A critique of the strategic intent of attaining the middle income status by 2020

A Paper presented at the National Leadership Retreat of NRM CEC; Cabinet & Permanent Secretaries on July 25 – August 1, 2016 at the National Leadership Institute (NALI), Kyankwanzi.

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July 27, 2016

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1.0 Introduction

I would like to begin by thanking the organisers of this retreat for inviting me to give a critique of the intent by Government of Uganda of attaining the middle income status by 2020. It is very constructive to have an open dialogue amongst you senior leaders and other stakeholders about the possibility for Uganda to become a middle income economy in the next four years.

Uganda has come from afar, as we all know. I often tell my students and other people I interact with that 1986 is a very important year in Uganda's history. It is the year that separates the 'new' Uganda from the 'old' Uganda. We have bemoaned enough the old Uganda. It is time we concentrated our efforts and resources on getting the new Uganda work for every single Ugandan. This is the very reason I get delighted whenever I am invited to speak about topics like this. Can Uganda graduate from being referred to as a low income country or a least-developed country and become a middle-income economy?

In this paper, we explore some of the key facts and prerequisites for attaining the middle income status. In particular, the paper addresses questions such as: What are the key requirements for attaining middle income status? Where does Uganda stand today? What does Uganda need to do to become a middle income economy? What are the outstanding challenges that we must address to attain this status? What lessons can Uganda learn from other countries that have attained the middle income status in the recent past?

1.1 What are the key requirements for attaining middle income status?

The World Bank classifies every country in the world as either low or middle or high income economy. Uganda is still among the 31 countries classified as low income economies. The middle-income status, to which 152 countries currently belong, has three categories: lower middle income (51 countries), upper middle income (53 countries), and high middle income – the non-OECD[2] (48 countries). The richest countries are classified as the high income or OECD countries. They are only 32 of them in the world.

Uganda has set a target to become a lower middle income economy by 2020. As of July 1, 2016, the World Bank defines lower middle-income economies as those with a gross national income[3] or GNI per capita between $1,026 and $4,035. In Ugandan shillings this respectively is equivalent to Shs.3.4 million and Shs.13.3 million, at market exchange rate of $1 = Shs.3,300. With the current GNI per capita of $670 (Shs.2.2 million), Uganda is still classified as low income economy.

Uganda, therefore, needs to add to the current income per capita at least $356 (Shs.1.2 million) in the next four years to achieve the set 'strategic intent'. This is no easy task given the limited

[2] OECD stands for the Organisation for Economic Co-operation and Development. It is an intergovernmental economic organisation, founded in 1961 to stimulate economic progress and world trade.

[3] According to the World Bank, GNI per capita measures the average amount of resources available to persons residing in a given economy, and reflects the average economic well-being of a population.

timeframe (four years) in which the target should be realised. It has taken Uganda ten years to accumulate the income per capita ($356) now required to achieve the middle income status. Yet we have challenged ourselves to achieve it in the next four years.

By implication, this means that Uganda must achieve a per capita income growth rate that is more than double the rate at which it has grown in the past decade. Therefore high growth of household and personal incomes will be a critical prerequisite for achieving the set goal.

Economists have many ways of determining growth of economic variables. One of the popular ones is the *Rule of 70*. It states that the number of years it takes for the level of any variable to double is approximately 70 divided by the annual percentage growth rate of the variable. For example, if you hear Hon. Matia Kasaija, the Minister of Finance, Planning and Economic Development, saying that last year our GDP grew by 5 percent and it is projected to continue growing by the same average, this means that Uganda's GDP will double in 14 years (70/5 = 14).

The *Rule of 70* also works in reverse: divide 70 by the doubling time to find the growth rate of GDP. If, for example, you hear that Uganda's GDP has doubled in past 10 years, you should know that it has been increasing at an average rate of 7 percent per year (70/10 = 7). We shall use this rule to assess Uganda's chances of attaining the middle income status in the next four years.

Before we explore these chances, let us first outline the key determinants of the GNI per capita, the main variable considered while ranking countries. Population and population growth rate is one of the key variables. One would expect a larger population to produce a higher GNP per capita. However, this can only happen when the population *growth rate* is low and total employment is high. There could be a negative effect if the population increased at a faster rate than total employment, or if additional jobs paid lower wages.

Secondly, the size and growth rate of GDP/GNI is also a critical determinant of per capita income. A large GDP that is growing at high sustained rates would ordinarily raise the income for everybody[4]. If Uganda could, for example, double her GDP every 7 years—which would require us to sustain growth at an annual average of 10 percent—it would not be difficult to raise the incomes of every Ugandan in a short time, through redistribution. With a small GDP, however, it becomes difficult to raise people's incomes even through a well-intentioned and well-executed public policy, since you cannot distribute a small pie among millions of people.

Other determinants of GNI per capita include; tax burden (the effects of individual as well as corporate income tax, and sales tax), natural resource endowment, the rate of capital accumulation (savings and investment), technological innovations, governance, and the quality of political institutions.

