

# **FOUR BIG PUBLIC POLICY CHALLENGES FOR UGANDA**

Presentation by Lawrence Kiiza, Director of Economic Affairs, Ministry of Finance, Planning and Economic Development, Government of Uganda, to the course on 'Policy Design and Implementation in Developing Countries' at the National Graduate Institute for Policy Studies (GRIPS) on 22 June 2007, Tokyo.

## **INTRODUCTION**

It's a pleasure to be asked to talk to you today about contemporary public policy development issues. As post-graduate students we will be depending on you to take up the plethora of challenges now mounting for public policy professionals. I might add that there has probably never been a better time to be starting out on a public policy development career. New issues, improved leadership, improved governance and the demand for more performance oriented institutions that can compete in a globalized environment are all adding to the importance of public policy and the skills required for developing and managing it.

There is an unmistakable mood of change around the globe about the importance of public policy in country stability, security and development. After decades, maybe even centuries, of debate about the respective roles of the private and public sectors, attention is now shifting towards more efficiency and effectiveness of public policy administration and implementation. It's a sort of convergence of ideologies. The private sector now realizes that the public sector is vital to its growth prospects. Infrastructure, security, health and education are just a few of the public assets and functions that the private sector depends on.

In a similar vein the public sector realizes the vital role of the private sector, especially in investment, innovation and management. And what they both increasingly appreciate is that the more efficient each sector performs the better will the other perform. A win-win outcome is now the main aim. Now that's a big step forward from the time when it was seen as almost a zero sum game, for example, when public expenditure was cut it was once seen by the private sector as

automatically meaning lower interest rates and better conditions for private investment. Or when taxes went up it was seen as creeping socialism and erosion of the private sector and working of a market economy.

Now we all are thinking more deeply about whether those increased taxes are needed to fund critical investment in infrastructure with multiplier impact on the private sector or are they going to be frittered away on government consumption with no pay-off in the foreseeable future.

With this background, I wish to speak about how I see Uganda in the 21<sup>st</sup> century and taking into account where the country has come from and will also specifically concentrate where I would like to think our country will be positioned in 50 years from now and how we can get there.

The main message about is that today we have access or potential to access technologies, markets, policies and capital like never before and Japan, has demonstrated just how quickly a country can recover, providing it takes time to develop an effective strategy and then focuses on putting that strategy into action.

**Today**, Uganda is widely characterized as a country that went from “basket case to success story”. Since 1986, Uganda has transformed from nearly a failed State as a result of various brutal dictatorship, to a country that has achieved consistently high economic growth rates, significant reduction in poverty. The 2002 Uganda Population and Housing Census show that now 31 percent of the population live below the poverty line compared to 58 percent 5 years ago. While this might not sound significant, in the context for Uganda this is no mean achievement.

Uganda remains a country of opportunities and challenges. From mid-1980s, the country undertook a series of structural adjustments with the support of IMF and WB. These were mainly targeted at maintaining strong macroeconomic stability through

appropriately tight fiscal and monetary policies, and implementing a program of substantial economic liberalization (trade reforms-export taxes were eliminated and the level and dispersion of import tariff together with exemptions were substantially removed; the monopoly of all commodity marketing boards was eliminated, and all price controls were lifted; the privatization program was accelerated and the government divested either all or a majority of its shares in public enterprises; financial reforms were undertaken; tax reforms to enhance revenue collections done and creation of an independent revenue administration set up; civil service reforms that saw reduction of civil servants reduction by 50% at the centre to accommodate government decentralized program of relegating functions to local governments), low inflation, a steady improving balance of payments, and an increasingly private sector development.

Initially there were tensions between government and the Bretton Woods Institutions over macroeconomic policy and the role of public sector. This impasse was resolved in 1992, when after episode of fiscal discipline; the President strengthened the position of unified Ministry of Finance, Planning and Economic Development by merging the Finance Ministry and Planning Ministry. Thereafter MFPED began to take a more proactive role in aid management.

