



NPA POLICY BRIEF

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Achieving Middle Income Status: What needs to be done

Uganda aspires to attain a per capita income of USD 1,039 by 2020 as spelt out in the Second National Development Plan (NDPII). To achieve the middle-income target Uganda should sustain an average growth of above 10 percent in the remaining two and a half year period of NDPII. The reality is that this growth target cannot be achieved without a comprehensive economic transformation. As such, based on current trends the middle-income target cannot be achieved by 2020. Nevertheless, there are low hanging fruits that are within our national reach which if implemented efficiently, will fast track Uganda's progress towards middle income status. This brief provides key highlights on technical guidance and policy direction on the attainment of middle income status as elaborated in NDPII. However, instead of providing the broad strategic direction already in NDPII, this brief unpacks the NDPII to provide micro/firm level low hanging implementable interventions for fast tracking progress to middle-income target.

Introduction

Uganda aspires to attain a per capita income of USD 1,039 by 2020 as spelt out in the Second National Development Plan (NDPII). This aspiration is premised on strengthening the country's competitiveness for sustainable wealth creation, employment and inclusive growth, anchored on delivering the desired outcomes in the NDPII. The NDPII articulates the policy directions, strategies, programmes and projects that will enable the country emerge as a middle-income nation.

Uganda's middle-income goal is inclusive. In addition to increasing income per capita, it also targets improvements in the socio-economic welfare for all Ugandans. The per capita income target is USD 1,039 (UGX 3.5 million). The socio-economic targets are: a reduction in poverty levels from 19.7% to 14%; increasing households access to electricity from 14% to 30%; reducing infant mortality rate from 54 to 44 per 1000 live births; reducing under five mortality from

90 to 51 per 1,000 live births and maternal mortality from 438 to 320 per 100,000, increasing safe water coverage from 71% to 90% among others.

However, despite government efforts towards the middle-income goal, so far, progress has been slow compared to the required milestones. The country's growth momentum has slowed over the first two years of the NDPII, averaging only 4.4 percent growth. This is quite low compared to the required NDPII period average growth of above 6.5 percent, accompanied by below target performance on key indicators.

Table 1: Selected NDPII Middle Income Macroeconomic Milestones

NDPII Milestones	Projected Average	Performance Average
Real GDP Growth	6.5%	4.4%
Core Inflation	Single digits	7.0%
Domestic Revenues to GDP	16.0%	13.0%
Gov't Infrastructure Spending to GDP	8.0%	
Exports to GDP	14.0%	5.0%
Private Sector Credit Growth	15.0%	8.0%

Based on current trends, the middle income target cannot be achieved by 2020 without a comprehensive economic transformation.

Nevertheless, there are low hanging fruits that are within our national reach which, if implemented efficiently, will fast track Uganda's progress towards middle income status.

Against this background, this brief highlights what needs to be done to achieve the MIS. However, instead of providing the broad strategic direction already in NDPII, this brief unpacks the NDPII to provide micro/firm level low hanging fruits for fast tracking progress to middle-income target.

Methodology

The brief is based on an NPA (2016) policy paper titled: "The process of attaining Middle Income Status: What does this mean for Uganda?" An analysis to decompose sectoral sources of growth was carried out. Further, several micro/sector/firm level analyses were carried out to unpack the NDPII broad strategic direction to define implementable interventions at micro/private level. These micro level analyses provided the background information for this brief.

What Needs to Be Done

Generally, government needs to:

- (i) Ensure that the annual budget is working towards the implementation of the NDPII interventions;
- (ii) Enforce the Minister of Finance's directive of not releasing funds to agencies without strategic plans or whose plans are not aligned to the NDPII. This is aimed at strengthening planning at the MDA and local government levels;
- (iii) Ensure timely disbursement of funds to avoid delays in execution of projects and also to stick to strict project timelines;
- (iv) Enhance the local content component especially in big infrastructure projects in

order to realize impactful economic benefits for the country;

- (v) Restructure Government to eliminate duplications in mandates, remove redundancies, and enhance effectiveness in public service delivery.

Selected immediate sector specific actions and interventions to accelerate growth include:

Minerals, Oil and Gas Sector

The country needs to leverage the potential of the mining and quarrying sub-sector to grow from the negative 4.5 percent growth in FY2016/17 to 5.0 percent in FY2017/18 and average over 7 percent in the medium term. This will require:

- a. **Development of the Iron and Steel Industry through:**
 - (i) Supporting and fast-tracking the private sector initiatives in sponge iron processing, to enable the country to start smelting its iron ore for iron and steel production and develop the industry along the entire iron and steel value chain. The support but should be premised on defined job creation and other monitorable beneficial targets to Ugandans;
 - (ii) Dedicating a cargo ship for transporting coal from Tanzania across Lake Victoria before transportation by rail;
 - (iii) Rehabilitating the Port Bell-Kampala metre gauge railway line so as to reduce on the cost of transportation and production as well as save on the depreciation of the roads;
 - iv) Providing market for the products through supplying the on-going and future infrastructure projects;
- b. **Ensuring maximum benefits from the development phase of the oil investments through:**
 - i) Fast-tracking the certification of middle

level skills personnel for the Oil and Gas sector. This will require, as a stopgap measure, financing of the Assessment and Skilling Centre (ASC) the only training institution in the country that is awarding the City and Guild and the American Welding Society Certification to welders for the oil and gas industry.