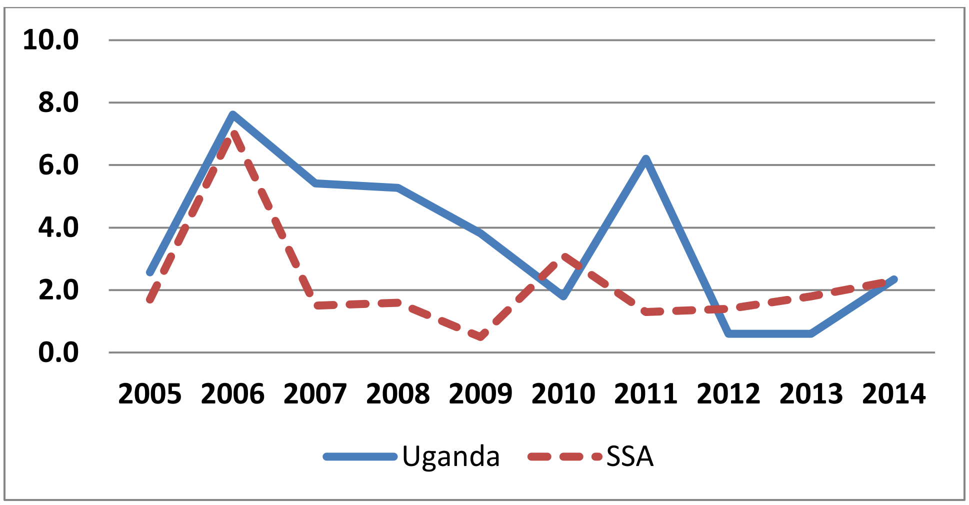
1.2 Where does Uganda stand today?

[4] Holding the distribution of the income and other factors such as population growth rate constant.

As already seen, Uganda's GNI per capita—measured by the standard used by the World Bank to rank countries—currently stands at Shs. 2.2 million ($670) a year. This is quite low, since it reflects a monthly income of just over Shs.183,000 and a daily income of only about Shs.6,000. The average GNI per capita for Sub-Saharan Africa (SSA) is $1,627 (or about Shs.5.4 million). This shows that our income is indeed very low – less than half the average income for the countries comparable to our standards. We are not even half way the average income of the poorest region on earth. We need to work very hard.

Yet at an annual average growth rate of 3.5 percent[5], in the past decade our GNI per capita has grown quite impressively. It has performed better than the SSA average growth rate of 2.2 percent between 2005 and 2014 (Figure 1). However, Uganda's GNI per capita growth has declined during the period beginning 2008. Between 2008 and 2014, Uganda's GNI per capita growth has reduced by 1% compared to the period 2002 – 2008.

Figure 1: Average GNI Per Capita for Uganda and SSA (2005 – 2014)

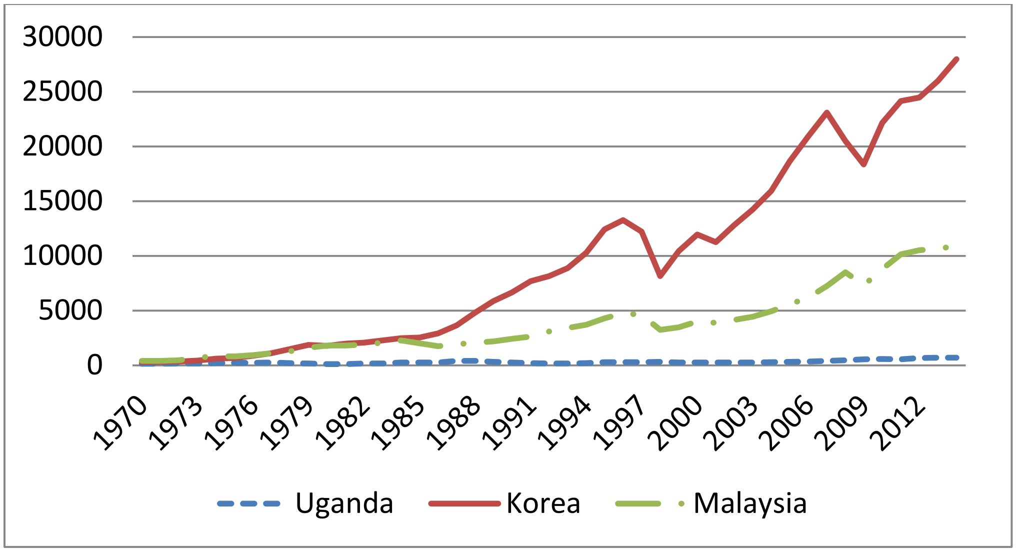


Source: World Bank (2016)

Secondly, compared with other regions in the world, Uganda's per capita income growth has performed quite badly both in the recent past and in the 1970s and '80s. For example, it has lagged behind Malaysia, South Korea and all other East Asian countries (Figure 2).

[5] World Bank (2016), World development Indicators: *Retrieved* on July 26, 2016 at 11:29am.

