Economic Growth Forum V: Economic resilience, recovery, and resurgent growth

Opening remarks

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It is a distinct pleasure to extend the Minister’s welcome on behalf of the International Growth Center and our main funder, the UK FCDO. This is the Fifth Economic Growth Forum that the Ministry of Finance has undertaken with the support of the IGC, and I think it is a testament to the seriousness with which the government of Uganda welcomes new ideas and draws on economic research and evidence in making policy. This is, I believe, one of the reasons Uganda has consistently ranked in the top-tier of best-performing economies in Africa.

The themes of this conference – economic recovery, resilience and resurgent growth – could not be more apt. It is important that Uganda’s recovery take firm hold, lift incomes, and provide new job opportunities coming out of the devastation of the global pandemic recession of 2020. Indeed, IGC studies indicate that 2020 was particularly devastating to the poor – with poverty rates in Uganda increasing to levels not seen in the last decade.¹ The good news is that appropriate policies in have produced a rapid rebound. From deep recession in 2020, the economy returned to growth last year and growth is projected to climb to over 6 percent by next year.²

But generating recovery is not the same as putting in place the conditions for resilience and sustained growth. The topics considered in today’s conference – job creation and inclusivity, trade and climate change – are crucial to sustaining high growth, and ensuring it is both resilient and inclusive.

There is a common idea underlying the analyses and recommendations we’ll be discussing in today’s sessions. Let me share with you a picture.

This figure shows the relationship between productivity, on the vertical axis, and per capita incomes, on the horizontal axis. Increases in total factor productivity measure the increase in a country’s capacity to produce goods and services for the same amount of labour, capital and raw materials. And the figure shows that these productivity increases drive increases in incomes.

Note first that how Uganda (“UGA”) - with its stronger historical growth performance - compares well in productivity terms with other African countries such as Tanzania and Zambia. But now note how Uganda compares with Ireland (“IRL”). What this comparison shows is that what a worker in Uganda can produce in a week, a worker in Ireland, with the same value of capital and inputs, can produce in a day. The Irish worker is no more talented than the Ugandan worker, but he is better trained, he works in a firm with more efficient management and business processes and with machines that embody superior technology.
Rising incomes are driven by two fundamental growth dynamics in developing countries. The first is increases in the productivity of households (through education and training) and firms (through investments and innovations in technology and management). The second is the shifting of people out of low productivity activities such as subsistence agriculture and street trading, into activities where they can be more productive.

It is a recognition of these core growth dynamics that drive many of the policy recommendations we’ll be discussing today and they figure prominently in the volume launched yesterday at the Ministry of Finance.

**Let me now take a few minutes to highlight some of the key ideas we’ll be discussing today.**

**To begin with, job creation and inclusivity are crucial to recovery, resilience and sustained growth**

Driven by rapid population growth, about 75% of Ugandans are today below the age of 30 – and a half million workers enter the labor force each year. Nearly 14% of Uganda’s youth are unemployed, among the highest rates in Africa. Job creation is therefore a central challenge and requires policies to support both the demand side and the supply side of labour markets.

On the demand side, the most powerful way to create jobs is to grow the economy. The volume launched yesterday covers a range of job-creating growth policies for Uganda, ranging from spurring private investment to reforming public investment. Recent international research has highlighted the importance of incorporating informal, self-employed labor into firms – because it is firms that collectively can raise productivity gains through specialization. The discussion later today on strengthening SMEs, linking them to large firms by building supply chains, is a key potential channel for policy.

On the supply side, the near-term agenda is controlling the pandemic. Vaccine distribution lags behind other countries in the region. Rwanda, for example, is 30% fully vaccinated, ten times the level in Uganda.
Action on education is equally important. The August report of the National Planning Authority found that the extended school closure, from March 2020, led to half the students stopping to learn, and projected that one-third of students would not return to schools when they reopen — raising the prospect of a long-term negative impact on labour force productivity. Recent research in Uganda, discussed in the Ministry of Finance volume, has identified a set of reforms to strengthen the education system including developing a continuous measure of assessment for basic primary level, implementing SMS-based local monitoring programs to track teacher attendance, and continuous quality-assessments of training services. And IGC research has shown that well-designed vocational training and apprenticeships can yield significant improvements in employment outcomes, even three years after the job seekers were trained (average 21% and 14% more likely to be employed, respectively).

