Policy Paper

THE PROCESS OF ATTAINING MIDDLE INCOME STATUS

What does this mean for Uganda?

By

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1. Introduction and Background

1. Uganda aspires to become an upper middle income country by 2040 as spelt out in the Uganda Vision 2040 (NPA, 2013). The Vision sets out to achieve a per capita income of USD 9,500 as well as improving the wellbeing of all Ugandans commensurate to upper middle income standards. These aspirations/results will be realized through the implementation of six-five year National Development Plans (NDP). To date, two NDPs have been developed.

2. The NDPII targets achieving a lower middle income status with a per capita income of USD 1,039 by 2020 (NPA, 2015). The Plan strategizes to achieve this by strengthening Uganda's competitiveness for sustainable wealth creation, employment and inclusive growth. The key results are: increased exports; reduced poverty; increased employment levels; and, improved socio indicators in health and education. This is expected to be achieved by prioritizing; three critical growth opportunities of: Agriculture, Tourism, and Minerals, Oil and Gas; and two fundamentals of: Infrastructure and Human Capital Development. The NRM manifesto (2016-2021) and the 23 Presidential Guidelines (2016) reaffirm the commitment to realization of the middle income status.

3. NDPII target of lower middle income by 2020 has generated a healthy national wide debate on the target by policy makers, politicians, academicians and the wider general public. This debate has asked a wide range of questions that have included: is it possible to achieve this target, what type of middle income do we envisage, how do we expect to achieve it, what will it take, who will do what and when, among others. In light of this debate, this paper provides the country's strategic direction on the ongoing debate.

4. The national debate on Uganda's lower middle income target has been mixed. First, while government policy makers are optimistic towards achieving this target, several in the public domain are less optimistic. Second, there have been definitional variances without understanding the type of middle income envisaged by NDPII. Thirdly, the direction that should move the country to middle income while articulated in NDPII is not yet well understood by the implementers of government programmes, development partners, civil society organisations and the general public. And lastly, the debate is largely short on what it will take for Uganda to achieve this NDPII target.

5. In light of this mixed debate, it is prudent for NPA to provide technical guidance and direction to the debate. Specifically this paper provides a policy direction on the attainment of middle income status as elaborated in NDPII; what it means; how this is expected to be achieved and what changes and transformational approach will be required.

6. The rest of the paper is structured as follows. Section two outlines the objectives of the paper. Section three defines middle income status. Section four provides evidence from other country and domestic experiences on attainment of middle income. Section five provides NDPII's strategic direction towards a lower middle income and section six articulates the transformational approach required to accelerate the attainment of middle income status and Section seven concludes and provides a way forward.

2. Objectives

7. In view of the aforementioned, the overall objective of this paper is to provide technical guidance, understanding and rallying the public to the goal of attaining a middle income status by 2020. The specific objectives are to:

i. Provide a clear understanding of the middle income status envisaged in NDPII;
ii. Provide international evidence from other country experiences for attaining middle income;
iii. Provide technical guidance on how middle income status will be achieved;
iv. Articulate the transformational approach required to accelerate the attainment of middle income status.

3. Understanding Middle income status

3.1. Middle income status broadly

8. The World Bank classifies countries according to Gross National Income (GNI) per capita[2]. Per-capita gross national income is used for classification of nations because of its simplicity and ease of international comparison across countries for the determination of economic capacity and progress of nations. Based on this definition three factors determine the level of Per capita income for any country, namely; level of Gross National Income, size of the population, and the exchange rate.

9. According to the World Bank classification countries are broadly grouped into four categories: low, lower middle, upper middle and high income countries. The income thresholds for these categories are indicated in Table 1.

Table 1: Classification of Countries by Income Status (USD) as at July 2016

No.	Category	Income Threshold (USD/capita)
1	Low-income	1,025 or Less
2	Lower Middle Income	1,026- 4,035
3	Upper Middle Income	4,036- 12,475
4	High Income	12, 476 or more

Source: World Bank, 2016

[2] GNI is GDP plus net income flows from abroad. Per-capita income is the average income by each person within a given economy at any point in time usually one year.

10. From Table 1 lower middle income countries are nations with per capita income of USD 1,026-USD 4,035. Examples of countries that have attained lower middle income status include: Kenya, Vietnam, Nigeria, Swaziland, Zambia, Angola, and Ghana among others (see Table 3). It is, however, important to note that attaining lower middle income status alone may not necessarily reflect improvements in the citizens' welfare (as discussed further in section 3.3). Whereas countries such as Nigeria, Ghana, Angola, Swaziland, and Zambia have attained middle income status, their poverty levels are still alarming, that is 46%, 24.2%, 36.6%, 63%, and 60.5% respectively. These countries have poverty levels higher than Uganda's 19.5 % and yet Uganda is still a low income country. Thus, middle income based on per capita income alone should not be an end in itself.