From this period, economic and fiscal discipline under a strong ministry enabled the dialogue between government and its aid partners to move on from structural adjustments concerns to more detailed considerations of development strategy and public expenditures. The structural adjustments targeted interventions that were mainly to alleviate social costs and concerns emerged about the need to address poverty issues more comprehensively and to focus aid more effectively.

In 1995 Uganda' developed its first comprehensive poverty reduction strategy- The Poverty Eradication Action Plan (PEAP) and published it in 1997. The PEAP, now in its fourth iteration, is widely regarded as a genuine, and government owned, poverty reduction strategy that focuses on reducing poverty through economic growth and

human and physical resource development. The PEAP also provided a policy framework with which donors could align. The PEAP is overall Uganda's planning framework. It guides medium term sector plans nation wide and local governments plans. The PEAP is revised every 4years to reflect its implementation its medium term policy contents vis-à-vis the long horizon objectives.

MFPEDE developed a system of medium term plans which linked aid and public expenditure to the PEAP priorities. Spending Ministries and agencies were disciplined by cash budgets. The Medium Term Expenditure Framework (MTEF) was developed to guide expenditure priorities in less hand- to- mouth way. Donors fully participated closely in public expenditure priorities and reviews and in the formulation and management of sector-wide approaches (SWAs) in key sectors that eventually linked to the MTEF. Disciplined macroeconomic management remained the country's cornerstone.

### **Donor relationship**

Aid flows measured to resources channeled through the budget are 8.2 percent GDP and 38.7 percent of the public expenditure for FY07/08. In the past against the background of general discontent with aid effectiveness, Uganda became a laboratory of new approaches. It was a pioneer in MTEFs and SWAs, and the PEAP was the forerunner of the Poverty Reduction Strategy Papers.

There has been corresponding changes with regard to how aid is delivered. Started with balance of payments for structural adjustments and followed by debt relief under the Heavily Indebted Poor Countries (HIPC) initiative that was linked to the establishment of a Poverty Action Fund (PAF). Hence General Budget Support that began in 1988, with the funding of the PAF, using notionally earmarked budget support along side HIPC debt relief. This was allocated to priority poverty reduction programmes through the budget, including earmarked sector budget linked to sector programmes in education and then health.

The introduction of the Poverty Reduction Support Credit (PRSC) by the WB in 2001 marked the full unearmarked GBS designed to support Uganda in the implementation of the PEAP. Uganda pioneered the use of general budget support operations under PRSC. A number of donors joined in using this instrument in supporting the country's implementation programmes in poverty eradication. PRSCs are designed as lending instruments to support policy and institutional reforms of the country and in case of Uganda are a series of annual credits supporting a three year rolling program of reforms based on PEAP targets.

We have made a lot of progress in strengthening the partnership between Government and donors to ensure that we work together to achieve shared objectives. However some critical issues remain, which I wish to highlight.

- i) the size of the fiscal deficit and its relevance for total Government spending;
- ii) improving the functioning of sector working groups;
- iii) the emergence of "vertical funds";
- iv) integrating donor projects into the budget process, and eventually into the sector ceilings.

### **FISCAL DEFICIT AND ITS IMPLICATIONS FOR GOVERNMENT SPENDING**

Government spending has expanded very rapidly over the past years. Total Government expenditure rose from 17% of GDP in 1997/98 to 23% of GDP last fiscal year. This rapid expansion of Government spending has been made possible mainly because of increased donor aid, including debt relief.

There has also been a downside to the rapid expansion of Government spending. Domestic revenues have not kept pace with the rise in Government spending, and

hence the overall fiscal deficit – the difference between Government expenditures and domestic revenues – has widened very sharply. In 1997/98, the deficit was 6.7% of GDP and rose to 12.3% of GDP despite our undertaking for fiscal consolidation. The fiscal deficit for FY07/08 is 8.2 %.

