Strategy note

Executive Summary: Uganda Country Strategy Note

1. Country context

Uganda's economy is estimated to have grown at 3.9 percent in FY 2016-17, compared to population growth of 3 percent implying modest per-capita gains.[1] Lower growth in FY 2016/17 is largely attributed to a drought-induced slowdown in the agriculture sector. However, medium-term growth trends (e.g. 7 percent average annual growth over the past two decades) suggest a marked slowdown since 2011.[2] This trend is attributed to external and domestic factors including: weak global demand, depressed commodity prices, political instability in South Sudan and DRC, (both key export markets), coupled with adverse weather patterns and strains from domestic election cycles (2011 and 2016). The government is committed to managing the impact of these shocks while pursuing an investment-driven path to economic growth and development.

A concerted public investment programme is underway to address Uganda's large infrastructure deficit – a key binding constraint to economic growth.[3] However, risks such as under-execution of the development budget, slow pace of project execution, and volatile donor financing threaten to undermine these aspirations. Improved public investment management will therefore be critical for Uganda to realize the growth dividends associated with the increase in public investment. Furthermore, domestic revenue mobilization has been unable to keep up in the face of rapid fiscal expansion, resulting in a deterioration of the fiscal balance. Given uncertainty regarding revenues from commercial oil production, decline in donor financing, and slowing economic growth, Uganda's low domestic revenue mobilization will also become an increasingly binding constraint to growth.

Uganda's current account deficit narrowed from 8.8 percent of GDP in FY 2011/12 to 5.9 percent in FY 2015/16. This is attributed to a lower import bill due to delays in public investment, slower growth, and a slump in oil prices. Shepherd (2016) suggests that the primary driver of Uganda's current account deficit seems to be a persistently low level of domestic savings, particularly low public savings.[4] The composition of Uganda's exports has evolved considerably, with service exports accounting for 42 percent of export revenues in 2016, up from 15 percent in 1995. Services trade will therefore play a crucial role in Uganda's future export performance, and efforts to facilitate a productive transformation.

Three quarters of the population continues to be employed in the low-productivity agriculture sector. Nonetheless, the economy has begun a process of structural transformation, with the share of the services sector in GDP increasing from 36 percent in 1995 to 55 percent at present. This process has been accompanied by urbanization; the share of the population living in cities has risen from 12 percent to 17 percent since 2000. Some 70 percent of the country's non-agricultural GDP is concentrated in urban areas. However, the pace of this transformation has been gradual relative to other regions and raises important policy questions: What policies can enhance agricultural productivity, value addition and rural-urban linkages? How can the government raise domestic savings and improve the efficiency of public investment? How can the government promote domestic industrial capabilities as well as export-oriented manufacturing and services? Can public investments improve labour market connectivity and foster productive cities?

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2. IGC Uganda Country Programme

IGC Uganda was founded in 2012 and has since delivered research and policy advice within priority areas identified by the Government of Uganda. The country office has generously been hosted at the Bank of Uganda since its inception. The Uganda team comprises of a Country Director (Richard Newfarmer), three lead academics (Jakob Svensson, Tessa Bold and Nada Eissa) and two Country Economists (Astrid Haas and Nicole Ntungire). The programme's network of international researchers and permanent in-country presence has enabled it to offer collaborative assistance to government partners. In the past, the programme has focused on themes including managing resources for growth, promoting regional integration, improved monetary management, investments in people to raise incomes, and inclusive growth.

3. Thematic areas

(a) State effectiveness

Maintaining a sound macroeconomic environment to encourage savings while raising public savings and improving return to public expenditures is central to Uganda's future economic performance. The IGC has activities in support of these objectives.

Efficient and effective monetary policy: A key constraint to growth is inefficiencies in the banking sector that continue to cause high lending rates despite increased competition. Furthermore, the massive expansion of transactions with mobile money raises the question of how best to regulate this new form of financial service, and what it means for monetary policy. Research in these areas has commenced in the latter half of Phase II but will only gain importance in the next phase.[5] Furthermore, the aspiration of the EAC to establish a monetary union by 2023 will require further cross-regional research.