11. There are other measures of middle income that go beyond income per capita. For instance, according to UNDESA, 2015, the other middle income measures used include: A) Human Asset Index (HAI) which bases on indicators that depict an improvement in human welfare such as (i) Adult Literacy Rate; (ii) Gross Secondary School Enrolment; (iii) Undernourished Population Percentage (%); (iv) Under five mortality rate; and (v) Victims of natural disasters; and, B) Economic Vulnerability Index (EVI) that is based on Indicators of (i) level of instability of Agricultural Production; (ii) Merchandise Export Concentration; and (iii) Instability of Exports of Goods and Services.

Table 2: Status of Uganda's performance against other measures

Criterion	Indicator	Ugandan Value	Middle income Threshold	Ugandan Index	Middle income Threshold Index	Comment on Graduation Likelihood
Human Assets Index (HAI)	1.Under five Mortality rate	80.0	66.0	53.0	66 or above	Extra effort is needed to improve Mortality indicator
	2.Population Malnourished	25.7	65.5			
	3.Gross Secondary School Enrolment ratio	26.9	18.7			
	4.Literacy Rate	73.2	64.3			
Economic Vulnerability Index	5. Merchandise export concentration	0.2	11.3	31.8	32 or below	Met but will require to be sustained
	6.Share of Agriculture, forestry and fishing in GDP	27.5	44.9			
	7.Instablity of exports of goods and services	14.6	31.9			
	8.Victims of natural disasters	0.9	65.9			
	9.Instabity of Agricultural Production	2.8	7.2			

Source: UNDESA, 2015

12. As indicated in Table 2, Uganda is a middle income country as measured by the economic vulnerability measure but it is still a low income country when measured against the human assets measure for attaining middle income. Using EVI measure Uganda has achieved the thresholds for middle income status for all indicators. Nevertheless, there is need to sustain this performance under these indicators. Under the HAI Uganda has achieved the middle income threshold for literacy rate (at 73.2% against the threshold of 64.3% or above), gross secondary school enrolment ratio (at 26.9% against the threshold of 18.7% or above) and the population malnourished (at 25.7% against the threshold of 65.5% or below). However, it needs to more for under five mortality rate (at 80% against the threshold of 66% or below). Therefore, given the different measures of middle income status, defining the middle income that Uganda aspires requires understudying evidences from other countries.

4. Evidence from other country and domestic experiences on attainment of middle income

4.1. Evidence from international experiences

13. A review of selected upper, lower middle, and low income countries identifies key lessons for Uganda to guide the sustainable path to attainment of the middle income goal. Table 3, presents selected countries with their performance on selected[3] socio-economic indicators. For lower middle income countries, a further classification has been done between mineral extracting and non-mineral extracting countries.

14. Evidence from Table 3 suggests that attaining middle income with a focus on GNI Per Capita alone should not be Uganda's preferred approach, but rather a broader focus including improvement in social welfare indicators. For example, whereas Equatorial Guinea and Angola are upper middle income countries, they are doing relatively worse than Uganda

[3] These indicators are chosen due to their importance in NDPII.

on several socio-economic indicators (poverty, maternal mortality, access to water coverage etc). The same is true for Zambia, Cameroon and DR Congo that are already lower middle income countries.

15. Further, evidence suggests that, for Uganda to achieve middle income status, the economy must grow at an average of about 6% for the next five years (Table 3). This is because, countries that have recently attained lower middle income status, sustained their economic growth at an average of about 6% for over five years (Kenya, Vietnam, and Bangladesh) depending on their base. Additionally, countries that are aspiring to attain middle income status have sustainably maintained their growth rates at an average of 7% over the last five years, for example Ethiopia (10.5%), Rwanda (7.1%) and Tanzania (6.8%).

