

**SUMMARY OF A LECTURE BY MR. LAWRENCE KIIZA TO THE GRIPS
MASTER'S DEGREE COURSE OF 'POLICY DESIGN AND
IMPLEMENTATION IN DEVELOPING COUNTRIES'**

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1. MAIN POINTS OF THE LECTURE

(1) Historical Background for the Economic and Political Situations in Uganda – from Economic and Political Instability to an Era of New Political Power - (1960's-1980's)

- During the 1960s, the economy was better (investment was over 16% of GDP, export was 30% of GDP).
- However, Uganda experienced political and economic destruction during the 1970-1980s.
- As a result, investment and savings went down to 8% of GDP. Inflation was out of control and domestic savings fell to negative 0.4%.
- The year 1987, when a new government took power (led by current President Museveni), became a turning point for the Ugandan economy. In those days, there had been no vibrant private sector and no coordination of government programmes; and the government had faced with low revenue and over bloated civil service. In late 1987, the new government in collaboration with the IMF embarked on structural adjustment programmes.

(2) Macro Economic Stability and Planning Framework – from Structural Adjustment Concerns to Consideration of Development Strategy and Public Expenditures --(1990's to date)

- With the adoption of firm macro economic policy and liberalization, the Ugandan economy has improved. In 2006/07, inflation was 6.5% (compared to the Sub-Saharan Africa (SSA) average of 7.1%); real GDP grew at 6.2% (SSA average of 4.7%); real GDP per capita increased to US\$ 400 (SSA average of US\$ 500); gross domestic savings rose to 9% of GDP (SSA average of 21.5%); and tax revenue increased to 14 % of GDP (compared to 4 % in 1986, SSA

average of more than 16 %).

- The monopoly of commodity marketing boards was dismantled; export taxes were removed; and price control was lifted. As privatisation programme was undertaken, investment grew by over 16 % of GDP, and export also increased.
- Reform of the government economic planning structure also started. In 1992, the Finance Ministry and the Planning Ministry were merged into a new Ministry as the Ministry of Finance, Planning and Economic Development (MFPED). At the same time, the MFPED undertook a personnel reform and promoted young and brilliant officers. This reform enabled the MFPED to play the more proactive role in aid management than before.
- In 1995, Uganda started formulating the Poverty Eradication Action Plan (PEAP) which was published in 1997. This was the first PRSP in the world approved by the World Bank. Currently, the Government of Uganda is revising the PEAP into the fourth edition (revision has been made every four years).
- PEAP provided: (i) policy framework for donors to align their aid; and (ii) guidance to sector ministries and local governments to better link aid and public expenditure priorities in their medium-term national sector plans and local government plans. The Medium Term Expenditure Framework (MTEF) and Sector Wide Approaches (SWAPs) were developed to strengthen the government's budgetary process and financial system.
- Together with the introduction of economic and policy reforms, external support both from multilateral and bilateral donors have resumed. Especially, the commencement of the policy instruments of PRGF (Poverty Reduction Growth Facility) by the IMF and the PRSC (Poverty Reduction Support Credit) by the World Bank had accelerated the policy reforms in Uganda.
- In addition to the project support, new aid modalities such as the sector budget support, the vertical funds and the general budget support have been developed. New aid approaches were also introduced such as commencement of the Partnership Principles between the Government of Uganda and its Development Partners, implementation of the Paris Declaration, and integration of donor funds into MTEF.
- As a result, Uganda has become a 'darling' of donors and also a 'laboratory' of new aid approaches. Some donors may think that the integration and alignment of donor aid to the country's national policy and financial system might cause the loss of their visibility. However, there are measurable outcomes, and donors can monitor them through the PRSC matrices and/or PSI (Policy Support

Instrument) evaluation.