Mobilizing public revenues for investment: With a low tax-to-GDP ratio of 13 percent, constraining expenditures and depressing public savings, several IGC projects in Phase II focused on revenue mobilization. Raising public revenues will remain a central part of IGC Uganda's research for Phase III. Studies in this area will focus on raising tax compliance and tax morale.

Raising the productivity of public expenditure: The government has devoted significant effort to reducing the country's infrastructure deficit (particularly in the energy and transport). However, if not implemented efficiently, these planned and ongoing projects present significant risks, such as an increase in debt beyond the threshold of 50 percent of GDP. In Phase II, the IGC published research that attempted to weigh the different costs, benefits, and associated risks of Uganda's substantial increase in public infrastructure investment.[6] This research helped to anchor policymakers' expectations concerning future revenue streams, and highlighted the different investment paths the country could take. In Phase III, we need to undertake new research to aid efficient investment execution.

Increasing the returns to investment in education: Low quality education remains a key constraint to Uganda's total factor productivity and growth prospects. Specifically, some of the challenges faced by the government include low literacy and numeracy rates coupled with poor teacher presence and performance. During Phase II, IGC Uganda commissioned a number of projects to address some of the issues listed above, including research on the monitoring of teacher absenteeism; the impact and academic benefits of mother-tongue instruction; as well as research on performance contracts and incentives for head teachers. Going into Phase III, IGC Uganda hopes to further explore issues concerning teacher absenteeism and related monitoring and incentive mechanisms; learning outcomes; and quality of education. One key issue that has been raised by policymakers and that the IGC may engage on is an assessment of the Universal Primary Education (UPE) policy commissioned in 1997. Key issues to consider will be the impact of the policy on literacy and numeracy levels as well as its socio-economic costs and benefits.

(b) Firm capabilities

Increasing private investment and improving the productivity of the private sector holds the key to job creation, export growth and rising incomes. This goes to the heart of the structural transformation agenda.

Government attention is focused on promoting regional trade through investments in trade facilitation and transport infrastructure. Ongoing policy-discussions on trade and industry also emphasize the need to harness FDI and global value chain participation for employment and technology transfer. Under Phase II, the IGC undertook work on: the determinants of trade and export performance; opportunities and constraints for regional trade integration in the EAC; and harnessing regional and global value chain participation to increase value addition. Future research will focus on incentives influencing private investment (including the tariff system and border barriers), the efficiency of services as inputs to manufacturing and as exports, and deepening the domestic supply chain, an objective of the Buy Uganda, Build Uganda program. We will moreover prioritize regional projects that identify the impact of Uganda's membership in the East African Community on the competitiveness of Ugandan industry, and consumer welfare. IGC Uganda also plans to commission research on improving investment promotion (e.g. fiscal incentives, SEZs), and market-enabling measures for local content management.

The National Development Plan II (NDP II) identifies agriculture as a priority sector for economic development, emphasizing the need for agricultural commercialization and the sector's potential as a launch path for industrialization. Under Phase II, the IGC primarily commissioned research on supply-side constraints that contribute to low on-farm productivity. Going forward, the agriculture portfolio will focus on the role of agriculture in driving structural transformation in Uganda. This will comprise research on micro foundations of structural transformation, in the context of agricultural and rural transformation, including agricultural productivity, non-farm labour, labour re-allocation, and market access. Exploration of demand-side questions such as barriers to agricultural trade and value addition like contractual risk and informational asymmetries (supplier-buyer linkages) will also be encouraged.

(c) Cities

Urbanization holds the promise of rising wages associated with agglomeration and movement of workers into higher-productivity activities. During Phase II, the Uganda country office developed close working relations with the Kampala Capital City Authority (KCCA), which was established in 2010. The country team worked primarily with the Directorate of Strategy and Business Development to identify three priority areas for research within Kampala. These include municipal finance, with a specific focus on increasing own source revenues; urban mobility; and the complex land tenure system and its effects both on the spatial development of the city, and its associated economic costs.

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For Phase III, research projects will continue to centre on these three highlighted areas. Further priority areas include affordable housing, which is a major issue in Kampala and affects the growth of the city, and forming an overarching governance structure for the Greater Kampala Metropolitan Area (GKMA). Furthermore, the NDP II also highlights the need to relieve the primacy of Kampala by starting to focus on secondary cities. The benefit of this early focus on secondary cities is that they are all far smaller than Kampala, including Jinja, the second largest city with a current population of 200,000. Therefore, there is high potential for better planned city structures before their growth takes off. This will also be an area where research as well as learnings from other countries will be beneficial.