There is a school of thought in the international community that widening fiscal deficit is not a problem, because it is mainly funded by donor aid, and that Uganda should continue to increase Government spending at a rapid pace and ask donors to finance this with more aid. It is argued that this will help Uganda to meet targets for the Millennium Development Goals.

Attractive proposal though certainly not fair for a country to carry on increasing its expenditure at a rapid rate. It is our view that this is not a prudent strategy for Uganda to follow, and that instead, should be moving towards to fiscal consolidation over the medium term.

This does not mean that Government wants to turn away donor aid, nor does it mean that Government spending will have to fall over the medium term. The implication of this is that the pace of growth of Government spending had to be slower over the medium term, to allow stronger growth in domestic revenues to narrow the fiscal deficit. Donor support has to be carefully targeted to productive sectors to enable government build assets.

Clearly, slowing the medium term rate of growth of Government expenditures will have costs for spending ministries and other agencies; but it is necessary for Government fiscal consolidation to scale back the size of the fiscal deficit. There are two main reasons.

First, the widening fiscal deficit is placing an increasing burden on monetary management, because when Government incurs expenditure in the domestic

economy which is funded by donor aid, liquidity is created in the domestic economy which must be mopped up by the Central Bank.

The Bank of Uganda mops up this liquidity by selling foreign exchange to the domestic market or by selling Treasury Bills. But the sheer scale of liquidity created by Government operations is starting to have adverse effects on the economy. Liquidity created by Government operations increased more than tenfold over the last three years, and because so many Treasury Bills have to be issued by the Central Bank to mop up this liquidity, this is threatening to choke off the growth of bank lending to the private sector.

The second reason is that the continued inflows of donor aid needed to finance this deficit cannot be guaranteed over the medium term. Although donor aid has risen over the last years, disbursements of donor budget support have consistently fallen short of what was promised at the start of each fiscal year on the basis of donor commitments.

Prudent budget management means that we should reduce our dependence on sources of finance that are inherently volatile and cannot be guaranteed over the medium term and increase the share of the budget which is funded from domestically generated resources.

## **BUDGET SUPPORT MODALITIES AND THE SECTOR WORKING GROUPS**

I now want to turn to the issue of donor support to the budget and how donors relate to, and influence, spending plans in the budget.

### **General Budget Support**

Government's preferred modality for donor funding is general budget support. This modality provides us with the greatest flexibility in setting our budget priorities.

Government recognises that some donors have difficulties in providing general budget support especially US, Japan and China.

### **Sector Budget Support**

Some donors wish to earmark their support to specific sectors, such as education or justice/law and order. Although we prefer general rather than sector budget support, Government can accept sector-specific budget support funding provided that the following conditions are met:

- the funding is for priority sectors with relatively large funding gaps and absorptive capacity;
- Sector Wide Approaches (SWAs) and sector development plans are in place in the sector being supported, and
- the support is mutually agreed upon by the line ministry, MFPED and the donor through the yearly consultative budget process.

In principle, the absolute size of each sector's budget, and its share in the total budget, should be determined through the annual budget process, and be in line with Government's strategic spending priorities. The budget process allows ample scope for consultations with all stakeholders, including the donors.

We emphasise the point that the best way for all of our development partners to influence the sectoral ceilings as articulated in the MTEF is through their participation in the consultative budget process, rather than through trying to make sector support strictly additional.

### **Sector Working Groups**

The Sector Working Groups are really the key to good budget planning at the sectoral level.

The Sector Working Group identifies, cost and rank the sector's expenditure priorities, and on that basis the relevant line ministry has to provide a budget submission, during the budget process, which is consistent with the sector's expenditure ceiling but which also incorporates the highest ranking priorities of that sector.

All of these are examples of poor budget planning at the sectoral level which undermined the rational use of scarce resources. If we are to improve budget planning at the sector level, all stakeholders must work together to ensure that;

- i) The Sector Working Group identifies the key priorities in its sector which are set out in the Sector Investment Plan;
- ii) The priorities are then reflected in the relevant line ministry's budget submission;
- iii) The budget submission includes all of the sector's non discretionary expenditures, such as the sector's wage bill.
- iv) Donors refrain from attempting to use their own funds, whether sector budget support or project support, to fund expenditures which are not priorities identified by the Sector Working Group and included in the Sector Investment Plan.

