Performance of Uganda's Economy:

Progress, Opportunities, Challenges and the Way Forward

An independent assessment of Uganda's economy presented at the NRM MPs-Elect Retreat held on March 12 – 20, 2016 at the National Leadership Institute (NALI), Kyankwanzi.

By

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1.0 Introduction

I would like to begin by thanking the organisers of this retreat for inviting me to make an independent assessment of the performance of the economy. It is very constructive to have an open dialogue among the senior leaders and other stakeholders about our economic development strategy and policies. This is a sign that the leadership possesses sufficient intellectual self-confidence to allow open debate particularly on economic matters.

This paper is intended to guide my presentation which focuses on the nature, the structure, the policy framework and the performance of Uganda's economy. It is organised as follows. In the next section, I provide a brief checklist of the opportunities that are available and may be harnessed to fully transform the economy. This is followed by a brief review of the evolution of the economy since independence, highlighting the progress the economy has made under the NRM leadership. This is followed by an analysis of the challenges still remaining. Finally I present the new thinking on how we may transform the economy. The paper attempts to answer the various questions that the NRM leadership and the general public frequently ask about Uganda's economy.

1.1 The untapped potential of Uganda's economy

Few, if any, have ever doubted Uganda's potential to become one of the strongest economies in Sub-Saharan Africa. Aided by a highly favourable climate, good soils whose fertility level may easily be enhanced, a rich culture and mineral base, lakes and rivers which provide abundant fresh water and fish, and a rich flora and fauna, Uganda has historically been referred to as the Pearl of Africa[i]. The country also has abundant potential for hydroelectric and solar energy. Indeed Uganda is gifted by nature.

In brief, Uganda has the following outstanding categories of opportunities that we must harness to transform the economy:

a) The diverse gifts of nature: a big arable land, favourable climate, the good soils, a rich culture and mineral base, abundant fresh water and fish, and flora and fauna,

b) Abundant potential for hydroelectric and solar energy,

c) A big regional market that is being created by our regional leaders,

d) A young, growing, middle class population,

e) A large, fairly educated and trainable labour force (since 1922), and

f) Uganda has broken both the vicious cycle of poverty and the vicious cycle of political instability.

Yet with this great potential, Uganda has been unable to fully harness the gifts of nature to transform her economy into a modern society. The country is yet to develop the agricultural sector in order to complete the "agricultural revolution" and embark on industrialisation. A large majority of Ugandans (about 68 percent) is still in subsistence farming, growing a few crops and keeping a few animals and birds for their own survival[ii].

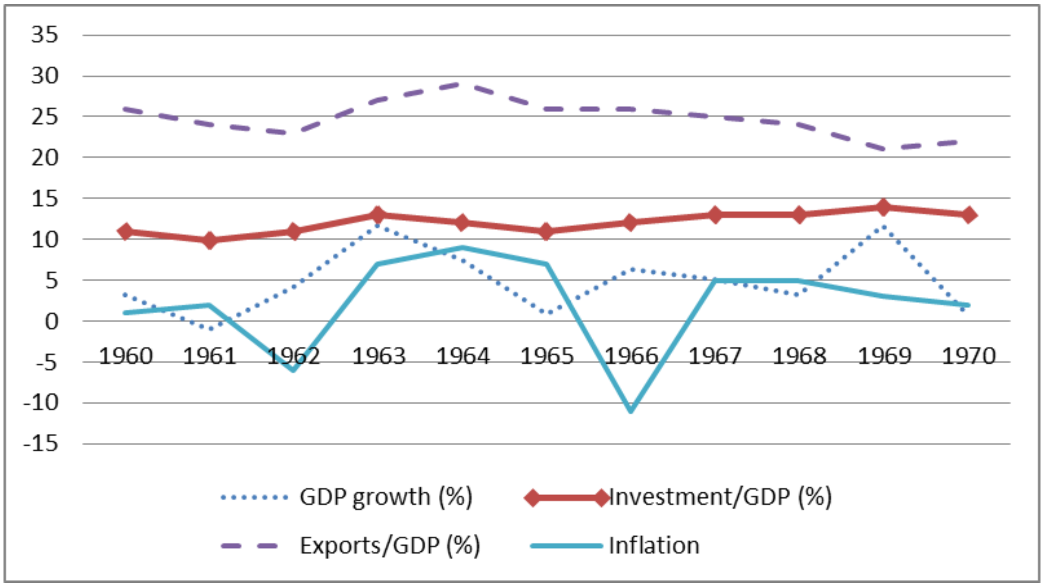
It is important, right at the onset, to note that for Uganda to transform her economy and industrialise, it will require a strong, well-functioning agricultural sector. The country will have to find, first, ways of increasing the productivity of the peasant smallholder farmer. However, before exploring this in detail, I would like to briefly sketch the journey Uganda's economy has taken since independence, with a view of appreciating where we have come from. This will also help us to have an honest assessment of where the economy is today and perhaps forecast where it is heading.

2.0 The evolution of the economy

In 1962, when Uganda got independence, the economy was small but one of the few in sub-Saharan Africa that possessed the key fundamentals for takeoff. The total gross domestic product (GDP)—the value of the total output of goods and services produced in the country—although small (just about USD 449 million[2]) was growing at an impressive average annual real rate of 6 percent. Throughout the '60s, this growth rate was sustained, exports averaged 25 percent of GDP, and inflation averaged 5 percent. (See Figure 1).

[2] World Bank (World Development Indicators), 2015.

Figure 1: Selected Economic Performance Indicators 1960-70 (indexes: 1960 = 100)



Source: Background to the Budget (1965/66); Statistical Abstracts (1965 & 1966); Quarterly Economic and Statistical Bulletin; & World Bank (1982)

In 1970, Uganda was considered among the African countries with a chance of achieving a GDP growth rate of 7 percent for the rest of the century.[iii] Had we done that, Uganda would now be a developed country.

2.1 Where did the rosy statistics go?

In later years of the post-independence period, economic policies in Uganda had become dirigiste (the state controlling economic and social matters). In 1969, for example, in the bid "to enable indigenous Ugandans to have a say in the economic affairs of their country," which at the time was dominated by Asians and British immigrants, and "for the realisation of the real meaning of Independence", President Milton Obote announced a "Move to the Left". His UPC government laid the groundwork for socialism in their 1970 *Common Man's Charter*[iv]. They nationalised various multinational companies[v], and implemented other in-ward looking policies based on import-substitution, central planning and licensing[vi].