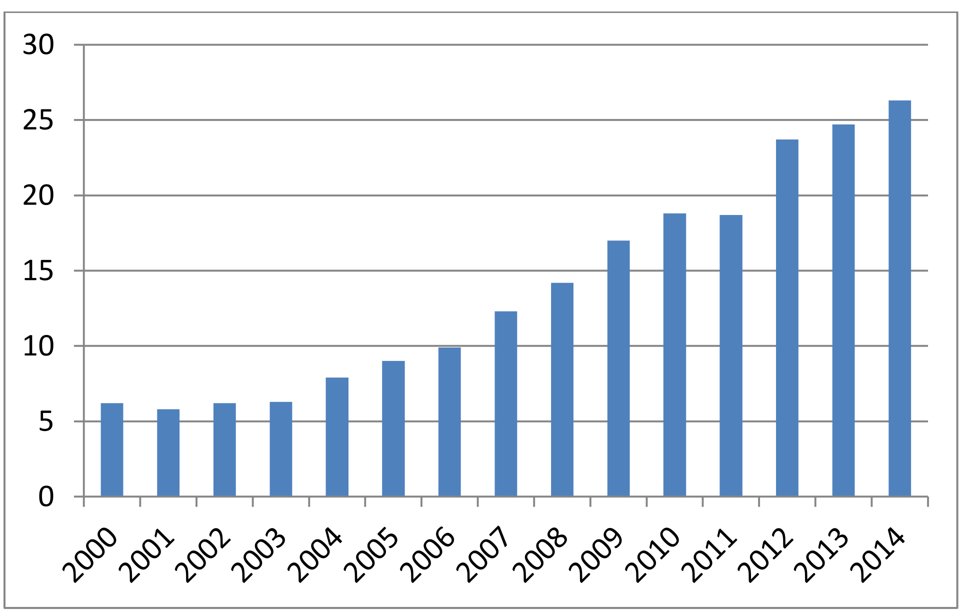
Figure 2: Uganda's GNI per capita growth (1970 – 2014), in US$, compared with Asian countries



Source: World Bank (World Development Indictors)

However, Uganda has in the recent past been able to raise her GDP from $7 billion (or Shs.23 trillion) in 2000 to $26 (Shs.86 trillion) in 2015. This implies that Uganda's GDP has nearly quadrupled in the past 15 years (Figure 3).

Figure 3: Uganda's GDP (in billion U.S dollars)



Source: World Bank (World Development Indictors)

Figures 2 and 3 contradict. Figure 3 shows impressive growth of total GDP produced in Uganda. Yet Figure 2 shows that there has been stagnation in people's income. Why is it the case that an economy that has been growing impressively (creating loads of GDP) hosts citizens with stagnant incomes? Is there something wrong with Uganda's growth? Yes. There is something fundamentally wrong about Uganda's growth. The wrongs are many, but the immediate ones contributing to this paradox are three:

First, the emerging opportunities are not being distributed equally. There is limited access by the poor to expanding economic opportunities. The growth in GDP is going to a few individuals in the urban areas particularly Greater Kampala and other towns in Central Uganda where 66 percent of Uganda's GDP is concentrated[6], leaving the masses in the countryside with low and/or stagnant incomes. Northern Uganda, for example, produces only 7 percent of Uganda's GDP while the Easter and Western Uganda contributes 13 percent and 14 percent respectively. Granted it is an economic fact that inequality (let it be individual or regional) is often a consequence of progress. Not everyone or every part of the country gets rich at the same time. But it is also an economic fact that large inequalities affect progress. It can be worse if the 'winners' try to stop others from following them, pulling up the ladders behind them. Uganda is increasingly becoming a laboratory to test these economic treatises.

Second, a large proportion of Uganda's GDP is produced by foreigners. Most of the large and thriving businesses in Uganda (and particularly those in the fastest growing sectors—telecommunications, banking, large scale manufacturing, wholesale and retail trade etc.) are foreign owned. Ugandans are concentrated mainly in small, informal businesses—vending the products that foreigners produce, riding boda-bodas, hair salons, bars, etc. Thus, a significantly larger proportion of the proceeds of the expanding economy go to foreigners who repatriate them to their home countries.

Third, and more importantly is the high population growth. Uganda's population is growing at an average rate of 3.25 percent.[7] This is the 9th highest population growth rate in the world (Figure 4). What is even more striking is that most of the countries in this group are poor, with two of the poorest nations on earth—Burundi and Malawi. Globally, the most livable countries are those either with smaller populations or with large population driven by longer life expectance as opposed to increasing numbers of children. The key is to ensure that the country reduces the dependency ratio (the number of children per family). To improve the quality of life for Ugandans, we must incentivize them to reduce the number of children per family, especially now that health indicators such as infant mortality rate, life expectancy and morbidity rates have improved. Currently each Ugandan woman, on average, produces 6 children. This is the 5th highest fertility rate in the world. Yet these numbers could even be understating the problem. We need figures on paternal fertility rate – the number of children per Ugandan man. These could give us a better idea on dependency ratios in this country.