Table 3: Socio-economic indicators for selected countries

Selected Countries	GDP growth Avg (2010-2015)	GNI, Atlas (current US$ bns)	GNI Per capita (US$)	Population (millions)	Exports of gds & svs (% of GDP)		Poverty at $1 a day (2011 PPP) (% of popn)		Life expectancy (yrs)	Adult Literacy rate		Maternal mortality/ 100,000 live births	% popn with access to safe water	% popn with access to electricity, 2012	Tax to GDP ratio	
Upper Middle Income																
Malaysia	5.6	320.7	10,570.0	30.3	71.0			_	74.9	93.1	*	40.0	98.2	100.0	15.8	****
Mauritius	3.6	12.1	9,610.0	1.3	54.0				74.6	89.3	**	53.0	99.9	100.0	18.6	****
China	8.3	10,724.0	7,820.0	1,376.0	27.0	***	6.3	**	76.0	95.1	*	27.0	95.5	100.0	9.9	****
Equatorial Guinea	-2.5	6.6	7,790.0	0.9			..		58.0	94.8	****	342.0	47.9	66.0		
South Africa	2.3	305.9	6,050.0	54.5	31.1		53.8	*	57.4	93.7	***	138.0	93.2	85.4		
Angola	5.5	74.0	4,180.0	25.0			36.6	_	52.7			477.0	49.0	37.0		
Lower Middle Income (Non- Mineral Extractives)																
Indonesia	4.8	887.0	3,540.0	257.6	23.9		11.3		69.1	92.8	**	126.0	87.4	96.0	11.2	****
Swaziland	2.2	4.2	3,230.0	1.3	44.4	*	63	_	48.9	83.1	*	389.0	74.1	42.0	15.6	*
Vietnam	6.0	181.8	1,980.0	93.5	89.8		17.2	***	75.8		_	54.0	97.6	99.0	19.1	****
India	7.3	2,084.4	1,590.0	1,311.1	25.3	****	21.9	***	68.4	69.3	**	174.0	94.1	78.7	7.2	****
Cote d'Ivoire	5.8	32.1	1,410.0	22.7	41.5		46.3		51.9	41.0	***	645.0	81.9	55.8	14.5	****
Kenya	6.0	58.9	1,340.0	46.1	27.3		..		62.1	..		510.0	63.2	23.0	15.5	****
Cameroon	5.0	31.8	1,330.0	23.3	20.7		37.5	****	55.9	71.3	*	596.0	75.6	53.7		
Bangladesh	6.2	191.3	1,190.0	161.0	19.5		31.5	*	72.0	59.7	****	176.0	86.9	59.6	8.9	****
Lower Middle Income (Mineral Extractives)																
Congo, Dem. Rep.	7.6	24.3	2,540.0	4.6	29.5		63.6	****	62.9	79.3	**	693.0	52.4	16.4	7.2	*
Nigeria	5.2	514.0	2,820.0	182.2	18.0	****	46.		53.1	..		814.0	68.5	55.6	7	****
Zambia	6.1	26.2	1,500.0	16.2	42.7	*	60.5	*	60.8			224.0	65.4	22.1	15.4	*
Sudan	1.5	104.5	1,840.0	40.2			..		63.7	74.3	****	311.0	..	32.6		
Low Income Countries (Aspiring to be Lower Middle Income)																
Tanzania	6.8	47.3	910.0	53.5	17.5		28.2	**	65.5	79.0	***	398.0	55.6	15.3	17.6	****
Rwanda	7.1	8.1	700.0	11.6	13.9		44.9	*	64.5	68.3	***	290.0	76.1	18.0	12.7	****
Uganda	5.4	31.1	670.0	39.0	13.8		19.5	***	61	70.2	***	343.0	79.0	18.2	12.9	****
Ethiopia	10.5	61.8	590.0	99.4	12.6		29.6	*	64.6	..		353.0	57.3	26.6	8.2 (check this)	*
Source: World Bank, IMF (2015): Note: *, **, ***, and **** Indicate Values collected for the period 2010, 2011, 2012 and 2013 respectively																

17. Also evidence suggests that, while extractives are important for accelerating the attainment of middle income status, this may not address sustainable improvement in social indicators. Mineral extracting middle income countries such as Equatorial Guinea, Angola, Nigeria, and Sudan, compare unfavorably to middle income non-mineral extracting countries like Mauritius, Vietnam, and Bangladesh in social indicators. For those mineral extracting middle income countries that have registered improvements in social indicators, they have diversified their economies. For example, Indonesia's oil exports are 12.4% of total exports, animal/vegetable fats 14%, electrical equipment and machinery 10.5%, footwear and garments 6.4% (Trading Economics, 2016). This implies that whereas production of oil and gas may accelerate the realization of middle income, Uganda should continuously invest in the other sectors to diversify the economy, especially agriculture and industry.

18. Evidence suggests that for Uganda to achieve a middle income status, it must grow its export base. Uganda's exports to GDP, currently at about 13.8% of GDP, compare too low to lower middle income countries that have on average exports to GDP of at least above 20% of GDP. Among the selected non extractives middle income countries, except for Bangladesh, all other countries export more than 21% with Vietnam being the highest at 89% exports to GDP.