A second key issue is expanding trade — both exports and imports — which is central to the process of structural transformation and productivity growth.

One common feature of growth accelerations around the world is rapid expansion of exports. As with other small market economies, Uganda has to export to capture the productivity gains associated with economies of scale. Much more can be done, as Uganda’s exports are still well below the average for other countries with similar levels of per capita income.

The emergence of global supply chains opens new potential opportunities for Uganda to compete in export markets and to add value to its commodity exports. The pandemic-induced shift from ‘just in time’ to ‘just in case’ has created new opportunities for Africa as international firms are now seeking to diversify their suppliers. African firms are still at the early stage of tapping into the potential of global supply chains. Helping domestic firms to become suppliers of large exporters and foreign firms can lead to SME productivity gains.

Imports are as important to rapid growth as exports. Imports provide much needed technologies and inputs to Uganda’s productive sector. Recent IGC research found, for example, found that the imported inputs of just two large ‘anchor’ firms in one year indirectly supplied 1,548 Ugandan enterprises. Ensuring firms have access to imported inputs is fundamental to drive competition and innovation.

Agriculture accounts for only a quarter of Uganda’s GDP, but employs almost 70% of its workforce, and agricultural commodities account for more than half of Uganda’s exports. Adding value to these commodities before they reach export markets is critical to not only boost export earnings, but also to generating more productive jobs.

The AfCFTA will provide new opportunities for African — and Ugandan — exporters. IGC researchers estimate that Ugandan exports to the new regional free trade area could increase exports to SACU, Ghana and Nigeria by 18%. Recent IGC studies have shown that services trade is also important, playing a dynamic role in creating productive jobs and exports. Policies to be discussed in the trade session later today will shed light on ways that Uganda can take advantage of the recent AfCFTA, leverage its industrial parks, and create programs that link SMEs to large exporters and foreign firms.

A third key issue is making growth resilient in face of climate change

As the Minister has noted, and the government has recognized in its submission to the COP26 conference, climate change is a huge, if long term, threat to Uganda and to developing countries everywhere. Uganda’s agriculture, water, energy, fisheries, transportation and forestry are all vulnerable. For example, rising temperatures and shifting rainfall patterns will not only cause water stress for large parts of the population and pose risks to the energy sector and fisheries, they will also make optimal growing seasons shorter, damaging production of food crops, with estimated costs of up to 4% of GDP.
Agriculture and urban transport offer two critical points of policy intervention that can promote adaptation and contribute to growth while mitigating emissions at the same time. For example, climate-induced losses for Arabica coffee production may be up to 50% by mid-century, so adopting new varieties of high-quality coffees and investing in forward processing can yield significant benefits. Adopting clean electric urban transport systems will reduce health-damaging pollution and spur more efficient and productive cities, while reducing carbon emissions.

As my colleague Robin Burgess will speak about later, climate change mitigation measures taken by rich countries may have significant effects on the economic prospects for developing countries. If wealthier countries shift to taxing the carbon emissions associated with consumption, instead of production, the resulting external tariffs on carbon-intensive imports could damage Uganda’s export revenues considerably if carbon emissions remain high.

In closing, let me give special thanks to the PS and our other partners in the Ministry of Finance, who have worked hard to put this conference together as well as to the UK's FCDO which has supported the work of the IGC for more than a decade. I also thank the in-person audience and the participants from around the world who, like me, are joining virtually.

Acknowledgments

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Endnotes

2 IMF, WEO, October 2021


5 O. Bandiera “Organizing Development” Presentation to IGC November 2021.


8 See Hausmann “growth accelerations”; Golberg and Pavnik, and many others to be added.


10 See Freund, 2021 among others

11 See de Melo and Twum 2021 Journal of African Economies to be added


13 Hoekman, B. “Trade in services: Opening markets to create opportunities” EUI and CEPR 2016.