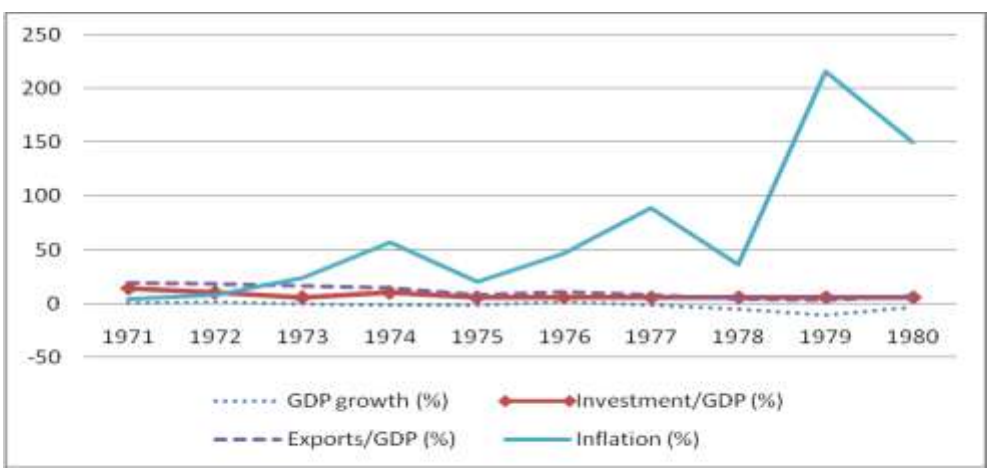
This should serve as a good lesson to the NRM government. You should avoid addressing economic challenges through policy reversal. We should never attempt to move this country back to socialism. It does not work. Instead, we need to use "second-best" policy options to make the economy work better and for the many, not the few. I will suggest some of such second-best policies later in this paper.

The final blow to Uganda's progress came with the emergence of Idi Amin in 1971. The actual turning point was in 1972 when Amin declared the economic war. On August 4, 1972, under decree 17/1972, Amin revoked the residence permits of the Asians of Indian, Pakistan and Bangladeshi origin, and gave them ninety days to leave the country with a maximum of 1,000 shillings or 50 pounds[vii].

The economic war proved too costly for Uganda both in the short-term and in the long-term. It gave Uganda a very bad reputation internationally. It also deprived Uganda of some of the most productive human resources. The Asians were engaged in commerce, agro-industry and manufacturing. Yet this expulsion, and the nationalisation of British-owned businesses in 1973, did little to improve income distribution or the welfare of the 'common man' in Uganda.

Instead, it put an end to Uganda's post-independence prosperity. It set Uganda on a deterioration path. It led to the emergence of economic distortions such as price control, smuggling, and excessive printing of money to finance fiscal deficits. Foreign exchange markets were also controlled. These distortions resulted into the inevitable collapse of formal private sector, and with it the economy. By 1979, when Amin's military government was overthrown, the Ugandan economy had reached unprecedented state of decay. (See Figure 2)

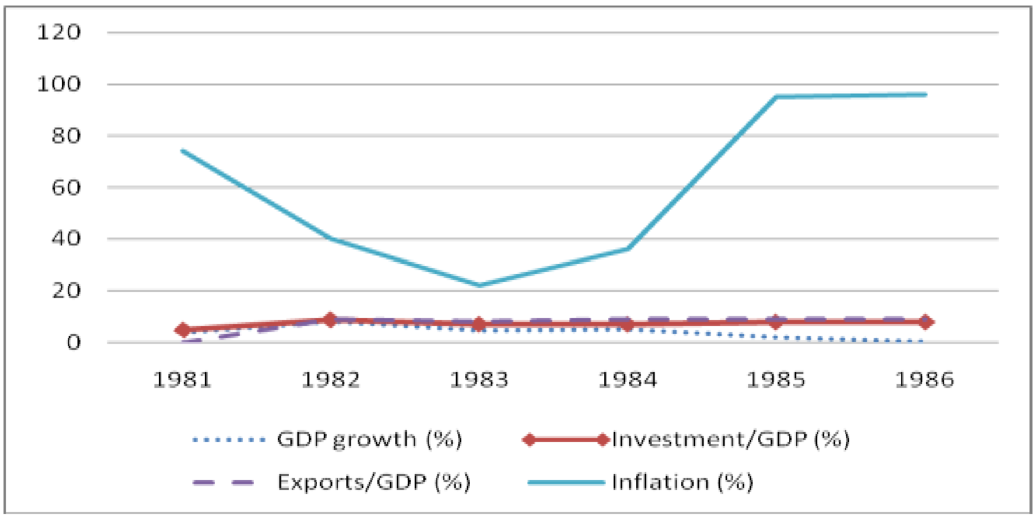
Figure 2: Selected Economic Performance Indicators 1971-80 (indexes: 1960=100)



Source: Background to the Budget (various years, 1971/72 – 1981/82); Budget Speech (various years): World Bank: World Development Data.; World Bank (1982).

The second government of Milton Obote tried to implement wide-ranging policy reforms to help the economy recover, beginning in July 1982 with the aim of raising the real GDP growth, reducing inflation, reviving production, and improving macroeconomic management. Initially the reforms brought some growth, inflation reduced and exports recovered. However, the recovery program generally failed. (See Figure 3).

Figure 3: Selected Economic Performance Indicators 1981-86 (indexes: 1960=100)



Source: Source: Background to the Budget (various years, 1982/83 – 1987/88); Bank of Uganda: Annual Report 1985; IMF, International Financial Statistics; World Bank (1988)[viii]

The 1985/86 Budget Speech, the last that Obote presented before he was overthrown, had the theme: "Redeeming the Promise of Recovery for Development". This theme summarises the honest situation that was pertaining at the time. The government had failed to live up to its promise of focusing its efforts and resources toward economic recovery. Instead it engaged in fiscal and monetary indiscipline, printing money to finance the escalating budget deficits. By the time Obote was toppled in July 1985, Ugandans were living agonizing lives similar to, and in some parts of the country worse than, the situation they were living in under Amin.

During the brief regime of Tito Okello Lutwa in 1985, the economy slipped almost out of control. During the six months of Lutwa's reign, GDP fell by 5.5 percent, the monetary economy declined by 3.9 percent and the non-monetary economy declined by over 8 per cent[ix]. Some observers summarise Lutwa's six-month regime as, "Months of aimlessness, months of destruction and months of shame for Uganda."