4.1.1. Lessons from country specific experiences

A. China-An upper middle income Country

19. Fundamental socio-economic and political reforms that led to attainment of middle income include:

i) Ensured good governance and efficient public service delivery. This was achieved by implementing an in-built- career incentives system that ensured that politicians across all levels are accountable for results. This system rewards performance based on interregional competition to encourage local economic performance (Li and Zhou, 2005). The promotion of provincial leaders in the Party hierarchy increases with their performance (while the likelihood of termination decreases). Thus decentralization of resources, rents, and responsibility, combined with centralized personnel control where local performance is rewarded by promotion, have served as a major engine of growth in China.

ii) Increasing agricultural productivity through targeted land reform: In 1979, government implemented the household responsibility system which involved contracting land to the peasant households with specific conditional output targets. A year later, 25 percent of rural households engaged in output contracting as of 1980 (Yang, 1996). Agriculture production grew rapidly from 2.7% in the 1970s to 7.1% in the 1980s (Lin, 1992). This reform was successful largely due to the permissive attitude and even support from reform- minded regional and local leaders (Bardhan, 2008).

iii) Cautious experimentation with market-oriented reforms that acted as a catalyst for efficient allocation of domestic and international resources. China has now deepened economic opening by attracting international capital, technology, and technical and managerial expertise that has stimulated industrial development and greater integration into the global economy (CDB, 2015).

iv) Provision of strategic and substantial government support to profit driven state-owned enterprises (SOEs). The generated profits were the basis for building not only physical capital but also the related organisational structures for increased efficiency. This support was in the form of: (i) directing the banking industry to offer loans to specific SOEs; (ii) high reliance of SOEs on retained earnings; and (iii) the setting of very low deposit rates in order to reduce the cost of credit and ensure the profitability of the banking sector.

v) Strengthening corporate governance resulting in to the retention of earnings of SOEs and championing a dividend policy that largely prevented SOEs' wealth from being shared by households. This resulted into unusually high corporate savings rate (Bayoumi et'al., 2010).

vi) Comprehensive planning for the efficient utilization of the accumulated capital from the different reforms (already alluded to) was used to transform the economy to manufacturing and services sectors. This enabled the economy to absorb the abundant agriculture labour released due to increased productivity in the agriculture sector. This further increased labour productivity due to more productive manufacturing and services sectors.

vii) Establishment of special economic zones to attract foreign investment, boost exports, and importation of high technology products in order to integrate China into the global economy.

viii) Regulated population growth leading to a lower dependency ratio and huge domestic savings. The dependency ratio has been falling from around 80 dependents per 100 workers in the mid-1970s to below 40 in 2010 (Ma and Wang, 2010). The below 40:100 dependency ratio implies that 2 workers cater for less than one dependent. This increased the domestic savings since the consumption needs of workers declined.

ix) Moderate wage levels as a result of availability of abundant productive workers provided a cost advantage in international comparison. Thus, attracting foreign direct investment to take advantage of the low wage labour supply.

x) Large-scale science and technology (S&T) reforms accelerated progress in higher education and research and development (R&D). These included;

    a) Implementation of the *Hundred Talents Program*. This offered qualified Chinese international doctoral degree holders to take up key teaching and research positions.
    b) Implementation of the Knowledge Innovation initiative in the Chinese Academy of Sciences to raise the research levels of public institutions;
    c) Establishment of large-scale R&D funding for basic research with initiatives such as the *973 Program*; and the introduction of the Yangzi River Scholars Program, which

significantly increases professors' wages to attract talented researchers and to Chinese Universities.

d) Implementation of the *Thousand Talents Recruitment Program* in 2011. This has enabled mobility of innovative talent of overseas Chinese scholars and leading industrial innovators back to China, particularly in critical S&T fields (Dongmin et'al., 2015).

B. Vietnam–A Lower Middle Income Country

20. Vietnam attained middle income status in 2010 after remarkable achievements in socio-economic development, hunger eradication and poverty reduction in the last one and a half decade. Vietnam's choice as a benchmark is premised on the fact that just like Uganda; Vietnam underwent political turbulences and is more of an agrarian economy.