## **VERTICAL FUNDS**

I now want to outline Government's thinking on the issues concerning Vertical Global Funds. Vertical Funds are being set up by the international community as a mechanism for mobilising financial resources for spending on priorities identified by the international community. (global funds to fight AIDs, Tuberculosis and Malaria, and Education Initiative)

Government's view is that we welcome additional financial resources from the international community over the medium term, especially if that funding can be supplied on a predictable and sustained basis. However, we must ensure that any money received from the Global Funds is used in a manner which is fully compatible with our budget process, and do not undermine the budgetary reforms that we have implemented over the last five years.

### **INTEGRATING DONOR PROJECTS INTO THE BUDGET**

The final issue that I want to discuss relates to donor funded development projects. These are currently outside the GOU budget and are not subject to the normal budgetary processes of Government (Off-budget).

There are a number of problems related to the donor funded projects, none of which are unique to Uganda.

First, because they are not fully integrated into the budget, it is difficult to ensure that these projects are consistent with sector priorities or that overall Government spending, inclusive of the donor funded projects, reflects national priorities. Secondly, it is not clear whether, in planning for donor projects, full account is taken of either the counterpart funding requirement which must be met out from the Government budget, or of the ongoing recurrent costs of the project which must also be met from the Government budget.

Thirdly, because the donor funded projects, unlike the GOU budget, is not currently subject to a hard budget constraint, line ministries have an incentive to circumvent the constraint imposed by the sector expenditure ceiling in the MTEF by attempting to fund expenditures through the project modality.

Fourthly, we currently lack sufficient accurate knowledge on the magnitude and composition of the donor projects to evaluate their overall impact on the economy, which is crucial for proper budget management.

Although Government would prefer that all donors provide aid in the form of budget support rather than project support, we recognise that there are some donors who cannot do this. It is however crucial that donor projects are consistent with the Government's priorities, and are planned and budgeted for within the annual budget process. This means that we must improve the way in we coordinate with the relevant donors in our budget planning.

In conclusion, Government managed to a large extent to integrate donor projects into the budget to improve our budgeting system, encourage a further shift to budget support and ensure that overall public expenditure is consistent with macroeconomic stability.

We established sector ceilings that include both the GOU budget and donor projects hence hard budget ceilings that do not accommodate, donor funded project is in the pipeline until the forth coming fiscal year. Over time we expect that this would encourage the sectors and their partners in the donor community to shift more resources into the GOU budget.

Overall the aid support has been fairly responsive to the specific conditions of Uganda and have adapted to the evolving Poverty Support Eradication Program and sector priorities.

However, the original design was perhaps too optimistic about **governance** issues and there was a bias towards the **social sectors** neglecting the **productive/infrastructure** sectors.

Nevertheless, there is continuing impetus towards delivering aid more effectively; in keeping with emerging ideas of good practices most recently expressed in the Paris Declaration, hence the Uganda Joint Assistance Strategy (UJAS) that is a new instrument that will define new working relationship between donors and government.

The issue is how the aggregate contribution of aid can be assessed in terms of its financial effects, but also its influence on public policies and the development of Uganda institutions and ultimately the country's development being taken as a developing country.

As regards policy effects, aid has not been able to buy policies in Uganda, but has been able to provide financial support for reforms once government became committed to them. With regard to financial effects, aid has enabled the economy to expand imports by more than growth in exports and government to expand public expenditure by more than growth in domestic revenues.

Aid has had a further significant influence on strengthening of public institutions, including those relating to the public expenditure management and accountability functions of government.

What would have happened without aid? There is a critique that aid inevitably undermines the domestic accountability of regimes and enables them to side-step the challenge of raising domestic resources!!

