Policy Instruments to Enable Inclusive Growth: Questions, Challenges and Lessons from Uganda

Presentation made at ODI Conference on "Enabling Growth and Promoting Equity in the Global Financial Crisis"

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Introduction

Organizing a conference on "Enabling Growth and Promoting Equity in the Global Financial Crisis" is commendable at this time, as both developed and developing countries try to come to terms with the impact as well as seeking ways to mitigate further effects of the crisis. In this briefing note, I start with the theme of the conference. While timely, the task is herculean. Understanding how to bring about growth and equity is by itself challenging enough, but now discussing them in the context of the global financial crisis increases the complexity of the discussion, and perhaps makes solutions less clear, and this of course is context or country specific. But at the same time that is what makes the theme attractive at this time. While I am tempted to discuss the topic more generally, I will try to keep these notes to Uganda as much as possible. My interest in attending this conference is basically to see if the discussions can shed some light on some of the complex discussion going on in Uganda at this time of formulating a five year National Development Plan (NDP). It is from this angle that I start of by asking some questions that I hope the conference will provide some insights:

1. Is it prudent/feasible for developing countries to pursue both growth and equity concurrently? If not, under what circumstances can it be done?
2. Is it possible to have targeted interventions and at the same time ensure inclusiveness of the poor?
3. How far should the poor be involved in setting the development agenda? Just because they are poor, does that qualify them to have solutions to poverty? And if they have solutions, why are they poor?
4. What lessons do we learn from the history of transformed societies that would inform the development agenda of developing countries?

Uganda's development framework: 1997-2008

Since 1997, Uganda's national planning, prioritization and resource allocation has been guided by the Poverty Eradication Action Plan (PEAP), which also served as the Poverty Reduction

Strategy Paper (PRSP). The strategies within the PEAP were aimed at bringing about broad-based growth and in the process achieve equity across Ugandan society. Economic growth has been impressive, averaging 0ver 6.5 percent in the second have of the 1990s and early 2000s. However, in recent years economic growth has slowed down to about 5 percent. Some analysts argue that growth benefits from policy reforms that started in the late 1980s have peaked, and that future growth will come from new approaches. However, during the PEAP period, poverty continued to decline from 44 percent in 1997 to 31 percent in 2005, despite a spike to 38 percent in 2002. While the trend in poverty is downward, it is not the case for income inequality that has been fluctuating, but over the PEAP period, income inequality increased from 0.35 in 1997 to 0.41 in 2005. This has raised concerns that Uganda's growth is skewed, and the gap between the rich and poor is growing. The challenge for Uganda is to continue the growth trajectory, poverty reduction and at the same time reduce income inequality. I hope the conference will provide some thoughts that will help Uganda in developing new strategies for the NDP.

The rise in food prices

Before the recent debate on the global financial crisis, the concern was on rising food prices globally. Several reasons were advanced for the rise in food prices, including conversion of grain into biofuels, especially in the United States; increased demand for grain for livestock to in China; reduced supply from major producers such as Australia that suffered a major drought, etc. The prediction was that Africa would suffer the brunt of the high food prices, especially those reliant on international markets for food imports, and food aid in some instances. Indeed there were food riots in some countries, such as Senegal (rice), Egypt (wheat), etc. Analysis in Uganda showed that the rise in food prices was due to two main factors. First was the rise in transport costs on account of high oil prices and at the moment Uganda imports 100% of all the oil it consumes. Second was the growing food demand in neighboring countries, especially Kenya, South Sudan, and Eastern Congo. As a landlocked country with a low food import bill, the conclusion was that the impact of the rising food prices would be felt as secondary effects through high transport costs and rising regional food demand. For the latter reason, the government of Uganda looked at higher prices as an opportunity for farmers to earn higher incomes, and therefore has not put in place any restrictive measures to trade in food commodities. In the western world the debate is no longer headline news, but in developing countries it is still a concern. Maize and beans prices have remained higher than usual at the time of harvest. Schools that depend on maize and beans to feed children in Uganda have had to increase fees to cope with the high prices. With inelastic incomes, the impact of household consumption of non-school expenditures will be affected, although we are not sure of the magnitude.

The Global Financial Crisis

World attention has turned now to the global financial crisis. It is not yet clear whether there is a relationship between the high commodity prices and the financial crisis. It is important to note that for both crises, Africa is a secondary player, largely suffering "collateral damage" from the behavior of markets in the developed world. We need to be clear about the fundamentals that started the financial crisis and see if they are also present in financial systems of African

countries. If the crisis started in the housing market in the United States with subprime mortgages, and then spread throughout the financial system, we need to know if that could happen do developing countries that largely operate cash economies. Certainly for Uganda, the impact of the global financial crisis will not come from the housing market. Very few people own houses through mortgages. In fact consumption based on credit has been low, but is rising especially in the car industry, as banks begin to offer loans to young people as soon as they get a formal job. The continued ability to pay by borrowers of the car loans will determine the success of this scheme.