21. Fundamental socio-economic and political reforms that led to attainment of middle income include:

i) Pragmatic leadership: Once a decision was made, full support was expected from all party members, with (partial) accountability mechanisms arising from decentralised power structures and an educated and politically aware population. These 'democratic forces' enabled the adoption and implementation of an effective set of policies, the "Doi Moi" policies, which were crucial to progress in economic conditions (ODI, 2011)

ii) Implementation of fiscal decentralization system that enabled provincial governments to be fiscally self-reliant with a high level of accountability and ownership for public service delivery. This enabled the creation of strong institutions and a wide-reaching foundation of infrastructure to be built at local levels. Historically, low resource flows from central government meant provincial governments had to mobilise resources themselves in order to fund their activities. The resource mobilization tradition at the local level also meant that infrastructure was usually built by local institutions, enhancing a sense of accountability and ownership, which contributed to their sustainability. This also led to regional stratification, whereby the richest regions had the best infrastructure: a cross-regional transfer system is now in place (Rama, 2008).

iii) Cautious liberalization: liberalization was carried out however government did not exit from the market. Strategic state trading, import monopolies, quantitative restrictions and high tariffs on agricultural and industrial import were cautiously used. The careful manner in which Vietnam liberalised and opened its economy meant that FDI provided steadily expanding work opportunities, as well as facilitated the knowledge and skills transfer to the labour force.

iv) Sustained equitable land reform: Vietnam redistributed agricultural land through the 1993 Land law and 11 million titles had been issued by 2000. This contributed significantly in the increase in agricultural yields and saw Vietnam transform from a net importer of rice to the second largest exporter of rice today (Rama, 2008).

v) Agriculture sector reforms: Reforms included the abolition of centrally planned targets and prices, an option for farmers not to join cooperatives and permission for farmers to sell produce on the open market. In an effort to diversify the economy, state-owned enterprises were reformed and budget reallocated from heavy to light industries (Levinson and Christensen, 2002)

vi) A focus on agriculture-led light manufacturing further boosted agricultural production. Agricultural growth has been supported by investment in light manufacturing and access to advanced farming technologies around new seed varieties, insecticides, fertilizers and other inputs, as well as infrastructure such as irrigation, transport and electricity. Vietnam not only has expanded its existing crop production, but also has moved into new markets and is now a major player there for example coffee, cashews and pepper.

vii) Social solidarity and equity in policy and implementation: a sense of equity is highly valued in Vietnam, both by the population and by government. Rama (2008) contends that 'Vietnam's success in adopting comprehensive reforms is also associated with the determination to avoid creating losers from a material point of view.' This was reflected in policy designs that aimed to improve living standards and avoid rising inequality.

viii) Provision of basic Infrastructure and human capital development: extensive investment in basic infrastructure and services across the country was a priority, together with a reasonably effective social security system. Vietnam devotes a higher proportion of public expenditure to health and education, at around 28% of the budget. This enabled the extension of health services and the introduction of health insurance for the poor. This has resulted in improvements in health indicators such as life expectancy.

a. A diversified export led growth: Vietnam prioritized exports majorly in three commodity types; light industrial and handicraft goods; agricultural and aquatic products; and heavy industrial products and minerals (Hanh, 2010). This saw exports rise by an average 21% per year between 1991 and 2007. Vietnam went on to become one of the leading exporters of a number of agricultural commodities like rice and coffee. This pattern has been repeated in the manufacturing sector, which saw an approximately 14-fold increase in exports from 1995 to 2007.

b. Vietnam has taken advantage of opportunities in international markets. Its main export partners are: the United States (20.7 percent of the total exports), China (10.6 percent) Japan (8.7 percent), South Korea (5.5 percent), Hong Kong (4 percent) and Germany (4 percent).

ix) Its comparative advantage of a low-cost, high-quality labour force has attracted large inflows of FDI to produce simple exports. Vietnam's exports have doubled as competitive minimum wage and low costs of utilities boosted foreign direct investment in the manufacturing sector. Vietnam main exports are: telephone and spare parts (19 percent of the total shipments) and textiles (14 percent). Others include: electronics, computers and components (10 percent), shoes and footwear (7 percent) and other machinery, equipment, tools and spare parts (5 percent).

C. Ethiopia (A Low Income Country Aspiring To Low Middle Country)

22. Whereas Ethiopia is not middle income country, its high and sustained development path over the last five years offers good learning experience for a country like Uganda that is pursuing the same goal.