(d) Energy

Access to electricity in Uganda remains low, and was estimated to be around 15 percent in 2012 (UBOS, 2013), with a stark rural-urban divide. Lack of access to electricity represents a large impediment to achieving higher income levels. The government has recognized this both in Vision 2040 and NDP II, and has subsequently scaled up investments in the energy sector with the objective of achieving universal electrification by the year 2040. To support these supply-side reforms, during Phase III the IGC hopes to explore demand-side issues such as individual willingness to pay and aggregate demand. The application of such information would range from infrastructure investment planning to price setting considerations.

(e) Cross-cutting theme: Gender

Prevalent gender stereotypes impact the generation and distribution of economic resources, thereby influencing who benefits from development. Opportunities to analyse underlying gender dynamics and their impact on the engagement of economic agents across the different themes will further be explored in Phase III, building upon initial work undertaken during Phase II. In particular, efforts will be made to build a gendered approach to research on the themes of agriculture, education and labour market connectivity.

4. Engagement strategy and collaborations

During Phase I and II, IGC Uganda has been able to foster various relationships with high-level policymakers in a number of key ministries, departments and agencies. Key partners at the institutional level, classified by theme of the country programme's areas of engagement, are listed below.

Theme	Relevant Stakeholders and Partners
State	Bank of Uganda; Ministry of Finance, Planning & Economic Development; Uganda Revenue Authority; Ministry of Education; Development Partners: IMF, World Bank, DfID
Firms	Ministry of Trade, Industry & Cooperatives; Uganda Investment Authority; Uganda Freezones Authority; Uganda Export Promotion Board; Ministry of Tourism, Wildlife & Antiquities; Uganda Tourism Board; Development Partners: USAID, DFID, NUTEC-MD
Cities	Kampala Capital City Authority; Ministry of Lands, Housing and Urban Development; Development Partners: World Bank, DfID
Energy	Ministry of Energy and Mineral Development

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In Phase II the country team started to build a number of policies that will be further cultivated during Phase III. In particular, given the focus on trade as a driver as growth for Uganda, the country team has strengthened its engagement with the Ministry of Trade, Industry and Cooperatives (MTIC) as well as a number of related agencies, including the Uganda Freezones Authority (UfZA), the Uganda Investment Authority (UIA) and the Uganda Export Promotion Board (UEPB), among others. In addition to the national bodies, IGC Uganda will engage at the East African Community (EAC) level, where the IGC is already having a policy impact. The country program also plans to strengthen partnerships with the Office of the Prime Minister (OPM), the Ministry of Energy and Mineral Development, and the National Planning Authority (NPA) through the course of Phase III.

During Phase II, increased attempts were also made to reach out to local institutions, such as Makerere University. Towards the end of Phase II, the country team became aware of and started engaging with the East African Social Science Transformation (EASST) network, which is a platform hosted by the University of Berkeley and provides capacity building for East African researchers. Further to the capacity building component, EASST pairs local researchers with counterparts in the US to co-develop local research. In the current CB6 proposals, one of these research proposals was submitted.

Further to this, increasing engagements with other renowned research institutions across the continent has also been taking place in Phase II. This has been particularly in the context of potential work as part of the monetary portfolio as well as cities. Therefore, a key strategy for Phase III will be to continue to target local researchers in Uganda and across sub-Saharan Africa. However, the strategy of pairing them with other researchers and working through already developed platforms, e.g. EASST, will be beneficial for capacity building purposes.

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

[2] Source: World Bank (2017), "Uganda Economic Update – 9th Edition", July 2017.

[3] Ibid.

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

[5] References to Phases I and II in this document relate to stages of DFID project funding for the IGC– this corresponds to the periods 2008/09-2012/13 and 2012/13-2016/17 respectively. The Uganda Country Programme was founded at the beginning of Phase II. Funding for the third phase of the IGC, commencing in 2018/19 (following a costed extension period till 31st December 2018) is yet to be confirmed.

[6] Public Investment and Growth in Uganda. Christopher Adam and David Bevan. November, 2014.

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