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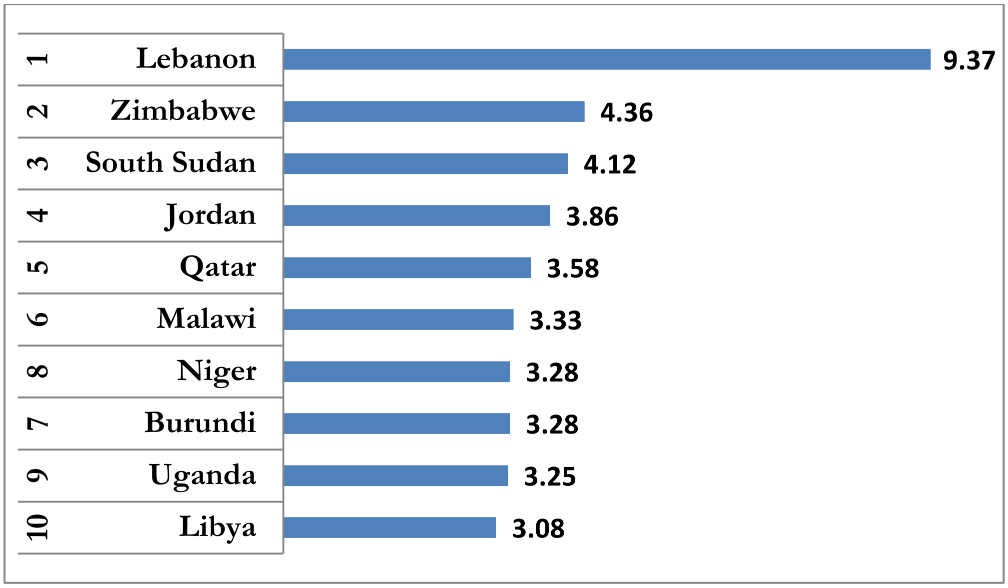
[6] MoFPED (2016), "Private Sector De4velopment Strategy 2015/16 – 2019/20."
[7] World Bank (2016), World development Indicators: *Retrieved* on July 26, 2016 at 11:29am.

Figure 4: Countries with highest population growth rate (%) in the world



Source: (1) United Nations Population Division. World Population Prospects, (2) United Nations Statistical Division. Population and Vital Statistics Report

If Uganda's economy and population continue to grow at the rates both have been growing in the past decade, it will take Uganda 20 years (70/3.5 = 20 years) to double her GNI per capita. We must, therefore, do two things to leapfrog these discouraging statistics and attain middle income status. We must double the rate at which the economy is currently growing. GDP must grow at a rate not less than 10 percent in the next four years. Secondly, we must find ways to reduce the fertility rate of Ugandans.

Economists concur that the sole driver of economic growth is population growth rate. Per capita growth rate is reduced by the population growth rate. Thus for a country to grow it must control the rate at which its population and labour force are growing. Recent research[8] found that Uganda's employment growth (2.96 percent) is lower than labour-force growth (3.4 percent). Some argue that what we should do is create more jobs for the people. This may be very difficult. Initially the population has to be *directly* controlled since per capita income growth initially depends on the population growth rate. However, in the long run, with an increase in incomes and living standards, death rate starts to fall and consequently birth rates also decline. Therefore, in the long run the population growth rate controls itself.

Apart from the facts analysed above, there are other important statistics that we need to keep in our minds as we continue to search for strategies to deliver Uganda to the middle income status. Uganda

[8] Bruce B., Rodríguez L., Rosengren R., Muhwezi M., Turyareeba D., Abaliwano J., Wabukala B., & Ggoobi R. (2015), "*WORK IN PROGRESS: Productive Employment and Transformation in Uganda*," Development in Progress; Overseas Development Institute. London.

has a land area of 200,520 sq. km or about 50m acres (from 199,810 sq. km in 1960s)[9]. The increase in the land surface can only be attributed to progressive reclamation of wetlands, lakeshores and riverbanks as well as other areas that 50 years ago were not land. Otherwise our neighbours would have accused us of grabbing land in their territories.

In 1962, we were using 45 percent of this land for agriculture. Now we are using 72 percent of the total land area for agriculture; a total of about 35 million acres (14 million Ha) of land. At 35 percent, Uganda has more arable land (as a percentage of the total land area) than any country in East Africa. We also beat Asian giants such as China and South Korea (Figure 5b). The problem is that we have failed to take full advantage of this to raise agriculture productivity and production. Figure 5a shows that as yields increased exponentially in East Asia (South Korea and China) in the past 45 years, Uganda and other African countries (see Kenya's performance) have experienced minimal change in productivity.