When the NRA/NRM captured power in January 1986, they found a country and an economy in ruins. Inflation had reached 240 percent, while GDP growth had declined to 0.3 percent, itself being driven by the subsistence sector. There were rampant shortages of consumer goods such as sugar, soap, clothes, blankets, bed-sheets, shoes, and others. The economic hardships worsened in the initial months of the NRM government. This was on the account of lack of consensus on some key areas of macroeconomic management, in particular the choice between a closed and an open economy.

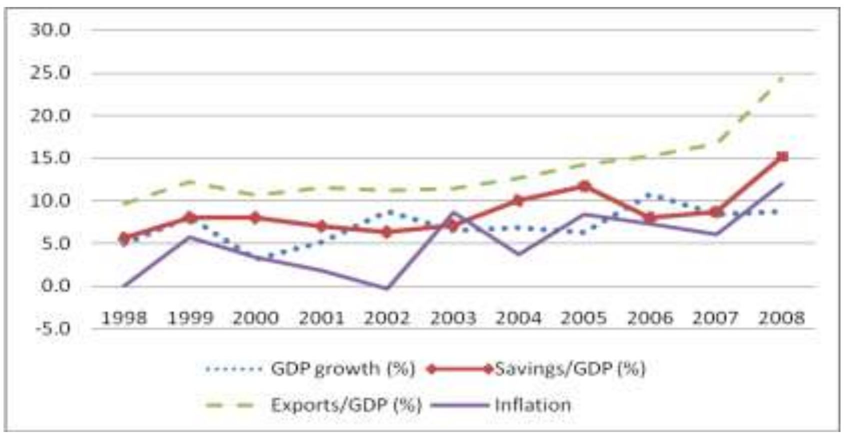
The leaders from the bush favoured the control model (reintroducing price controls, revaluation of the shilling, fixing exchange rates, and stoping export and import of particular items). The policies turned out to be a mistake as this fueled more macroeconomic instability and worsened external volatility. Shortages worsened, the black markets (the *Kikuubo boys*) and smuggling reemerged, etc.

However, unlike Amin and other rigid leaders, the NRM leaders were very flexible. Their 1986 mistakes taught them some hard lessons. By 1987 it had become evident that a new programme was needed. In May 1987 the NRM government, supported by the International Monetary Fund (IMF) and the World Bank, introduced another Economic Recovery Programme (ERP) aimed at freeing the economy of "government failures", raising growth, and reducing inflation among other objectives.

Subsequently, several reforms were implemented, key of which included: currency reform measures of 1987, setting up of the Uganda Revenue Authority (URA) in 1991, creation of the Uganda Investment Authority (UIA) also in 1991, privatization of the State-owned enterprises beginning in 1992, abolition of export taxes in 1992/93, and the floating of the exchange rates in 1993. Others were; the merger of Ministry of Finance with Ministry of Planning and Economic Development in March 1992 which helped to restore fiscal discipline, as well as the granting of semi-independence to Bank of Uganda to shield it from undue political pressure. This helped to restore monetary discipline.

These reforms brought economic sanity back to Uganda. In the subsequent decades, the economy achieved high and sustained economic growth, averaging 7 percent per annum; inflation rate fell from the triple digits of 1980s to an annual average of 5 percent; household poverty reduced from 56 percent in 1992/93 to 19 percent in 2014/2015. Private investments rose from below 9 percent of GDP in 1992 to 31 percent in 2014/15 (See Figure 4). The reform period also saw an impressive improvement of human development indicators (education outcomes, primary health care, water and sanitation, housing etc.).

Figure 4: From Recovery to Growth (1998-2008)



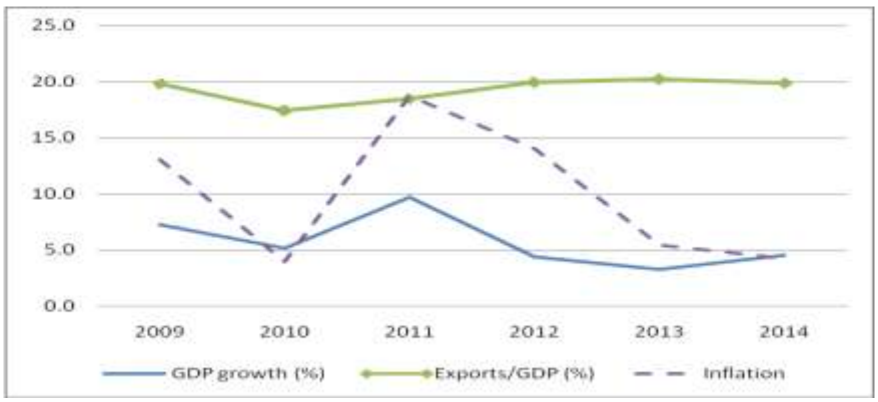
Source: UBOS, Bank of Uganda, World Bank (WDI), 2012

However, these "impressive" outcomes arguably conceal more than they reveal. Empirical studies, for example, have found that Uganda's growth profile has remained jobless[x]. The economy is growing without creating jobs. This may further be evidenced by the failure, by the economy, to undergo socio-economic structural transformation. Although the economy has experienced sectoral shifts in GDP composition with services emerging as the dominant contributor to GDP (53 percent) followed by industry (22 percent), there has not been much sectoral shifts in employment. Over three quarters of the population have remained stuck in agriculture, a sector whose contribution to GDP has reduced from 56 percent in 1990 to about 25 percent in 2015.

2.2 Recent performance of the economy

Overall, the economy has been performing below potential in the last six years. Before 2008, Uganda's economy was growing very impressively. GDP and GDP per capita growth rates were high, peaking at 10.8 percent and 7.1 percent respectively in 2006. The average growth rate of the economy was 9.3 percent per annum for the period 2001–2008. On the other hand, the average annual GDP growth for the period 2009 – 2014 was 5.7 percent; against the target growth rate of 7 percent per year. The average annual export/GDP ratio, in the same period, has been 19.3 percent (against the potential rate of 25 percent). The average inflation rate has risen to 9.9 percent in the last six years; against the national target inflation rate of 5 percent (See Figure 5).

Figure 5: Recent Performance of Uganda's Economy



Source: Uganda Bureau of Statistics, 2015

Generally, the period after 2009 to date has been characterised by increased volatility, below potential growth, and rising cost of living. Uganda, which used to have the best performing economy of the nations in the East African Community, is now lagging behind them, except Burundi[xi].