- ii) Setting-up a factory to coat and produce paint for coating the crude oil pipe line by June 2018.

c. Building capacity for monitoring and regulation of the mineral exports through:

- i) Operationalizing the Mineral Certification unit that has been established in the Directorate of Geological Survey and Mines in the Ministry of Energy and Mineral Development;
- ii) Increasing the inspection and monitoring of the mining areas to curb illegal mining.

Information and Communication Technology (ICT) Sector

The country needs to leverage the potential of the ICT sector to register wide growth ripple effects on the economy. Focus should be put on lowering the cost of doing business by lowering the cost of internet band width from the current USD 190 to about USD 50 per Mbps. To this end, the following actions will be key:

- (i) Utilizing the redundant internet bandwidth at Uganda Telecom Ltd (UTL). UTL has a current capacity of 7,000 Mbps to sale to Government and private players. This will create positive competition within the sub-sector, thereby reducing the cost of internet bandwidth.
- (ii) Recapitalize UTL so as to make it more competitive and productive to contribute revenue to Government through payment of taxes and creation of employment. The cumulative ripple effect of formal employees, airtime and mobile money agents cannot be overstated

- (iii) Urgently recruit an internationally acceptable, competent manager with corresponding skills in telecom management and given executive powers to strengthen the transition and management of UTL.
- (iv) Consolidate and strengthen the local management capacity of the national backbone infrastructure (NBI) that is used by NITA to transmit internet bandwidth across MDAs and local governments (LGs). Currently it is being managed by Soliton a Kenyan firm. Savings would boost the economy and reduce the cost of internet.

Agriculture Sector

The country needs to focus on improving the production and productivity in agriculture. The specific interventions in the agricultural sector include:

- a. Provision of the mandate of irrigation solely to the Ministry of Water and Environment (MWE) and a dedicated Directorate setup therein;
- b. Provision of tax incentives on irrigation equipment to cover a broader range of products including pumps, hose pipes, solar batteries and water tanks;
- c. Provision of additional resources for crop inspection and certification under MAAIF to recruit additional staff, renovate and equip certification laboratory facilities at Namalere and Kawanda with advanced equipment such as high chromatographic machines;
- d. Provision of additional resources to NaGRC and NARO for enhancing genetic improvement of cattle herds for dairy and beef. This will enable establishment of necessary infrastructure, acquisition and installation of artificial insemination facilities at 9 regional centers throughout the country;
- e. Provision of additional resources to the tick vaccine program so as to effectively address the problem of tick borne diseases that are threatening the livestock sub-sector;

- f. Re-introduction of fishing holidays on Uganda's major fishing water bodies;
- g. Provision of additional resources to the Directorate of Fisheries in MAAIF to promote aquaculture development through up scaling in existing areas and attracting new farmers by providing fish seed for stocking and other inputs.
- h. Provision of additional resources to MAAIF for support to District Local Governments to scale up Agriculture Extension Services.
- i. Use of the voucher system instead of direct distribution of inputs by NAADS/OWC;
- j. Provision of additional resources for strengthening the tea and cotton research programmes at Rwebitaba and Serere Research Stations.

Conclusion

Overall, attaining middle income status requires success at the three levels of policy making, planning and implementation. For now, the country is performing better with policy formulation and improvements have been registered in strategic planning but significant challenges remain at implementation.

To fast track the move towards a middle-income status we need to identify and support key

performance and results points both in the private and government sector.

All stakeholders should know what ought to be done on corruption, mindset change, population growth, effective utilization of the borrowed funds, industrialization among others issues.

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References & Useful links

1. NPA. (2015). Second National Development Plan (NDPII). Kampala: Government of Uganda.
2. NPA. (2016) "The Process of Attaining Middle Income Status: What does this mean for Uganda.
3. NPA. (2017) Action Plan on Unlocking Uganda's Export Potential
4. NPA. (2017) Fast Tracking the Development of Uganda's Iron and Steel Industry: A Value Chain Approach

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NATIONAL PLANNING AUTHORITY

Planning House , Clement Hill Road Plot 17B,
P.O. Box 21434.Kampala - Uganda
Tel: +256 414 250 229 / 0312 310 730