Figure 5a: Cereal Yield (kilogram per hectare)

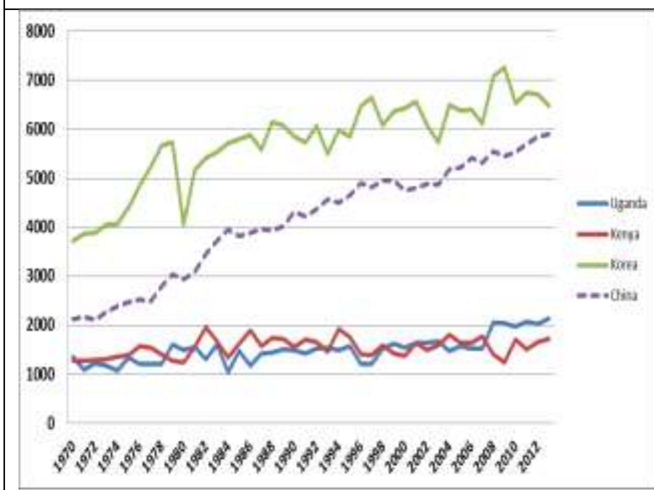
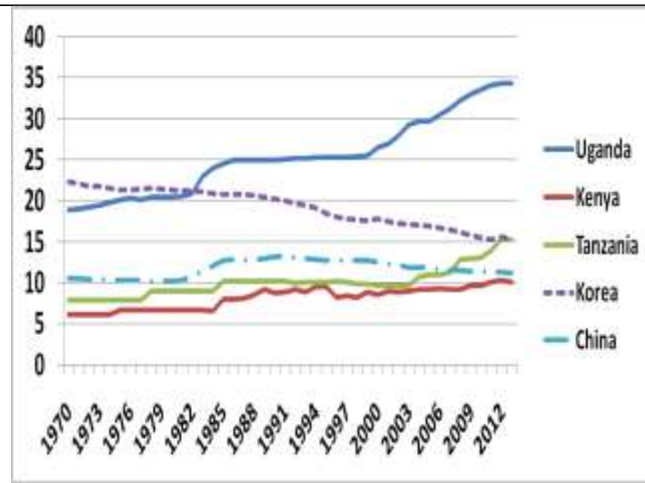


Figure 5b: Arable land (% of total land area)

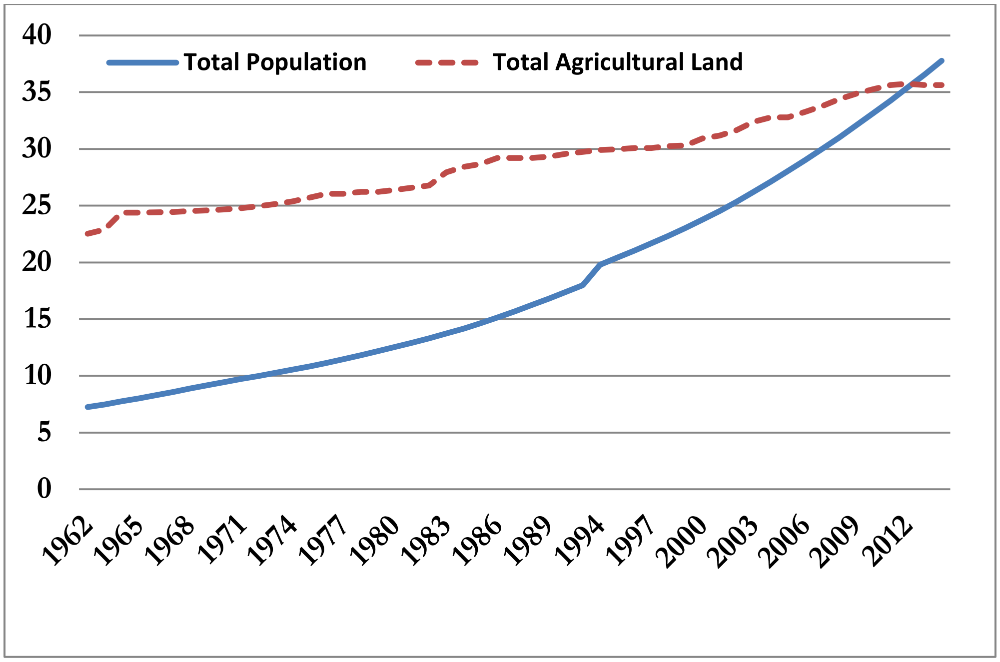


Source: World Bank (2016)

As Asian countries raised productivity, Uganda was busy opening up more arable land to practice subsistence farming. However, this luxury is fast diminishing. Owing to the rapid population growth (which demographers at the Population Secretariat project will grow to 47 million by 2025 and 62 million in 2030), land is becoming more scarce. Today, each Ugandan household on average has 2.5 acres of land. For the first time in Uganda's history, population overtook the available agricultural land in 2013 if plotted on the same scale. This implies that in the near future, agricultural output in Uganda will be increased through increased productivity but not acreage.

[9] World Bank: World Development Indicators, 2016

Figure 6: Population versus Agricultural Land Growth (in millions)



Source: UBOS (2015) and World Bank (2016)

From today, the following should be considered as typical myths:

a) Uganda has a lot of idle land that should be utilised to raise agricultural output.
b) Uganda is 'gifted by nature'; with fertile soils and high rainfall throughout the year; so there is no need for fertilizer and irrigation.
c) Uganda's agriculture sector is competitive because it is liberalised.
d) Uganda is the food basket for East Africa.

2.0 What are the outstanding challenges that we must address to attain this status?

Uganda has multitudes of challenges depending on who you ask. However, as far as holding Uganda's economy from progressing toward middle income status is concerned, the following are deemed as outstanding challenges that need urgent attention.