The "official" reasons for the recent poor performance include: (1) the global financial crisis and economic slowdown particularly in the U.S. and the Euro Zone, which led to low demand for our exports and reduced the capital inflow; (2) drought in some parts of the country, particularly areas that act as Uganda's food baskets, which reduced food supply leading to high food inflation; (3) exchange rate volatility on the account of the strengthening of the dollar; and in the recent past (4) the power shortages which led to frequent outages with large sections of the country plunged into darkness for 24-hour stretches, particularly between 2011 and 2012 when two of the country's private power suppliers then—Aggreko PLC and Jacobsen Uganda Power Plant Co. Ltd.—cut service because government had failed to pay its longstanding US$73 million electric bill. The power outages raised the general cost of production and the cost of living.

That is official position regularly cited by the authorities at Ministry of Finance, Planning and Economic Development and Bank of Uganda. However, a closer look at the on-the-ground-realities suggests that the authorities might be missing something critical in their analysis of the economy. The global dynamics that are being accentuated by Finance and Bank of Uganda as the main causes for the poor performance of Ugandan economy's lately may have simply coincided with a quiet resurgence of a number of factors that the NRM government had alleviated. These include the following:

First, increased political risk: Since 2006 elections, Uganda's political climate has never been the same again. The economy has been performing under the weight of politically inspired violence, protests and uncertainty. In particular, the *Kayunga riots* in Kampala, in September 2009, when police blocked a delegation representing the Buganda kingdom from visiting Kayunga. Then the period after the 2011 polls to date has seen widespread protests engineered by sections of opposition leaders. These protests have sometimes degenerated into unrest and uncertainty, factors well known for feeding inflation and for discouraging long-term private investment.

Since 2006, almost every election cycle in Uganda has been leading to civil unrest which undermines the economic performance by increasing uncertainty and disrupting business, especially in urban areas, where most these civil unrests occur. Business costs in Uganda, due to crime and violence, are high, ranking 118th out of 144 countries, according to the Global Competitiveness Report for 2014/15. A last solution to this political standoff needs to be thought out.

Second, resurgence of fiscal indiscipline: We are spending a lot of money on politics and administration. The size of government has expanded geometrically yet revenues to support it are increasing at an arithmetic rate. Any well-intentioned person should question the logic of expanding the legislature and cabinet to the sizes they have become. On this add the big number of RDCs and an extensive list of presidential advisers, an extensive local government spreading around 112 districts, and other cadres. We cannot avoid inflation and currency depreciation when we spend a lot the money looking after people who do not produce anything.

Third, governance challenges particularly the high levels of corruption: Although there has always been corruption and theft of public money in Uganda, evidence shows that the country has never seen the scale of corruption scandals we have had in the recent years. It all started with the CHOGM scandal (2007) = $27 million, Global Fund (2008) = $37 million, GAVI Fund (2008) = $4.6 million, Temangalo (2008) = Shs.11 billion, National IDs (2010) = Shs.19 billion; Bicycles for LCs (2011) = $1.7 million; Microfinance Support Centre (2011) = Shs.60 billion; and Basajjabalaba/BOU (2011) = Shs.169 billion.

Other corruption scandals include: the EAC pension scheme (2012) = Shs.169 billion, Office of the Prime Minister scandal (2012) = Shs.50 billion, and Katosi road (2014) where Shs. 24.7 billion was shared by government officials. The few reported scandals above cost Uganda a total of Shs. 737 billion ($220 million). The Global Competitiveness Report 2014-15 indicated that corruption is top among “the most problematic factors for doing business” in Uganda. 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[xii].

The other factors that may be impeding economic performance include rapid population growth rate, low level of job creation leading to high unemployment and underemployment, particularly among the youth, as well as poor service delivery. I expound on these factors in the latter sections of the paper.

It is my humble view that Uganda at the moment is where China was in 1978. Deng Xiaoping, on being confirmed as China’s leader in December 1978, said, “The basic point is: we must acknowledge that we are backward, that many of our ways of doing things are inappropriate, and that we need to change.”[xiii] Undoubtedly, this statement fits perfectly well in Uganda’s prevailing situation.

True, during the past 30 years, the NRM government has turned around the economy. GDP has grown from below \$2.6 billion (Shs.8.7 trillion) in 1986 to \$27 billion (Shs.85 trillion) today. That is one side of the realities. The other side is that this GDP is in the hands of very few Ugandans. True, beautiful houses and buildings have sprung up in Kampala and its suburbs. Urban centres like Mbarara, Masaka, Mukono, Arua, and other district peri-urban townships have undergone serious reconstruction and growth. But a few miles outside each of these bungalow-infested townships, people's welfare is still very low. For Ugandans living in the rural areas and the slums of the city and the towns—and they are the masses—the economy has not shone brightly at all. To fully understand this, lets first look at some facts that define Uganda's key economic challenges.

3.0 Main Economic Challenges for Uganda

Uganda has about 200,520 square kilometres (having risen from 199,810 square kilometres in 1960s) of arable land[xiv], out of a total area of 241,550 square kilometers. At independence in 1962, the people of Uganda were using 45 percent of this land for agriculture. Owing to the country's rapid population growth, Ugandans have opened up more land for agriculture. Now up to 71 percent of the total land area is used for agriculture.

The 2014 Population and Housing Census found that Uganda's population had grown from 9.5 million people in 1969 to about 35 million people. Estimates by the population secretariat and World Bank show that the population could have increased to 38 million people by the end of 2015. This population resides in 7.3 million families or households of about 5 persons each, on average.[xv] About 82 percent of the Ugandans reside in rural areas where the main economic activity is agriculture. This implies that every household (or family) on average, has about 2.5 acres of agricultural land. Demographers at the Population Secretariat forecast that Uganda's total population will grow to 47 million by 2025 and up to 62 million people by 2030.

These statistics clearly imply that in the near future, agricultural output will be increased mainly through increased productivity but not acreage. There is simply no land for large-scale mechanised farming in the larger part of the country, except in parts of Northern Uganda, Karamoja and parts of Western Uganda.

With these statistics in mind, we can easily identify Uganda's main economic challenges:

First, low agricultural productivity: This is the output per acre or output per household. Recent research[3], for example, has found that Ugandans use nearly six acres of land to produce one processed ton of coffee (See Table 1). Leading world coffee producers such as Brazil and Vietnam harvest a ton of coffee from every two acres of land[4].