How then will the global financial crisis affect Uganda and how will the country respond? At this point it is hard to tell how big the impact will be. However, we do know how it is likely to manifest itself in the economy. Clearly foreign direct investment, remittances from Ugandans working abroad, and overseas development assistance are likely to decline, the magnitude of which is not yet known. We should know in about four months when Uganda begins a new financial year on July 1, when national accounts are published for the previous financial year. Because the factors behind the crisis in developed countries were not present in Uganda, the initial reaction by analysts and economic managers was that the financial crisis would not affect Uganda very much. But now there is realization that the country will feel the effects of the credit crunch. Initial estimate of GDP growth was 9 percent for FY 2008/09, but that has now been revised down to 5 percent. Revenue collection by government has slowed down due reduced imports and economic activity especially the manufacturing and services sectors. Even though world oil prices came down, pump fuel prices has not responded with the same magnitude, and with a depreciating exchange rate, the rate of inflation has remained at 14% way above the target of 5%. The recent closure of business by Gateway television (GTV) in 22 African countries was the biggest eye opener, that the global financial crisis is real. GTV was operating in Uganda and closed last week. The effect was instant. GTV has purchased rights to broadcast about 80 percent of the Premier League football matches. And Ugandans are fans of the league. The shutdown of GTV without warning was felt in every corner of the country in hotel and bars that had purchased GTV equipment to screen the live games as a way to attract customers. Jobs have been lost by former employees of GTV, and incomes have reduced for investors in hotel, bars and kiosks that banked on higher sales from fans watching the games. Other effect of he crisis may not be as visible as the closure of GTV.

At government level, the effect will be reduced revenue (domestic collection and aid) and therefore its ability to finance development priorities intended to stimulate growth, especially infrastructure and energy investments. Funding for special programs such as the Peace, Recovery and Development Program (PRDP) for northern Uganda intended to bring about equity in that part of the country will likely reduce. The net result will be slower economic growth for sure, but how that will affect equity is not as clear.

Searching for better ways for growth and equity

While Uganda is caught up in the financial crisis and is faced with high oil prices, there is no panic. The focus is on investing in fundamentals for economic growth and equity: infrastructure (especially roads), energy (electricity generation), agriculture, and human capital development

(health and education). For the last decade, emphasis was on education and health at the expense of the productive sectors. That thinking is changing. At the moment a higher share of the budget has been allocated to infrastructure and energy investments to support the productive sectors, especially manufacturing and agriculture. Agricultural development is still central to the growth and equity debate in Uganda. About 71 percent of the labor force is in agriculture, even though the share of the sector in GDP has declined to 21 percent. While it is expected that the share of agriculture in GPD declines as economies transform, in Uganda the situation is different. Aggregate national accounts show transformation as the services sector and manufacturing overtake agriculture in GDP shares. However, with transformation the services and manufacturing sectors are supposed to absorb labor from agriculture. In Uganda, labor is stuck in agriculture and that is what makes the sector central. By investing more in the sector, most Ugandans will fell the benefits, and since the producers are spread throughout the country, the benefits will be more broad-based than in manufacturing which is urban based and employs fewer people with skills that most rural dwellers do not possess.

The performance of the agricultural sector in recent years has been disappointing, growing at an average of 2.2 percent of the last 8 years, against a population growing at 3.2 percent. The debate now is how to get agriculture growing at a faster rate. Since 2000, the government has been pursuing a multi-sectoral approach to agriculture and rural development contain is the Plan for Modernization of Agriculture (PMA). The ultimate goal of the PMA was to reduce rural poverty by focusing on interventions that would uplift the livelihoods of agricultural households – who are the majority. As such the interventions were by different ministries and agencies. While conceptually appealing, actual implementation proved much more challenging than had been anticipated. Because of the concern was poverty reduction in the formulation of the PMA, it quickly gained the attention and support of international development agencies whose broad missions is poverty reduction. The PMA approach is generalist, with no clear targets at implementation stage. That has caused problems and political leaders want a more focused approach, more targeted than in the PMA. This has caused some tension between government and development partners, with the latter arguing that targeted interventions are not sensitive to poverty reduction. Government has also shifted the language from poverty reduction to wealth creation, yet the latter is not the catch phrase for international development agencies.