## **PROSPECTS**

As demonstrated above, Uganda has undertaken most of the structural reforms, improved its budgeting processes and donor coordination but growth remains low and poverty levels are still high.

Uganda is currently working on improving measures to address constraints that will support total factor productivity.

I would like to end with **four big public policy issues** that we are grappling with in Uganda, policies that may constrain our development or unleash our economy to become perhaps the first 'African Tiger' economy.

- Policy execution.
- Resources policy.
- Domestic savings.
- Investment incentives

### **Policy Execution**

Over many years we have given a great deal of attention to policy design and development. Fiscal policy to curb public spending, monetary policy to curb inflation, overall macro-economic policy for economic stability and micro-economic policy to stimulate investment. Much of this has been successful... up to a point. In Uganda we have inflation at around 6.5% and for the Sub-Saharan group of countries as a whole it's about 7% (excluding Zimbabwe). Our current target in Uganda is to get inflation to a maximum of 5%, which is a big improvement on where we were less than 20 years ago at almost 200% (Slide 1).

But over the recent past 5 years or so we seem to have stalled a little in our performance. Inflation has crept up, just a little, but heading outside our target. GDP growth has been acceptable, but we think we can do better (Slide 2). Much of our current attention in doing things better has been directed towards the creating an economic environment that's conducive to private sector investment and growth and there are some signs of success. Investment has been growing by over 16%/year in Uganda and now contributes a significant share of growth in GDP. For this year

investment will be equal to 22.5% of GDP compared to 20.6% in the year before. We have, however, a significant challenge in this area as we need to keep investment growing by over 16%/year for some years with a target of over 30% of GDP. That's what's required if we are to achieve a sustainable growth in GDP of more than 7%/year. We might just get there, especially if some of our resource prospects and discoveries (oil and minerals) turn into reality (see below for further on this issue).

The question I want to pose under this section, however, is how to improve policy implementation. We all know quite a lot about the types of policies that give rise to macro-economic stability and what to do and not to do with monetary and fiscal policy. But it's with implementation and execution of sectoral policies and budgets that I have concerns and suspect that this is where we are not up to pace and possibly it's one reason why Sub-Saharan African performance lags other areas in Asia.

There is nothing really new about the difficulty of implementation, regardless of whether it's a public or private enterprise. Business enterprises have been working at improved execution for years, perhaps forever because if they don't get it right they basically don't exist. If there is one thing that distinguished the leading companies (that is, Toyota, Honda, Mitsui etc.) in the world from the rest it's their implementation skill, their ability to execute decisions with precision and make things happen exactly as planned. I think public policy implementation has not kept pace with that of the private sector, at least the leaders in the private sector.

Until we have policies being executed with precision we cannot be satisfied. All the G8 aid in the world will count for little if the systems of public expenditure management don't improve to enable those extra resources to be converted into actual development spending and real investment. And that's the big challenge because, as you people well know, if the investment expenditure impact is diluted then so also does the future output from that expenditure become diluted. The people say why hasn't growth improved after all that expenditure on infrastructure?

Solutions don't rest merely with an increase in what we call the out-turn ratio, that is the alignment of actual with approved budgets. There is much more to it than meeting the conditions for disbursement and making the disbursements in accordance with agreed budgets.

What we are really after is better evidence that public spending is actually being converted into real investment and increased quality and quantity of services. We know there are leakages of funds whenever we make transfers and that waste and corruption are characteristics that need better attention. Uganda itself ranks poorly (ranked 100 out of 125 countries) on institutional strength in the World Economic Forum's *Global Competitiveness Report*. Some among us glibly dismiss this ranking as nothing but perception, its not reality and therefore we not worry about it. But, reality or not, perceptions matter. They affect the attitudes of our investors, our lenders, interest rates and our donors and their willingness to invest in us.

The public expenditure tracking survey (PETS) was an innovative way of moving down the public expenditure supply chain to capture the views of the intended beneficiaries of public expenditure at the frontline.