23. Fundamental socio-economic and political reforms that that make it aspire to be a lower middle income include:

i) Strong political ideology towards sustainable development; establishment of a federal state based on ethno linguistic regional governments and recognizing ethnic rights and self-determination. Notwithstanding, there is control of government from the center, with its member organizations serving as agents of centralized power under the façade of decentralization-cum devolution.
ii) Prioritization of agriculture particularly agricultural extension: currently Ethiopia accounts for about 25 percent of all agricultural extension in Sub-Saharan Africa (Berhanu and Poulton, 2014).
iii) Cautious agricultural liberalization: Whereas Ethiopia formally liberalized the agricultural sector; the government still controls the production, sale and distribution of improved seeds.
iv) Strategic financial sector reforms aimed at regulating the cost of capital for priority investments; whereas this sector is still nascent in Ethiopia, various reforms have been undertaken. Key among these is that the state-owned Development Bank provides capital to priority national industrial development initiatives. Also in 2011, the National Bank issued a directive for private commercial banks to buy government bonds worth 27 percent of all loan disbursements since 2010. This measure ensured availability of enough credit for private sector lending (Ethiopian Bank, 2010).
v) Strategic approach to raising domestic revenue mobilization along with increased efficiency in public investment management: since 1992, Ethiopia has implemented major fiscal reforms including changes in the tax rates, from highly progressive towards a moderate level that aimed at boosting investment in the country to create a wider base for future taxation. Ethiopia has also domestically sought development finance with a high public willingness to contribute because of the high efficiency of public investment management.
vi) Good export strategy: Ethiopia boosts of a good export strategy that focuses on priority agricultural products. Ethiopia’s long term development strategy is based on Agricultural Development Led Industrialization (ADLI) with targeted incentives. For instance, except for coffee, all export commodities are exempted from export duties, and application of duty draw-back scheme on items imported to produce exportable goods (Berhanu and Poulton, 2014).

vii) Undertaking a step by step industrialization strategy: first, Ethiopia efficiently addressed the fundamentals through efficient public capital investment in critical infrastructure like Standard Gauge Railway, extended road and power network. Second, the country started pursing an industrialization agenda with an initial focus on agriculture driven light manufacturing industries like textiles, leather and food processing, among others. The country is now diversifying to non-agricultural industries like vehicle assembling and laying a foundation for heavy manufacturing.

viii) Institutional change in Gender and property rights: In 2003, the Ethiopian government embarked on a process of community based land registration which led to joint certification of husbands and wives, giving stronger land rights to women.

BOX 1 Experience of Ethiopia's Leather Industry

Ethiopia accorded its leather industry much attention since mid-2000s aiming to address the constraints to its competitiveness and attracting leading investors to the country. Although their attention was to improve light manufacturing, it demonstrates very well how improving value along the chain proposed in this paper can go a long way to increase economic activity and create value jobs. There are three steps to identifying and resolving constraints:

i. Identify the potential: Ethiopia identified their potential in agriculture, livestock, and forestry. Leather industry was identified as one of the sectors to promote the country's manufacturing potential, and create productive jobs.
ii. Identify the constraints: this requires careful assessment of the national development strategy. Ethiopia constraints were problems with inputs for key industries representing more than 70 percent of total production cost and included; poor trade logistics, poor access to industrial land; poor skills; lack of a commercial livestock sector; and industrial inefficiency.
iii. Identify a short list of policy interventions. Specific interventions to have a short term effect included:
    a. Ban of export of raw hides and a 150 percent export tax on semi-processed and unfinished leather
    b. Tax exemption on income tax for investors
    c. Tax free equipment import
    d. Credit guarantee scheme to provide for those engaged in export activities
    e. Provision of access to infrastructure and land at reduced lease rates for those in export through establishment of industrial zones
    f. Provision of work station and technical assistance to small shoemakers
    g. Creating linkages with foreign investors in marketing and production; and improving transport services

Impact on leather industry and job creation:

i) Number of large and small scale manufacturer of leather and its products increased from 54 to 114 between 2000 and 2010; 26 leather tanneries, 13 mechanized large shoed industries, 13 leather goods and garments industries. Plus numerous informal sector operators.
ii) Foreign investment has taken off and created employment and raising productivity of local firms through technological transfer.
iii) Increased exports in the leather industry and manufacturing of leather products.

4.1.2. Summary of lessons from country specific experiences

24. Evidence suggests that transiting from a low income to middle income, countries must satisfy the following, among others:

