Economic Growth Forum IV FY 2021/22

1st September 2020, Serena International Conference Centre, Kampala

Comments from Development Partners

1. Rt. Hon Prime Minister, Honourable Ministers, Members of Parliament and representatives of Local Governments, Permanent Secretaries and other officials, representatives of the private sector, civil society and citizens of Uganda, thank you for inviting me here today to speak on behalf of Development Partners.

2. I'm very happy to be here, at the fourth growth forum. And it is great to see the commitment that the Ministry of Finance, Planning and Economic Development has demonstrated to holding the event, that was clearly not without its challenges in the current context. It reflects the serious attention that Government places on growth and dedication to the targets it has set itself in the National Development Plan (NDP) III and Vision 2040.

3. At last year's conference, Uganda's economy was in a good position to achieve these targets. Growth had rebounded to over 6% and the outlook was positive. However, Covid-19 has brought about a crisis like no other. Global Gross Domestic Product (GDP) has fallen to depths not seen since the Great Depression and for the first time every region of the world is in recession.

4. However, Uganda has proven itself to be more resilient than most. In part as a result of the structure of its economy, but more due to its hard-earned macroeconomic stability and timely policy responses. Nevertheless, the external shock – to tourism and Foreign Direct Investment (FDI) inflows – has been severe and this has been amplified by a reduction in domestic economic activity due to lockdown restrictions. On current estimates, this will mean that Ugandans see per capita incomes fall in 2020 for the first time in decades.

5. The second session today highlighted what this means in real terms: for individuals, for households and for businesses. Three-quarters of businesses surveyed have laid off workers, SMEs have seen their activities fall by more than half, two-thirds of households are reporting a loss of income and poverty is set to rise by over 7%. This means almost 3 million more Ugandans falling below the poverty line.

6. The increase in poverty reflects the limited coping mechanisms available to the poor and vulnerable during the pandemic. With little savings, no means to borrow and no alternative sources of income, many have had to reduce food consumption to get by. With the instances of weather and health shocks increasing in frequency, we should use this as an opportune moment to reflect on how current social safety nets can respond. We are not talking about recurring payments, but time-bound shock responsive social protection mechanisms during crises where people have nowhere else to turn.

7. But - as Minister Kasaija said in his budget speech – we cannot allow the crisis to distract us from achieving Uganda's long-term development strategy. So, it was great to hear in this afternoon's session some of the opportunities being highlighted to utilise Uganda's resources and reach its true potential: for trade, for tourism and for agro-industrialisation.

8. The session also made it clear that national development planning needs to accommodate the new realities. Uganda remains blessed with oil deposits, world-class tourist sites and a great climate for agriculture, yet the outlook for these sectors are not the same as they were last year. This is why, given the impact of COVID-19, National Planning Authority (NPA) and MoFPED need to factor in how the pandemic will affect NDPIII assumptions over the short and medium term. For example, it may mean adjustments to how public investments in the potential oil sector are sequenced and committed, compared to investments that support other productive sectors

of the economy, like agriculture and agro-industry, and investments that build the human capital of all Ugandans.

9. There are also new challenging realities for the budgeting process. Implementing the NDPIII and responding to the crisis will be costly, and mobilising additional revenues will be challenging. Public debt is already forecast to reach about 60% of GDP in nominal terms in the next couple of years. The highly concessional nature of Uganda's public debt portfolio – including the recent loans from the International Monetary Fund (IMF), African Development Bank (AfDB) and World Bank to respond to the crisis – means that the risk of debt distress remains low for now. However, debt vulnerabilities are significant and rising, which could jeopardise Uganda's hard-earned macroeconomic stability in the future. This underscores the importance of raising tax revenues, maximising concessional borrowing, and strengthening the budget process to ensure that spending is better prioritised and budget targets become more binding.

10. This is one of the reasons why we, as the Local Development Partners Group (LDPG), are asking for an open dialogue on the FY20/21 budget-reprioritisation process and preparation of the FY21/22 budget to incorporate the impacts of COVID-19. And as part of this, we as development partners are committed to be more transparent about where the two billion dollars of ODA invested annually in Uganda is being directed. Last year's engagement between MoFPED, the sectors and Development Partners Groups (DPGs) on the Agriculture, Health, Education and Works & Transport budgets gives us a strong platform to build on. But more can be done to improve alignment and harmonisation.

11. We also want to see outcomes of this forum put into practice and are happy to participate in and help drive this process. The Economic Management Group (EMG) is a promising forum for continued dialogue and to track this progress. However, for this to work, the EMG needs to meet consistently and have measures in place to ensure follow-up of decisions made. Furthermore, we agree with PS/ST MoFPED that the Economic Response Unit (ERU) and EMG shall be merged, and we look forward to working together in this consolidated group. The group would have one objective for the foreseeable future: *stimulating Uganda's recovery from the COVID-19 crisis*.

12. Finally, COVID-19's impact on health, employment, and growth in Uganda has been significant, worsening social outcomes and undermining progress made in poverty reduction in recent years. Near-term policies have appropriately cushioned the shock, including through monetary accommodation and fiscal deficits, allowing for weakening revenues and higher outlays to protect livelihoods, boost health spending, and bridge financing gaps of SMEs and households. Once the COVID-19 shock fades away, it will be important that efforts to strengthen the foundations for inclusive and sustainable growth are pursued again. These include fiscal consolidation through revenue mobilization, prioritization of government expenditures towards social needs, strengthening of the banking sector and improving governance. Free trade of goods and services remains a key contributor to growth and should continue to be encouraged, particularly in the context of the East Africa Community.

13. Last year we saw a link between the growth forum and the budget that Government prepared. This year, I look forward to turning today's evidence into action as we work together to stimulate Uganda's economy in these unprecedented times.