Table 1: Agricultural Productivity in Uganda (selected crops)

Crop	Land (in Acres)	Number of Households	Output (in tons)	Output per Acre (in tons)
Coffee	942,094	885,166	160,038	0.17
Millet	523,183	450,585	96,155	0.18
Groundnuts	1,036,811	937,078	194,872	0.19
Beans	2,122,165	2,352,086	532,500	0.25
Cassava	2,775,080	2,148,109	2,489,000	0.90
Maize	2,153,399	2,089,113	2,082,300	0.97
Matooke	2,444,699	1,632,410	4,534,100	1.85

Source: Hisali and Ggoobi (2015),

The low agricultural productivity is caused by a number of factors that we all know, and I wouldn't want to bore you with here. Apart from the common ones, I would like to highlight one factor: the agricultural value chain is dominated by very many unregulated middlemen who *add cost* instead of value to the chain. These middlemen fleece both farmers and consumers. They pay very low farm-gate prices to the farmers and charge the consumers of the produce exorbitant prices.

The second challenge is the high post-harvest losses farmers face, due to poor storage facilities. On average, farmers lose nearly half of their (already low) harvests to insects, rodents, floods, theft and others (see Table 2). One important observation that the researchers have made is that the post-harvest losses in Uganda increase with time. This points at the need build good storage and value addition facilities.

[3] Hisali E. & Ggoobi R. (2015) "Crop and Livestock Production and Post-Harvest Losses in Uganda"

[4]See http://faostat3.fao.org/browse/Q/*/E

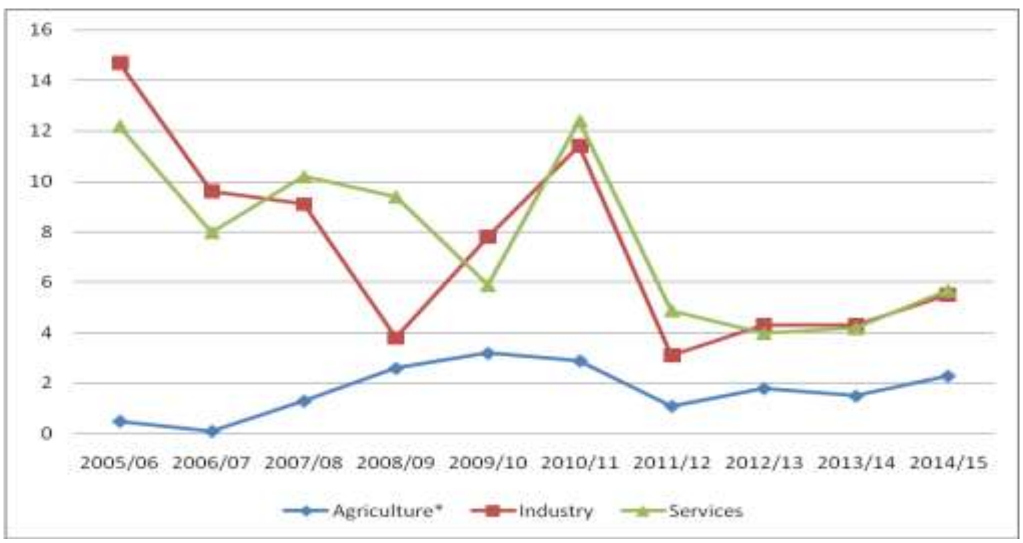
Table 2: Magnitude of Post-Harvest Losses in Uganda (selected crops)

Crop	% loss (Season 1)	% loss (Season 2)	Average (%)
Maize	41	51	46
Rice	50	50	50
Finger Millet	34	46	40
Sorghum	66	35	50
Beans	45	61	53
Groundnuts	27	60	44

Source: Hisali & Ggoobi (2015)

Thirdly, for most part of the post-reform period, agriculture has remained the slowest growing sector in the economy. For example, in the decade, 2005/06 – 2014/15, growth of the agricultural sector averaged 1.7 percent per year while that of industry and services averaged 7.4 percent and 7.9 percent respectively (See Figure 6).

Figure 6: Sectoral performance of Uganda's economy (2005/06 – 2014/15)

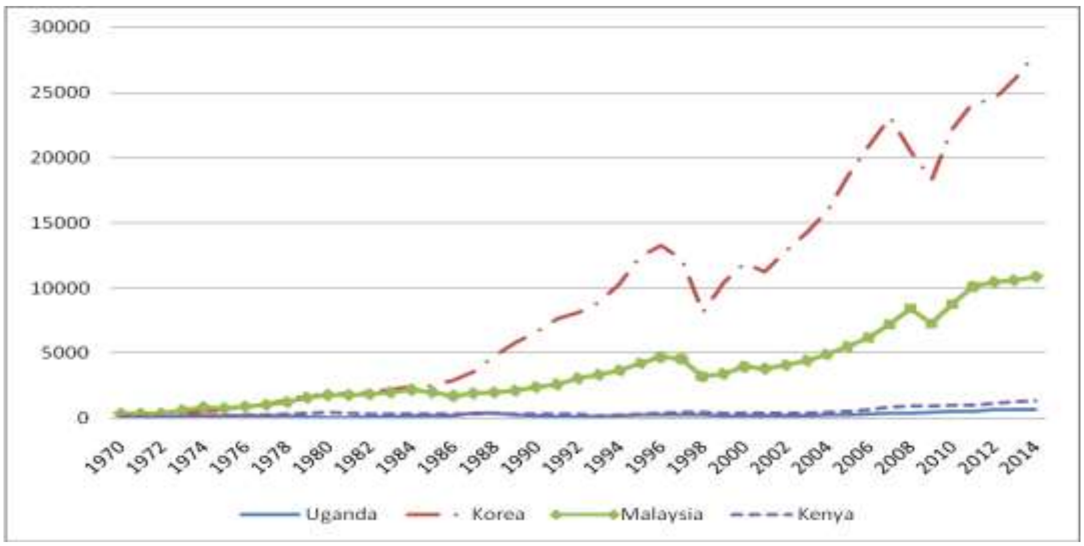


Source: Uganda Bureau of Statistics

The diagram above partly explains why there is persistent household poverty among Ugandans, and also why a big majority of Ugandans (76 percent) has failed to take advantage of the growing economy. They are employed by a sector that is not growing.

Fourth, although the economy has been growing (GDP having risen to $27 billion or Shs. 90 trillion), household incomes of the citizens have remained nearly stagnant. In 1970, Uganda, Malaysia and South Korea (and a few other East Asian countries that have since developed their economies) had nearly the same level of per capita income, in the range of US$130 and US$400. The last four decades have seen South Korea and Malaysia raise their per capita incomes to over US$27,000 and US$10,760 respectively, while Uganda has seen her per capita income stagnate at about US$600 in 2014.