This survey styled solution captured data that provided insights into the quantity and quality of service outputs, inputs actually deployed within facilities, financing, incentives, management systems, community participation and staff attendance or absence. We might not have liked the results of some of this research or some of the survey responses given to the World Economic Forum, but that's the reality.<sup>1</sup>

Even with this survey styled data it remains a challenge to respond quickly to the data and implement practical policies to correct these inefficiencies in public expenditure. We can talk about them, highlight them in reports and speeches and

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<sup>1</sup> The 2006-07 Global Competitiveness Report had Uganda ranked 122 out of 125 countries on diversion of public funds; 120 in favouritism in decisions by government officials and 112 in wastefulness of government spending.

have them discussed in parliament. But the execution process to reform can be slow, too slow for my liking.

One measure that I am examining is having a formal policy implementation and monitoring plan with an accompanying 'best practice' guide to implementation and monitoring, so that we start to impose some implementation hurdles on our policies and our different agencies and departments. It seems to me to be quite unproductive to be coming up with various policy initiatives that fail basic implementation tests.

At least we should have some indicators about the risks associated with policy initiatives. Government agencies and departments would have responsibility for ensuring their implementation plans exist and that there is then effective monitoring of them, with corrective actions ready when progress doesn't match expectations. Again, I am not talking here about outturn ratios as measures of implementation performance.

As students of public policy I would like to leave you with the challenge of identifying practical ways and real performance measures for improving the policy execution process and speeding up the reform process, especially when we know there is a problem, but lack execution or implementation skills to turn it around in a reasonable time. Unless we come up with some practical solutions in this area I fear our donors and lenders may lose patience with our progress.

## **Resources Policy**

Uganda is an interesting country, maybe even a luck country. It has relatively high and reliable rainfall, a pleasantly stable temperature, water, fertile soil and now, maybe, some oil and minerals. Resource discoveries have implications for many things in an economy including the macro-economy, micro-economy, political economy, regional development and adjustment pressures. There is a long history of

resources *booms* and their often-inevitable *busts* across many countries. Many of you will be aware of the so-called *Natural Resource Curse* showing countries well endowed with natural resources seem not to perform so well. If the oil and mineral discoveries of Uganda are converted into reality then we could be poised for a surge in investment and eventually exports. The change will then be to manage our economy to ensure we take advantage of the opportunity, but at the same time guard against the destructive influences associated with wildly fluctuating economies.

Uganda also has some strengths in policy guidelines like the Poverty Eradication Action Plan (PEAP) (now under review). PEAP offers political consensus and authority, which are crucial for effective laws and governance. If PEAP principles can help create effective petroleum and mineral laws, with improved governance regulations enforced at both a national and local community level, then there could be a smooth transition to a growing industry sector in Uganda. This could put us on the path to a sustained high growth level, perhaps even 8%/year. Nevertheless, if petroleum and mineral revenues do go up sharply and/or fluctuate wildly there can be equally volatile performance in the macro-economy, especially in a small economy like that of Uganda.

Best practice laws and regulations cannot stop the workings of a market economy that's sending signals, sometimes harsh ones, about where to shift resources. For example, the best staff is often induced to switch from government to resource companies and their suppliers. This can present big problems for countries that lack depth in their technical departments, training capacity and a general strategy for succession planning.

Some countries (e.g. Alaska, Azerbaijan, Norway, Kazakhstan and proposed for Iraq<sup>2</sup>) have established special '**oil or petroleum funds**' to absorb the surplus revenue of resource booms, and accompany them with careful rules about their

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<sup>2</sup> Palley T.I. 2004, 'Combating the Natural Resource Curse with Citizen Distribution Funds: Oil and the Case of Iraq,' *Foreign Policy in Focus*, December

application to savings and expenditure. On that note, here is my second challenge for you as students of public policy. What is the best mix of policies for dealing with a resources boom in a less developed economy and, how do we go about effective implementation.