i) High and sustained economic growth for some period of time
ii) Ensuring macro-economic stability through fiscal responsibility that runs sustainable budget deficits and debt levels for extended periods. This provides the necessary environment for sustained private sector investment and growth.
iii) Ideological reorientation, strong leadership and governance evidenced through credible commitment to growth, inclusive development, effective and efficient administration. In such economies, policy makers understand that successful development entails decades-long commitment, and a fundamental bargain between now and the future. The consumption-saving tradeoff can only be accepted if the countries' policy makers communicate a credible vision of the future and strategy of getting there.
iv) Exploitation of the global economy through importation of ideas, knowledge and technology from the rest of the world, thereby boosting the productive potential of the economy. Countries also exploit global demand which provides a deep elastic market for their goods (Comission for Growth and Development, 2008).
v) Securing the future through high rates of savings and investments, including investment in public infrastructure.
vi) Adoption of quasi market approach with the market allocating resources and government intervening through provision of tax credit, subsidized credit, directed lending and other such measures.
vii) Strong commitment to comprehensive and decentralized development planning and implementation
viii) Increasing agricultural productivity through targeted land reform
ix) Harnessing the demographic dividend through increasing workforce productivity and reducing dependency
x) Moderate wage levels together with abundant productive and skilled workforce.
xi) A strategic industrialization agenda that spans from agriculture led industrialization diversifies to other light manufacturing and building sustainable capacity for heavy industries.
xii) Establishing functional special economic zones and development of industrial parks with the required infrastructure. With the limited resources, many middle income countries prioritized infrastructure investment along selected economic zones using the industrial park model.

4.2. Evidence from Domestic experiences

4.2.1. Is attaining the middle income status goal feasible for Uganda?

25. Uganda's transition to middle income status has not been a policy gamble, it has been a long-term aspiration pursued over time. This journey can be summarized into six stages namely; i) Pre-Reform Phase (1986-1990), ii) Fundamental Economic Reforms Phase (1991-1996), iii) The Poverty Eradication Action Plan (PEAP) and Decentralization Phase (1997-2002), iv) The Consolidation Phase (2003-2009), v) The Growth and Transformation Phase i.e. NDPI (2010 - 2015), vi) The Middle Income Phase i.e. Second National Development Plan (NDPII) Phase (2015-2020).

i) The pre-reform phase (1986-1990) is a period when, the economy had been shattered by mismanagement, political instability and civil wars. By that time, severe macroeconomic imbalances fuelled inflation, estimated at 215% in 1986/87. The Gross Domestic Product (GDP) was as low as UGX 43 Billion and per-capita income was only USD 258. Two programmes were introduced i.e. Reconstruction and Rehabilitation Programme and the Economic Recovery Programme which was introduced in 1987 to 1990 and the key focus was on realization of peace and security in the country.

ii) Fundamental economic reforms phase (1991-1996): This was a period when most fundamental economic reforms were undertaken setting Uganda on a road to a liberal market economy. Four key milestones stand out during this period: the legalization of the parallel foreign exchange market; liberalization of commodity marketing; privatization of state owned enterprises; restructuring of Government to reduce public expenditure and increase effectiveness and efficiency in service delivery. The above resulted into relative macro-economic gains as evidenced by: An increase in GDP to UGX 6.12 trillion, increase in per-capita income increased to USD 282 in 1996 from USD 258 in 1986.

iii) The PEAP and Decentralization Phase (1997-2002): This was a period the fundamental reforms instituted during the previous period were taken forward and built upon through developments. The main policy focus during this period was poverty eradication and expanded provision of public services in line with the Millennium Development Goals (MDGs). The overall economy continued to improve with: GDP reaching UGX 10.9 trillion and per-capita income was at USD 238 in 2002.

iv) The consolidation phase (2003-2009): This was a period for the consolidation and deepening of reforms from the previous periods: Sector Working Groups were introduced to strengthen and harmonize planning, budgeting and implementation, the Comprehensive National Development Planning Framework (CNDPF), was also adopted in 2007 towards long-term integrated development planning starting with a 30 year Uganda Vision 2040. Multi-party democracy was introduced as a further institutionalization of the Governance reforms that had been made.

v) The growth and transformation phase (2010 to 2015): During this period, the emphasis of economic policy shifted from poverty eradication to economic growth and transformation by focusing on the drivers of growth (Agriculture, Minerals, Oil and Gas exploration, Tourism, Manufacturing, Forestry, ICT and housing Development), while unlocking the most binding constraints to national development as identified in the first NDP, 2010/11 - 2014/15. During this period, nominal GDP increased to UGX 59 trillion, and Per-capita income improved to USD 743 in 2012/13.

26. **A review of Uganda's major historical development phases reveals that the goal to achieve middle income status is feasible.** Currently, per-capita income is USD 764[4] which should have been higher if the exchange rate had been maintained. Uganda's nominal GDP has been doubling from one period to another. Between "the Fundamental Economic Reform (1991-1996)" and "Continuation of Reforms (1997-2002)" phases, average GDP more than doubled from UGX 4.1 to 9.1 trillion, increased by 2.5 times in the "Consolidation phase (2003-2009)" from UGX 9.1 to 23 trillion, grew by 2.6 times from UGX 23 to 64 trillion in the "Growth and Transformation phase (2010 to 2015)". The average GDP is expected to grow by 1.7 times in the NDPII period from UGX 59 trillion to 103 trillion.