Figure 7: Uganda's per capita income growth (1970 – 2014), in US$, compared with other countries



Source: World Bank (World Development Indictors)

This paradox—the failure to raise household incomes of Ugandans despite the impressive expansion of GDP—can be explained by a number of factors:

1) The current growth is not inclusive. Although the economy has been growing, much of this growth is going to the few who are already rich. Statistics, and on-the-ground realities, show that income inequality among Ugandans is high and rising. Thus, the growth in GDP goes to the few overly rich individuals, who dominate the fast-growing sectors (industry and services), leaving the masses (in agriculture) with low and/or stagnant incomes.

2) High population growth rate: Uganda's population is growing very fast. Although having a larger, younger, and growing population may not necessarily be a bad thing, the problem is that the population growth rate often competes with the growth rate of the household incomes. In Uganda the former is currently winning the race. Increase in the population cancels out the increase in aggregate output, which keeps average incomes low and stagnant.

3) 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 such as telecommunications, banking, large scale manufacturing, wholesale and retail trade etc are foreign owned. A quick look at the top 100 taxpayers in Uganda may provide a starting point in the analysis of ownership of investments. Ugandans are concentrated mainly in small, informal businesses — vending the products that foreigners produce, *boda-boda*, hair salons, bars, etc. The few big-time investors are investing in non-tradables mainly construction: shopping malls, apartments, land, etc. Since these cannot be exported, their multiplier effect is low.

   Thus, a significantly larger proportion of the proceeds of the expanding economy go to foreigners who repatriate them to their home countries. Please note that this is not advocating for discouragement of the foreign direct investors (FDI is the engine of the contemporary modern developing economy), but advocating for capacity building towards indigenous investors to increase their participation in the market economy.

4) The high marginal propensity to import (MPM): The MPM measures the response of imports to domestic income (GDP). Currently, the MPM for Uganda stands at 33 percent[5]. This is a high MPM compared to other countries in the region such as Tanzania (29 percent), Zambia (23 percent), and South Africa (27 percent). In simple terms it implies that about 33 percent of each extra shilling earned by Ugandans—and the jobs etc—is shipped out of Uganda to the countries that produce Uganda's imports – China, India, Kenya, South Africa, South Korea, Malaysia etc. That is why the incomes of the

[5] International Trade Centre

Koreans and Malaysians have grown geometrically in the last three decades while those of Ugandans have remained stagnant.

5) Low levels of saving and capital accumulation among Ugandans. Uganda's economy is structured to promote a "consumer culture" or what economists refer to as the "culture of consumerism"[xvi]. It encourages people to overspend. People living in the culture of consumerism love to live luxurious and ostentatious styles of living; hang out in eateries and consume sumptuous meals and alcohol, holding parties, weddings and fanfare, carry expensive gadgets such as Smartphone, iPads, and other electronics. Some borrow to finance these ostentatious lifestyles.

   Economists use the concept marginal propensity to consume (MPC) to determine whether a society is living the culture of consumerism or not. The higher the MPC, the more likely a population shall be living in a consumer culture. Uganda's MPC increased from 79 percent in 2008 to 85 percent in 2014[6]. This is very high MPC which deprives many Ugandans of the ability to save, invest and create wealth. Ugandans save and invest only about 13 percent of the GDP, which is very low to enable them to grow their incomes. Countries that have managed to accumulate high levels of per capita income, such as the East Asian tigers, have low MPCs. For example, China's MPC is just 0.38, Malaysia's is estimated at 42 percent, while that of South Korea is 53 percent.

   Consumption by itself would not be an impediment to inclusive growth since spending/consumption actually has positive (multiplier) effect on income and employment creation. The challenge with consumption in Uganda, and many other least developed countries (LDCs), is that mainly foreign products are consumed. The economy, therefore, does not benefit much from the high MPC. The multiplier effect sustains the people in the countries where the imports come from. This is one of the key reasons behind the stagnation in household incomes in Uganda and many other African countries.

[6] UNSTATS National Accounts Aggregates

Another challenge facing Uganda's economy is what Nobel Laureate Joseph Stiglitz refers to as "*too much* market and *too little* government[7]. It is not uncommon to hear government official working at BoU and MoFPED—the two main authorities mandated by the law to regulate the economy—say, "Uganda's economy is a free market economy; we have nothing to do about prices, interest rates, exchange rates etc." They behave as if markets are able to self-regulate.

It appears that when the architects of the liberalisation reforms said that Uganda's economy needed to reduce the amount of government participation in the economy, most of Uganda's policymakers and economists took it literally to mean that government had no role whatsoever to play. So the country moved from one extreme of having too much government involvement in the economy to another extreme of having much market. Today, many of Uganda's economic problems stem from having too much market and too little government. 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. Thus my view is that deeper issue that Uganda is facing concern the appropriate roles of the State and the market.

It is my strong opinion, for example, that over liberalisation of interest rates offered by banks to those who save has led to a savings crisis. Banks are offering as low as 3 percent to 'savers', yet the target inflation rate is 5 percent (and currently running at 7.7 percent). This implies that those who put their money in savings accounts are losing instead of earning a return on their savings. Thus people have stopped saving in banks and resorted to investing in assets such as land, real estates, cattle, etc as a form of saving. This has left banks with low credit to lend. As a result, lending rates have remained high and sticky downward.

On the other hand, over liberalisation of lending rates has encouraged predatory behaviour among banks. Uganda's financial system has become more attuned to speculation than to making investments that would create jobs, increase productivity, and redeploy surpluses to maximise social returns. Banks are engaging in risky and reckless lending – lending people to wed, or to consume, activities that do not earn returns to enable the borrowers to repay the loan plus the

[7] See Joseph Stiglitz's article, "*Reforming China's State-Market Balance*," written in Project Syndicate April 2, 2014.

interest. Thus banks lend people with the full knowledge that they will not pay back. The intention is to confiscate the collateral.

In summary, Uganda's main economic challenges today include:

a) How to make agriculture a high value sector, raise agricultural productivity, reduce subsistence production and increase household incomes;

b) How to speed up the movement of people out of agriculture into more productive and high value sectors such as industry and services;

c) How to facilitate structural transformation of the economy to create more and decent jobs for the thousands of young people that continue to graduate from higher institutions of learning ; and

d) How to improve export performance to raise foreign exchange earnings and boost the value of the shilling.

