisheries and Animal Industry and the Uganda Free Zones Authority.

Factors that have contributed to this success include forging close collaboration with government stakeholders when designing projects in order to ensure buy-in from the beginning of projects; where possible, having government staff as advisors or co-authors on projects; and hosting dedicated events that address the concerns of policymakers such as the ‘Buy Uganda Build Uganda’ strategy workshop (held jointly with the central bank and the Ministry of Trade) and the flagship Economic Growth Forums.

Beyond fostering its relationships with clients, the country programme has successfully developed collaborations on individual research projects with researchers from institutions like the Economic Policy Research Centre, Makerere University as well as researchers from government institutions. Additionally, on the regional level, the country programme closely collaborates with regional bodies and donor funded institutions like the Secretariat of the East African Community or TradeMark East Africa.

Existing relationships with stakeholders and partners by theme

Theme	Stakeholders and Partners
Economic Governance	Ministry of Finance, Planning and Economic Development

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	Office of the Prime Minister Bank of Uganda Office of the President Uganda Revenue Authority National Planning Authority Ministry of Education and Sports
<i>Trade and productivity</i>	Ministry of Finance, Planning and Economic Development Ministry of Trade, Industry and Cooperatives Uganda Revenue Authority Uganda Free Zones Authority Uganda Investment Authority Ministry of Agriculture, Animal Industry and Fisheries The Secretariat of the East African Community in Arusha (EAC)
Cities and infrastructure	Kampala Capital City Authority Ministry of Lands, Housing and Urban Development Ministry of Local Government Cities Alliance
<i>Energy and environment</i>	UMEME

Country Covid-19 Strategy: Response and Recovery

Response Strategy

The recent COVID-19 pandemic has come at an enormous cost to Uganda's economy both in the short and medium run. Despite having relatively few local cases, the rapid spread of COVID-19 and resultant control measures implemented in a number of countries has resulted in a sharp downturn in economic activity. As a result, growth projections have fallen dramatically to 3.5% in 2020 (as compared to 6.5% forecasted in January).

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In response to the COVID 19 crisis, the country team has already completed a number of high-impact projects in line with areas of government interest. Including work requested by the Ministry of Finance, titled **“Projected Impact of COVID-19 on the Urban Poor in Uganda”** that utilizes two rounds of national household data (UNHS 2012/13 and the most recent UNHS 2016/17) to better understand the impact of the COVID-19 outbreak, and resulting containment measures, on poverty and inequality -especially for informal workers living in urban areas. Another study produced by the team, titled **“Easing the burden of COVID-19 in Uganda: Lowering food prices by reducing tariffs”** was completed, published online and circulated widely to government stakeholders and the donor community. It estimates the welfare gains associated with reducing excessive import tariffs on four food items: Vegetable oil, rice, wheat and wheat flour and sugar. Finally, a project called **“The COVID-19 impact on Ugandan supply chains: The importance of imports”** considers the impact of trade interruptions on Ugandan firms and recommends various interventions to ensure the smooth functioning of supply chains. Recommendations from this study were incorporated into the 2021/22 budget strategy.

Recovery Strategy

Crucially, the country team is also working with the government to develop a comprehensive recovery strategy. Including by providing the government with evidence to inform their wider Economic Recovery Plan.

A key vehicle for engagement in this area is the Economic Growth Forum, held again in early September 2020, which provided ideas for informing Uganda’s budget priorities in light of the crisis based on cutting edge research. Presentations at the event drew on ongoing or recently completed IGC work listed above on social protection, trade and value chains, tourism and agriculture, as well as the policy recommendations coming out of the IGC COVID-19 advisory group. Additionally, the country team is in the final stages of completing a book based on the contents presented at past Economic Growth Forums that is meant to guide government strategy over the coming years.

In addition, IGC Uganda will continue to support the recovery as results from recently commissioned work come to fruition. This includes the following projects:

- COVID-19 and Uganda’s Tourism Sector - Reviving the Industry through the National Budget: Tourism, more than any other sector in Uganda, has been badly affected by COVID 19. This study explores the various ways in which government resources can be used to ensure that this critical source of high-wage jobs and foreign exchange survives and emerges stronger once commercial international travel fully resumes.
- Covid-19 and the value of relationships in informal economies: this project will help to better understand the impact of the crisis on Uganda’s informal economy and identify policy options to support those firms that are responsible for providing a sizable share of all jobs in the country.
- Work on Community Health Care and COVID-19 Pandemic: This project seeks to shed light on the direct and indirect effects of the Covid-19 pandemic on health seeking behavior and health outcomes in rural Uganda, and the effect of community health workers and SMS messaging on health seeking behavior and health outcomes.

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- Uganda and the African Continental Free Trade Area: Export growth will be a key component of the recovery process of the country. The advent of an encompassing continental free trade area bears significant opportunities for Uganda's exporters. In this project we are developing an adaptable framework of use for Ugandan policy makers engaging with these developments.