### **Domestic Savings**

My third public policy challenge for you is in designing policies to stimulate domestic savings. By way of background we have in Uganda a very low domestic savings ratio (Slide 3), when compared to the Sub-Saharan group, the World and especially this country.

Our National Budget Framework Paper FY2007 states: It is the longer-term aim of the Government to gradually shift our savings reliance from official development assistance towards our own savings from households and business. The domestic savings ratio is far too low, compared to other countries and especially the high growth group that Uganda aspires to be part of. The advantage of domestic savings driven investment is its inbuilt commercial sensitivity to capacity constraints and benign effect on the exchange rate. Furthermore, empirical evidence has shown that countries which rely more on their own savings and private sector investment experience higher levels of growth.

By way of background it's relevant to observe that Uganda has among the highest fertility and population growth rates in the world. This has implications for GDP/capita and in savings/capita (Slide 4). The challenge then is to design effective public policies to bring about higher domestic savings in Uganda. What role does taxation play in this? What about family planning and education? What about the size of the informal sector? Uganda has one of the largest informal sectors in Sub-Saharan Africa. These are just a few public policy questions that need investigation.

## **Investment Incentives**

I have described above the vital role of investment in growth. As you know the contribution of investment to growth in GDP depends not just on the expenditure on capital items, but even more fundamentally on the output it generates. The Incremental Capital Output Ratio (ICOR) has been exceptional in Uganda for some time (1.8 from 1992-96 and 2.2 over the past decade). But over the last two years it's crept up above 3, compared to 2.75 in 2004-05, meaning it's taking more capital to generate the same level of output than it did a few years ago.

Investment can generate an increase in GDP through either an improved ICOR or through a higher share of output being invested. There are strong linkages between public and private investment, especially when infrastructure is a binding constraint to private sector development and investment as is the case in Uganda. These linkages and the empirical evidence of high returns to investment in Uganda underline just how important it is for high quality investments to be undertaken in both the public and private sector. When low quality investments are undertaken the ICOR performance is compromised with spillover effects on growth in GDP and income levels.

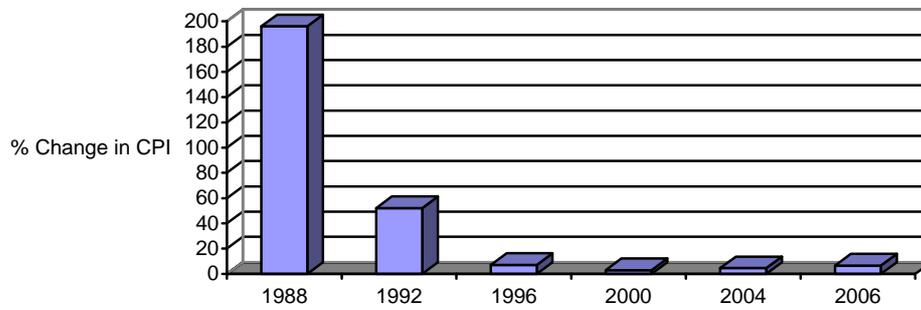
Low quality investments can arise from subsidies and ad-hoc concessions that induce under-performing investments to take place at the expense of unassisted investments with higher returns. They can also arise from poorly selected, inefficiently designed and poorly managed public investment. The effect of a low ICOR is that a higher level of investment has to take place to reach the same rate of growth in GDP and ultimately this can compromise the ability to reach GDP growth rates and reduction in poverty.