Other challenges that need to be addressed include: reforming land laws to provide more security of tenure, the need to improve access to finance, as well as improvement of the level of skills of the labour force particularly technical skills.

3.1 What needs to be done to address the challenges above?

The question that we need to answer first is: *Why have Ugandan peasants, despite all the efforts by government and development partners to boost agriculture and reduce poverty, failed to increase agricultural productivity?*

The reason for this paradox is embedded in the historical mistake of promoting agriculture in developing countries on the assumption that "production is the source of demand." This is the *error* of relying on the 'old economics' of ***Supply Creates its Own Demand***—the Say's law, by French Economist Jean-Baptiste Say (1767 – 1832).

Informed by the Say's law, leaders, policy makers, academics, and development partners assumed that they could convince peasants, often through mobilisation via radios, newspapers, public rallies, and seminars to boost agricultural production. This form of mobilisation was often given powerful slogans – “sensitization of peasants”, “mindset change”, etc. Indeed whenever peasants failed to produce enough or to sustain the prevailing levels of output, leaders accused them of being lazy. We have failed to diagnose the disease and instead concentrated on addressing the symptoms.

What is the disease? Why have peasants failed to take full advantage of the much improved socio-economic and political environment brought by the NRM government to commercialise agriculture and boost their incomes?

The low productivity, the failure to commercialise agriculture, the failure to purchase high yielding varieties (HYVs), the apathy among the youth to towards agriculture, etc. are merely outcomes or ‘symptoms’ but not the reasons or the ‘disease’ for the poor performance of the sector.

The real diseases that are impeding agriculture in Uganda are primarily the following:

a) The low and unstable farm-gate prices for agricultural produce,

b) The high post-harvest losses, and

c) The high risk to investors in the sector.

These factors have made agriculture in Uganda an unprofitable activity, particularly for the smallholder farmer.

The farm-gate prices that the farmers down in the villages of Uganda are paid for their produce are very low and they tend to fluctuate a lot, typical of agricultural products. Although consumer prices for most agricultural products have in recent years increased, the margins are going to middlemen. The middlemen capitalise on the inherent structural factors that are completely beyond farmers’ control to exploit them by buying their produce at very low prices and sell them to consumers at relatively high prices. The middlemen succeed in exploiting the farmers mainly because agricultural products are perishable, yet the farmers lack adequate storage facilities and/or agro-processing infrastructure or insurance services that would enable them to bargain for higher prices.

Thus there has been low incentive for peasants to work their gardens more productively. There is no incentive to adopt modern technologies such as hybrid seeds, fertilizers, chemicals and modern machinery that would boost productivity. There is also no incentive for the youth to engage in agriculture. In its current form, agriculture is "dirty", non-lucrative and thus unattractive to the youth who are considerably the energetic Ugandans.

So how do we deal with problem? How do we raise and stabilize farm-gate prices? How do we reduce post-harvest losses? How do we reduce risk for smallholder investors in the agricultural sector?

We need to implement what we shall refer to as "s*econd-best"* measures. These are measures that may work in the situation when the 'optimal' or standard conditions cannot be applied. So in such a situation, economists believe that is possible that the *next-best* solution involves changing other variables away from the values that would otherwise be optimal.

Recall that our objective is to provide incentives that farmers need to produce in an economy that is fully liberalised, market oriented, and private sector led. In such an economy we may not succeed at using the "*first-best*" policy regime. Before liberalisation and globalization, governments used to stabilise producer prices using a range of schemes. These included:

(1) Buffer stocks: where government would purchase some quantity of a commodity when it was plentiful, store the stocks and sell them at the time when the commodity was scarce to make prices predictable;

(2) Buffer funds: a form of stabilisation fund where the proceeds from a tax levied during high prices were accumulated and used when the price was low;

(3) Price floor: where government used to fix a minimum price or a "price band" at which commodities were bought from farmers;

(4) Taxes/subsidies: where government could levy a tax on particular imports that compete with farmers' produce or offer a subsidy to farmers.

These may be referred to as the *first-best* measures of dealing with challenges that Uganda's agricultural sector is facing. However, history and research show that some of these government interventions had many limitations that impeded the growth and performance of the agricultural sector.

For example, buffer stocks would encourage private speculators to manipulate the scheme by anticipating and hastening the process of depleting the stocks in order to make prices rise. They could do this by buying the supplies long before they could otherwise be sold.

On buffer funds, there was need to choose a target price level that did not deviate too far from the actual world price. This was difficult, not to mention the high opportunity cost of the funds that were tied up etc. etc.

Owing to these and other related limitations, governments in developing countries were advised to liberalise the agricultural markets, dismantle the buffer stocks and stabilisation funds, stay away from the pricing system of agricultural commodities, and leave market forces to determine the prices. This is the system—the free market system—that is prevailing in Uganda and many other developing countries.

So, under the circumstances, what can government and other stakeholders do to provide incentives that farmers need to commercialise, adopt modern technology, increase productivity and thus boost their incomes?

Let me raise some caveats before we proceed: improving infrastructure (roads and storage facilities) in rural areas may help to mitigate the challenges farmers face in rural areas, but if it remains isolated will not be sufficient to boost the sector. In some places where government has improved the state of roads, and where storage has been improved by organisations such as World Food Program (WFP), many smallholder farmers, due to financial stress, were found selling their produce before harvest time – at the stage when the crops have just started flowering.

We also don’t have futures markets which famers in advanced countries rely on to limit risks, by insuring themselves against price changes. It will take time to build such infrastructure. So, what is the way forward?

3.2 The Genius of Demand-side Approach to Agriculture

We need to reverse the Say's Law. Agriculture should be promoted and transformed on the theory that *Demand Creates its Own Supply*. Our model or proposal is simple: in order to address the three key 'diseases' that are impeding agricultural modernization in Uganda—the low and unstable farm-gate prices; the high post-harvest losses; and the high risk to investors in the sector—let us build rural-based agro-processing industrial centres (RICs) as the *second-best* alternative.

The RICs may be built at district level or slightly upper level across the country. Each of the centres must be well equipped with modern facilities for drying and cleaning, storage, silos, cold chain facilities, bulking, modern value addition equipment, transportation, etc.

If this is done, a smallholder farmer, producing two sacks of grain or fruits, will be able to evacuate his/her produce to the centre. If the prevailing price does not meet the expectation of the farmer, they may opt to pay for cleaning and storage of their produce at the centre in speculation for a better price.