(3) Challenges and the Way Forward

- **Challenge 1: Donor interests and advice might not always be in compatible with government priorities.**

There are cases where the government is not able to manage and incorporate aid funds into the budgetary process, even though it tries its best. This is because donor's conditionality on governance and human rights, if not successfully met, could lead to reduce the amount of aid from the amount originally pledged, and this may undermine the government's budget discipline. However, it seems that the issue of 'what is governance' has not been clearly answered yet in the international discussion and further studies are necessary.

- **Challenge 2: Implementation and execution of policies must be improved.**

In Uganda, we have already established a framework and policy for development. What we need from now is to make sure that we implement the policies. The lack of implementation seems to be the main reason why Africa stays where we are now, compared to many other Asian countries. Lessons can be learned from private enterprises such as Japanese companies of Toyota or Honda in terms of their implementation skills and ability to execute decisions.

- **Challenge 3: Proper fiscal management needs to be placed, because fiscal deficit has been increasing with increased aid.**

Domestic revenue has not been increasing at the same pace as the government spending. Currently, donor aid finances the deficit so that the spending could be secured. However, donor aid cannot be guaranteed over the medium term as disbursements of donor budget support have consistently fallen short of, compared to the plan. In addition, with the increase of donor aid liquidity will also increase. This will undermine the quantity of bank lending to the private sector because the government will increase the issuing of Treasury Bills and consequently cannot secure lending for the private sector.

- **Challenge 4: Aid should be targeted to promoting economic growth.**

We need to be selective in the kind of aid we will be receiving. To this end, the purpose and priority of national policy have to be clear, and it is important to make decisions on aid receipt accordingly. Uganda is interested in aid which supports infrastructure and productive sectors. Although the areas of prioritization might be different from country to country, what we should concentrate is to receive 'quality aid' from donors.

2. QUESTIONS FROM THE STUDENTS

- How do you handle governance issue? Also, working as a government official, I am often interfered by politicians. I feel this may undermine the efficiency of our public services. What is your advice?

In terms of governance, the pressure from western countries is sometimes strong. However we, as government, also have to make greater effort, such as including the opposition party on board to become a more democratic country. In addition, in terms of accountability, we need to improve the capacity of reporting. With regard to politicians, expectations from the public and politicians are sometimes different, and it is difficult to match them. However, as technocrats, we need to reconcile stakeholders' opinions and put them into one policy. We have to be clear on what is needed from technocratic perspectives and have to convince domestic stakeholders.

- Do you think that there are risks of MFPED becoming too powerful as a super-ministry? How do you manage to handle the increasing inflow of donor funds while stabilizing the macro economy?

The MFPED is a national bank in a sense that it has to manage tax payers' money and secure the national budget properly. Since MFPDE has a responsibility for the Uganda's economy, it is fine to assume a strong role. In Uganda, the President protects us and gives us a leeway to manage our economy. Therefore, I would say that political leadership is important. As a finance officer who manages the national budget strictly, I am not afraid of saying 'no' to the requests from sector ministries and local governments. My motto is that whenever requests come, the first time you say 'no'. The second time you say 'no' again. It is only when the person comes third time that you say 'I'll consider it'. Your working attitude will help to manage your country's economy in a disciplined way. Moreover, we have made our best effort to develop mechanisms to secure our budget and manage donor aid. One of the examples is that we 'discount' the amount of donor support at the time of budgeting. This means that we estimate the amount of aid receipt lower than what donors pledge, since aid money is not necessarily disbursed timely.

- **How do you think that we can stimulate growth? Also, what do you think about the role of agriculture?**

First of all, revenue should increase at the same pace as economic growth. In Uganda, the government got out of business when it had adopted economic stabilization and liberalization measures. Since then the sphere of public and private sectors have been clearly distinguished. However, the private sector market is yet responding, and the government is now considering to give incentives to the private sector and to help complement private business through such mechanism as Public Private Partnership (PPP). In terms of agriculture, the government has a limited role. Basically it has to be initiated by the private sector, especially in the area of post-harvesting, research and extension services.