Poor land rights: These are rights to use, sell, or bequeath land. It is Margaret Mitchell said: "Land is the only thing in the world worth working for, worth fighting for, worth dying for, because it's the only thing that lasts."[10] Depriving a rural household or community of land is synonymous with

[10] See Mitchell M. (1936). *Gone with the Wind*, Macmillan Publishers, United States (Chap 2. Para 115)

depriving them of their livelihoods and food security. In societies such as our, land is life. But land rights in Uganda are very insecure. Owning to the poor land rights and governance, an average Ugandan is spending a lot of time protecting land than any other person in East Africa. There is limited investment in land (e.g. without clear land rights farmers are less likely to use fertilizers – you wouldn't want to fertilize land that is not yours). There is low incentive to protect the environment (people don't mind cutting down all trees in land they don't own); and banks charge a high risk premium, which has kept the cost of borrowing high.

Low agricultural productivity—measured as output per acre or per household. A quick example, Ugandans harvest one ton of processed coffee from six acres of land[11]. Brazil and Vietnam harvest a ton of coffee from two acres of land[12]. We shall not attain the middle income status if 80 percent of the population remains this unproductive. We need to address the problems that are impeding agriculture productivity growth, and we know them.

High post-harvest losses: Farmers in Uganda, on average, lose 45 percent of their produce to poor post-harvest handling. We need to address rural infrastructure, storage, and value addition. We know the details.

The tyranny of 'middlemen': As a result of exploitation of farmers by middlemen, farm-gate prices have remained low despite increase in prices of agricultural products. This is discouraging Ugandans from investing in agriculture. The problem is not that farmers lack information about the market prices; the problem is that agricultural markets in Uganda are not competitive. They were captured by middlemen who created cartels to seize the price margins. Thus, liberalisation and agriculture diversification have not benefited the poor farmers and subsistence farmers.

Too much market and too little government: the deeper issue that Uganda is facing today concerns the appropriate roles of the State and the market[13]. Putting it another way, it could be the case that while government is doing some things that it shouldn't, it is also not doing some things that it should. Where is government doing too little?

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[11] Hisali E. & Ggoobi R. (2015) "Crop and Livestock Production and Post-Harvest Losses in Uganda"
[12]See http://faostat3.fao.org/browse/Q/*/E
[13]See Joseph Stiglitz's article, "*Reforming China's State-Market Balance*," written in Project Syndicate April 2, 2014.

We over liberalised the economy. Banks are offering savers nearly nothing leading to a savings crisis. Only irrational individuals could save in a bank that offered them 3 percent interest rate a year, yet inflation is walking at 7 percent per annum. Simple arithmetic shows in such a situation the "saver" will actually be losing 4 percent of the value of their money every year. Most Ugandans wisely have decided to save in physical assets such as real estate, land and cattle instead of depositing their money in banks. This has left banks with limited loanable funds or credit, and forced them to charge very high lending rates (averaging 23 percent per year).

In addition, on the account of over liberalisation, banks have been left to engage in predatory lending behaviour.[14] Officials at Bank of Uganda often tell people who complain of the high lending rates and predatory behaviour that since Uganda is a liberal economy the bank has nothing it can do to get the banks to account. Although I support the idea that government should not do business by itself, and should not fix things (prices, exchange rates, interest rates etc.) as the case used to be prior to the reforms, it should regulate the economy and use industrial policy and development financing to change the structure of the economy.

Government should also provide incentives, and on its own invest in strategic industries—to achieve meaningful structural transformation. The apparent failure by Uganda to build industries can be reversed only by creating a wide variety of government-backed institutional interventions to develop the manufacturing sector. Currently, the urban migrants in Uganda are crowding into petty services that are non-tradable instead of working in manufacturing industries.

3.0 What does Uganda need to do to become a middle income economy?

The next four years should be committed to three key things: (1) implementation, (2) implementation, and (3) more implementation, of the numerous good government policies, plans, strategies and programs.

The previous cabinets have given a greater deal of attention to policy design and planning instead of doing the small things that would make a big difference. Government has concentrated more on *what needs to be done*, and on identifying the people to blame, than implementing the available policies, plans and programs. We know what we need to do to move Uganda into middle income. If anyone still has gaps or doubts in how Uganda's agriculture can be transformed, for example, kindly open the following government documents:

[14] Predatory lending is an unscrupulous action carried out by a bank or any other lender to induce a borrower to take a loan that carries high interest rate and other hidden costs, with the intention of having the borrower fail to repay the debt and strip him/her of their collateral whose value is often higher than the loan.

- The National Development Plan (now in the second series) – NDP II (2015/16 – 2019/20
- National Agricultural Policy (2013)
- Agriculture Sector Development Strategy and Investment Plan (DSIP) – 2010
- The Plan for Modernisation of Agriculture (PMA) – 2001
- Operation Wealth Creation (OWC) *Concept Paper (2013)* and the *Standard Operating Procedures (SOPs)*

The progress of Uganda towards the middle income status is being undermined by low degree of political commitment for the country's long-term vision, "Vision 2040", NDPs, and other Programs. The country is fortunate as the necessary foundations for democracy, political stability, peace and security, which are prerequisites for economic development, are in place.