The RICs will help to add value to farmers' produce, reduce waste (post-harvest losses), and hence reduce uncertainty in agriculture. It will also help to stabilize farm-gate prices. How? The farmers' bargaining power will be boosted by the centre. This will enable them overcome the "Tyranny of middlemen".

It is these incentives that will prompt farmers to adopt new and modern technologies such as the high yielding varieties or what in Asia they call the "miracle seeds", use of modern machines such as tractors, planters, combine harvesters, irrigation equipment, fertilizer and pesticides etc.

3.3 Does this model work?

Luckily, Uganda has had a Good Samaritan who has piloted the model using his own private resources. Gen. (Rtd) Caleb Akandwanaho Salim Saleh has been piloting this model for the last five years. On-the-ground results at, and around, Kapeeka in Nakaseke District so far confirm that the model works. I encourage you to visit him and see the model in action.

For the model to be replicated elsewhere, it will require you senior leaders and other technical personnel of government to first understand how it works, improve it where you think may be gaps, fine-tune it, and domesticate it to the various ecological zones of Uganda.

3.4 Where's the future…

Let us forget about oil. True, it will play a role in the economy, particularly by availing some revenues for building infrastructure and other critical investments. However, a bulk of the immediate future of Uganda's economy lies in four key areas: Agro-processing and agri-business; Cottage industries and assembly plants; and in leveraging Information and Computer Technology (ICT) as well as Tourism.

I have already explained what needs to be done to turn around the agricultural sector. Apart from that we need to create incentives for the development of the industrial sector, particularly small-scale cottage industries and assembly plants.

4.0 Concluding remarks

Economic stability guarantees national security and political stability. True, in the past three decades Uganda's economy has undergone fundamental reforms. The economy has expanded nearly seven times since 1986. However, this growth has not only remained jobless, it has not helped to raise household incomes of a big majority of Ugandans.

Getting the economy work for a big majority of Ugandans is actually the main *unfinished busines*s for the NRM government. Other political grievances of the people are secondary. Economic inclusion is all Ugandans are yearning for. And economic inclusion is a policy issue. It's a choice that the policymakers have to decide to pursue. Currently, we could be busy building a rich economy with poor people.

To transform fully Uganda's economy, we shall need to complete the agricultural revolution and start mass industrialisation. What is needed today is to develop agriculture first in order to build a strong foundation for industrialisation. This will help to include the masses in the market economy. However, we shall not be able to modernise agriculture without putting in place incentives that would encourage smallholder farmers to increase their productivity.

It is our view that rural-based agro-processing industrial centres will create a model that would work as a good second-best alternative to circumvent the realities of the free-market, globalized economy, to create the incentives farmers are yearning for. We strongly believe that in order to transform into a middle-income country, Uganda will need more factory workers than the "entrepreneurs" currently vending Chinese products.

As senior leaders of the party and government in power, you should take the front seat in agitation for new revolutionary ideas that will turn around the economy. The current economic model Uganda is following does not generate hope. Hard work is not paying off. Economic growth is not creating more and better jobs. People's confidence in the prevailing economic system has declined sharply. This is a threat not only to the NRM government, but also to the economic system that sustainably builds economies – capitalism. We need to understand the nexus between economics, governance and security in order to make a contribution to Uganda's prosperity. The past was dark, the present is troublesome, but the future is bright.

We simply need to build the economy; raise the GDP by including the biggest percentage of the population such that more people enter the middle class segment. That is what is going to rid this country of the useless dogmatic biases our people still have: tribalism, sectarianism, poor political decisions, etc. The future of this country is bright because with education, a growing economy, and globalisation, the young generation will, by default, find itself free of the abovementioned biases which their parents, who grew up in poverty and closed societies, possessed in tons.

Thank you for your time and patience.

Notes

[i] The phrase was coined by former British Prime Minister, Winston Churchill, in his 1908 book; "My African Journey", in which he documented his experiences about his 1907 travels through East Africa and the Sudan. He wrote, "Uganda is a wonderful new world. The scenery is different; the vegetation is different, the climate is different, and most of all, the people are different from anywhere to be seen in the whole range of Africa…Uganda is a fairy tale…Uganda is a Pearl."

[ii] President Museveni popularly refers to this section of the population (about 68 percent of Ugandans, according to the 2002 Census) as the "*nkolera lubuto*" – those working for the stomach.

[iii] See Bwire, Thomas (2012), "Aid, Fiscal Policy and Macroeconomy of Uganda: A Cointegrated Vector Autoregressive (CVAR) Approach," Ph.D Thesis, University of Nottingham, November 2012.

[iv] On October 24, 1969 the Uganda People's Congress, the ruling party then, adopt this Charter such that "the resources of the country, material and human, be exploited for the benefit of all the people of Uganda in accordance with the principles of Socialism."

[v] Sejjaaka, Samuel (2013), "*Yesterday, Today and Tomorrow: Reflecting on Fifty Years of Independence*" Paper Presented at Presidential lecture which was organised as part of the Uganda@50 Independence celebrations.

[vi] Bigsten Arne and Steve Kayizzi-Mugerwa (1999), *Is Uganda an emerging economy?* A report for the OECD project "Emerging Africa", Department of Economics, Göteborg University, Sweden.

[vii] Mwakikagile, Godfrey (2012) *Obote to Museveni: Political Transformation in Uganda Since Independence*, New Africa Press. Dar es Salaam, Tanzania.

[viii] World Bank (1988), *Towards Stabilisation and Economic Recovery*. World Bank, Washington D.C.

[ix] Republic of Uganda (1986), *Budget Speech 1986/87*, Ministry of Finance

[x] Bbaale, Edward (2013), "*Is Uganda's Growth Profile Jobless?*" International Journal of Economics and Finance. Vol. 5, No 11; 2013.

[xi] World Bank (2013), "*Uganda Economic Update*: Bridges Across Borders, Unleashing Uganda's Regional Trade Potential." The World Bank, Washington DC.

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

[xiii] *See* Studwell, Joe (2013). *How Asia Works: Success and Failure in the World's Most Dynamic Region*. Grove Press, New York, USA. pp.221

[xiv] World Development Indicators (World Bank), 2015. The increase in arable land was on the account of increased land reclamations from hitherto occupied by water such as river banks, lake shores, swampy wetlands etc.

[xv] Uganda National Population and Housing Census 2014, carried out by UBOS

[xvi] Consumerism means buying beyond one's needs and means. People buy things not keeping in view their genuine needs but on impulse, just to satiate their desires.