This brings me to my final public policy challenge for you. Is there a useful role for investment incentives in stimulating growth and what types of incentives might be

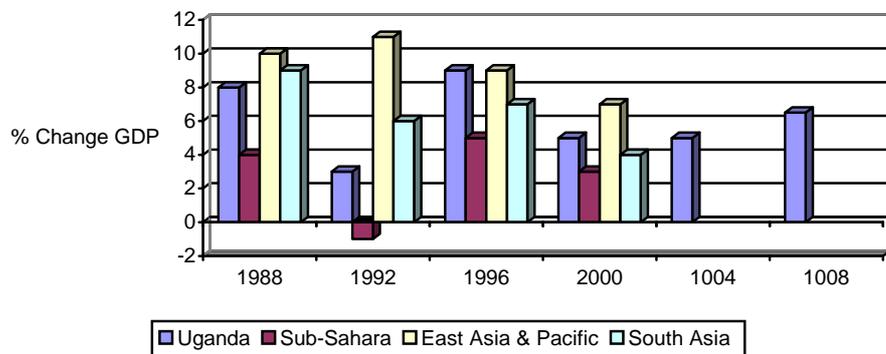
considered positive incentives. By positive incentives I mean those that result in a more efficient allocation of resources than would have occurred otherwise.

On this note I conclude my presentation. I am hopeful that the above policy challenges may stimulate some of you to examine them in further detail. More generally, however, I hope I have been able to stimulate your general interest in answering the vast challenges in public policy development.

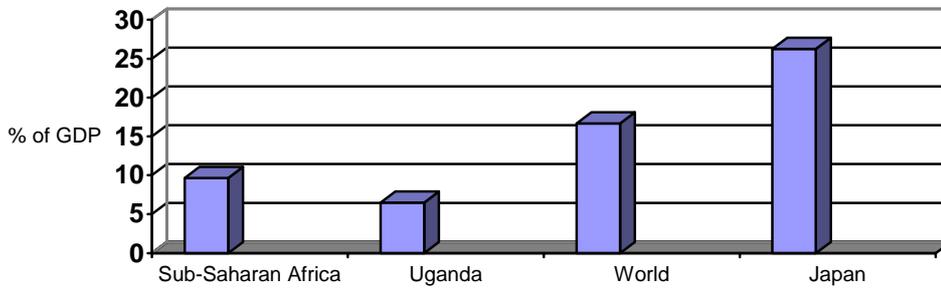
**Slide 1: Inflation Rates (CPI): Uganda:  
1988-2008**



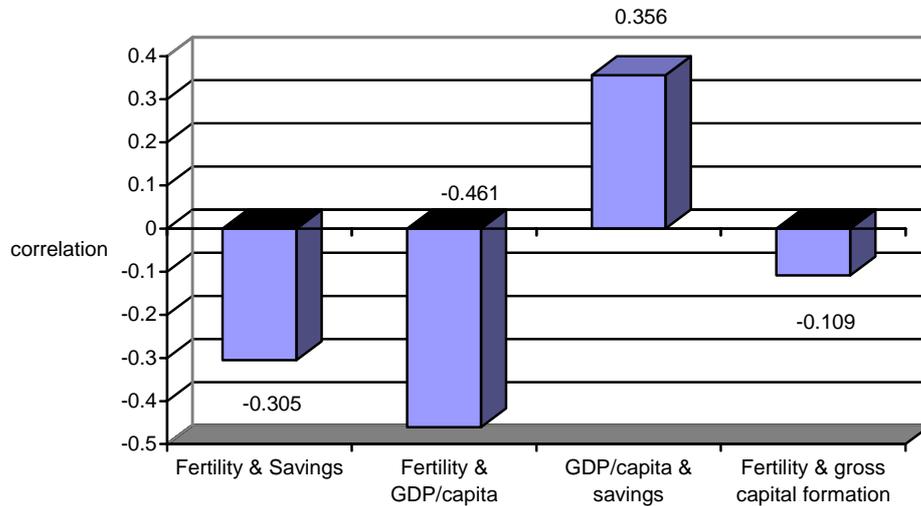
**Slide 2: GDP Growth: 1988-2008:  
Uganda and Selected Country Groups**



**Slide 3: Gross Domestic Savings: % of GDP: Average for 4 years ended 2003**



**Slide 4: Correlation Between Fertility, Savings & GDP: All Countries: 2002**



**Slide 5: Incremental Capital Output Ratio 2003/04 to 2006/07**