As senior leaders who have been given this great opportunity to rewrite the history of this country, by ushering it into middle income, I request you to start your tenure with the realisation that the only policy that Uganda has perhaps not yet written is the policy on policy implementation. You should fight the temptation of "circular policy design" – identifying a problem; designing a policy and a plan to deal with it; identifying a team of cadres, not to solve the problem but to study it further and report back to you how the problem is very serious. Then you brief the President and your colleagues in cabinet about the problem and persuade the President to include it in his State of Nation Address.

This is what is holding Uganda back. Government has turned into a *normative* organ. "We need…., we should…, we ought to do this and that" is not the language those in government should encourage themselves to speak. Let the opposition politicians and us the academics speak normatively.

Commit the next four-to-five years to solving the numerous problems that are impeding Ugandans, particularly the young people of this country, from using their energies productively. The following are some of the simple things you may need start with:

<u>*Enforce the land laws*</u> to have bibanja holders (squatters) get titles for their 2 – 4 acres of land. You may easily create a win-win situation by having the tenants agree to pay a legally stipulated share of their output per season to the landlord for an agreeable period as compensation to the landlord. This will strengthen farmers' individual land rights, provide a noncontroversial "land to the tiller" reform, and consequently become an incentive for the farmer to raise agriculture productivity.

Follow the ecological zoning already done by the Ministry of Agriculture, Animal Industry and Fisheries (MAAIF) and <u>*set up regional agro-processing centres*</u> (each with modern facilities for drying, cleaning, storage, cold chains, factories, bulking, transport etc.). You may build two centres each financial year at a unit cost of $5 million (Shs.16 billion = Shs. 32 billion per year). These would reduce post-harvest losses, add value to farmers' produce, and raise and stabilise farm-gate prices.

Put up regional seed/breed production and multiplication centres to supply the farmers with good quality planting and breeding materials. A modern tissue culture seed germination facility costs about $2.5 million (Shs. 8 billion). You can build two of the kind each financial year. But you need to sequentially invest in these facilities after solving the post-harvest challenge. Why? With the latter still uncontrolled, the farmers do not have the incentive to adopt the "expensive" high-yielding varieties (HYVs).

Beginning next financial year, *invest in small irrigation systems* such as drip kits, solar drips, sprinklers, and treadle pumps. You may start with high productivity but drought prone areas, especially in the northern and western parts of the country. Information from experts shows that a small irrigation system requiring a pump and permanent piping can cost between $1,800 (Shs. 6m) to $2,500 (Shs. 8m) an acre. We may target to roll out 100 square kilometres (24,700 acres) a year. This would cost about $62 million (or about Shs.200 billion). Uganda's weather patterns have become increasingly unpredictable. Projections show bad weather conditions might become worse in the near future. According to projections by the UN's Intergovernmental Panel on Climate Change (IPCC), in the coming decades, with climate change, rainfall variability and extreme climatic events are expected to adversely affect agricultural production. In particular, the IPCC predicts that by 2020 yields from rain-fed farm production could decrease by 50 percent as a result of changes in climatic conditions. Rainfall is expected to decline and also becoming more irregular[15]. Yet experts show that a 10 percent decline in the amount of rainfall below the long run average leads to a 4.4 percent reduction in the country's national food production[16]. Government must, therefore, get serious with investment in irrigation and other mitigations of the impacts of climate change. Proactive approaches such as planting of more drought-resistant crop varieties can help farmers to adapt to the changing climate.

Negotiate, sign and concretise *bilateral and regional trade agreements* to secure the markets for the farmers' produce. You need complement this by operationalizing the special economic zones next to the rural agro-industrial centres to create demand for agricultural raw materials.

Invest in young people: Do not make the mistake we economists often make – focusing on income alone. Although income contributes greatly to wellbeing, it is not wellbeing. We need to step up the investment in education and health. Pay attention to education and healthcare cost. You have left private capitalists to run schools and health facilities as if they are selling private goods. Education and health are public goods that must be regulated to ensure quality and equity.

You also *invest in the skill base of young people* to enable them to become productive. This will expand opportunities for the thousands of creative young people whose talents are being squandered away on social media, sports betting, political processions and protests, and in shopping malls selling Chinese products. There is a serious problem you need to address. The emergence of what economists call a "Boomerang Generation" – young adults that live with their parents, because they

[15] Demeka and Zeller, 2009
[16] Von Braun, 1991.

cannot afford to live independently. There is growing pessimism and apathy among the youth. Think about it before it degenerates into a social problem.

Involve people in debates. How do they see their own lives? You need self-reported measures of progress. Are the people happy with their lives? This is the only way you will measure actually achieved outcomes. Let us not concentrate on investing in "observables" only. They may be good for politics (voters can see them), but not for "steady progress". We need to invest in some 'non-observables' that matter -- training nurses and teachers, instead of spending all the money on building Health Centre IVs and UPE classrooms.

Reduce rent-seeking: Rent seeking is getting income not as a reward to creating wealth but by grabbing a larger share of the wealth that would otherwise have been produced without one's effort. Economists believe that there are two ways to become rich: to create wealth or to take wealth away from others. Today, much of the wealth in Uganda stems from transfers instead of wealth creation. We have allowed institutions (financial, markets, health, educational, etc.) to take advantage of others or to pass costs on the rest of the society. We have allowed 'regulatory capture' and 'elite capture'. The rich in our society avoid tax and get free money from government, all at the expense of the Ugandans at the bottom of the pyramid.

We have also allowed *theft of public resources* (which diplomats want to call 'corruption') to go on unabated. Although there has always been theft of public money in Uganda, evidence shows that the country has never seen the scale of theft public money that we have witnessed in the past ten years. A report by the Global Integrity agency on Uganda estimates that nearly half of the government's annual budget is lost to corruption each year[17]. Had we stopped this hemorrhage ten years ago, we would be a middle income today!

Develop the manufacturing sector to create of productive employment. There is need for a large shift in the labour force out of low productivity, informal, traditional activities into modern, formal sector industries with higher productivity. This calls for industrial policy to build the manufacturing sector. Uganda's policies and strategies to boost private investment have been ad hoc and largely ineffective. Fiscal concessions, such as tax holidays, by themselves, are not an effective tool for raising the overall rate of private investment, even if they are successful at attracting investment in a few individual cases..

Manage oil and other resources transparently but efficiently. We have talked enough about corruption. If you are serious about lifting this country to middle income status, do not allow the oil to breed overconsumption and the Dutch Disease.

4.0 Conclusion

I welcome the ambitious goal that government has set of attaining lower-middle-income status by 2020. We need to develop the economy as a shortcut to addressing most of the other problems of

[17] Transparency International (2009), "*Overview of Corruption in Uganda*." U4 Expert Answers. Also see http://www.globalintegrity.org/reports/2006/uganda/index.cfm

Uganda. We shall not be able to strengthen our democracy on the shaky economic foundation prevalent in Uganda today. Like I said earlier this year when I got the opportunity to address the NRM MPs in this very room, getting the economy work for a big majority of Ugandans is the main *unfinished busines*s for the NRM government. We need to include the masses that are still out of the money economy – the 69 percent households in subsistence farming. To do so, you will need to invest heavily in agriculture. Then move to industrialization.

It is the relative absence of industrialisation in today's developing societies that is the main source of political instability, fragile states, and illiberal politics. Like Dani Rodrik, one of my favourite economists, wrote last year, "…the reason the political life in many, if not most, of the developing countries is marred by civil rights abuses and popular discontent that periodically erupts in protests and riots, is because they failed to develop class-based solidarity and labour-based political movements bred by industrialisation."[18]

He continued, "Politics looks very different when urban production is organised largely around informality, a diffuse set of small enterprises and petty services. Common interests among the non-elite are harder to define, political organisation faces greater obstacles, and personalistic or ethnic identities dominate over class solidarity." I have no doubt that our country is a perfect laboratory to test these hypotheses.

To transform our economy and launch it into middle income status, Uganda will need more factory workers than the "entrepreneurs" vending Chinese hair and nails on the streets of Kampala or opening up bars and sport-betting booths in the suburbs of cities and towns around the country. Statistics[19] indicate that 79 percent of Ugandans who are not employed in agriculture are in informal sector, and 70 percent of those are employed either by themselves or by a family relative. Over 95 percent of the youth (18-30 years of age) are employed by the informal sector. This is all subsistence, even though it is outside agriculture. An economy is more productive not when every single person is an entrepreneur, but when a few serious entrepreneurs employ the majority of people.

What Uganda needs today are industrial parks, agro-processing and agribusiness centres, and ICT centers to create thousands of jobs at a stroke and employ the young people whose lives are being subjected to sheer gambling through unviable SMEs, youth funds, and all sorts of experiments. Most of these programs will remain a lot more efficient at generating heartwarming stories than they will at creating jobs. In almost all the progressing countries, the quickest way to escape poverty is to purchase bus or train ticket to the nearest city for a manufacturing job.

Joe Studwell (2013) gives a concise explanation of the Asian miracle in his book "*How Asia Works*". He attributes the unprecedented success in Asia to three key reforms: (1) reform of agricultural land ownership to encourage small-plot, high-yield farming; (2) industrial policies to nurture infant

[18] Rodrik, Dani (2015), "*Premature Deindustrialization*". School of Social Science Economics Working Papers, Paper Number 107. Institute for Advanced Study.
[19] UBOS (2015), *Statistical Abstract 2015*. Uganda Bureau of Statistics.

industries and export discipline requiring companies to export to foreign; and (3) financial reform to steer capital to exporters. Do we have to reinvent the wheel?

Above all, let us reduce the talking, workshops, and policy design and planning, and step up implementation. Our problems need more execution discipline than definition. To get execution discipline, we need to identify, train and deploy smart people. This country is full of young smart people. Let us get to work.

I thank you honourable members.

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