27. Historically every five years, Uganda's economy has on average doubled. This is more than the growth of 1.5 times required to achieve middle income status in the NDPII period. Therefore, basing on historical trends, Uganda is on the path to attain a middle income status. Nevertheless, in addition to increasing GDP, to attain the required GNI per capita, four other factors are important:

i) Managing the population growth rates. The current population growth, at a rate of 3% per annum, provides a risk of population growth negatively impacting on the prospects for increased income per-capita.
ii) Managing exchange rate depreciation. With the current GDP, and population, Uganda would have attained its middle income target if the exchange maintained at Ushs2,500/USD. The recent depreciation (up-to Ushs 3,445/USD) has largely been driven by increasing level of imports with stagnant exports. The main driver of Uganda's recent imports has been largely government investment imports from 4% in 2009/10 to 10% of total imports in 2015/16[5]. Overall, the profile of Uganda's imports is mainly composed of inputs[6] that have grown from 57% to 67% of total imports over the same period.
iii) Political commitment, ideology and accountability towards attaining the middle income. This, as evidenced from international lessons, is the foundation upon which a sustained development drive is based. This is because the process of transformation to middle income

[4] GDP Per Capita
[5] BOU, 2016
6 Petroleum Products, Chemical & Related Products and Machinery Equipment, Vehicles & Accessories

requires sacrifices and accountability towards the goal. This can only be achieved by strong political commitment to drive the country towards the goal.

iv) Leveraging the benefits from oil and gas. While Uganda's oil and gas is expected flow after the NDPII period, significant benefits can be tapped during the development phase. The development phase requires vast resources for the refinery, pipeline, and oil fields development, resources amounting to USD 20 billion. If Uganda can retain more than half of these resources, this will propel efforts towards middle income. As such, Uganda needs to leverage the inflow of these vast resources to fully benefit the economy.

28. Furthermore, Uganda has already attained the vulnerability indicators required for graduation into middle income. The key aspect remains to sustain these achievements over the medium term.

4.2.2. Domestic Evidence towards attaining a middle income status

29. **There are a number of domestic best practices where households have achieved sustained middle-income status based on average household earnings.** This has been through some vibrant on-going projects that have been instrumental in transforming the livelihoods of the local communities. These represent a case where the developments in a given community support local economic development and such benefits could be rolled out to benefit the entire population.

30. **The Case of Kalangala District:** For some time now Kalangala district has been associated with the Vegetable Oil Development Project (VODP) whose objective is to produce and refine vegetable oil in Uganda. One component of the project is focusing on improving smallholder production of traditional vegetable oils, such as sunflower and the other is to introduce oil palm cultivation in Uganda. The project works with farmers to help distribute better varieties, improve cultivation and quality control techniques, develop local processing, and link farmers to markets. Over 1,523 rural households are participating and directly benefitting from the project.38% of the farmers are women. The farmers in Kalangala under their association called Kalangala Oil Palm Growers' Trust (KOPGT) with support from Oil Palm Uganda Limited (OPUL) engage in small scale production of oil palm as out-growers.

31. The project that employs over 1,400 Ugandans on its plantations has built access roads to many remote households on the island and has attracted business to supply and service the growing development activities spurred by this oil palm investment. Between 2010 and 2012, small scale out-growers earned UGX 4.8 billion which contributed towards their integration into the cash economy.

32. **Mpanga Tea Growers is another promising case.** Mpanga Growers Tea Factory Ltd (MGTF) is a Public Limited company with four estates of Kasunga, Kibaale, Kyapa and

Demo that is 100% owned by smallholder farmers. The total acreage of these estates amounts to just over 3,000 acres. Only 16% of this land is owned by Mpanga, the rest is owned by the farmers. The tea factory avails ready market to farmers, provides employment to a number of workers in addition to distributing fertilizers to farmers.

33. The average price paid to members is USD 20 cents per kg of green leaf. The fertilizer project aims to:(i) Improve the green leaf quality and this will raise the average price at the auction market from USD 1.65 per kg to USD 1.83 per kg; and (ii) Increase output from farmers' gardens from 5,000 kgs green leaf/ha to 8,333 Kgs green leaf/ha which will increase earnings for the smallholder tea farmers from USD 810 to USD 1,350 per year.

34. Generally, the lessons to take forward from these examples are: identification of an area/region specific niche commodity/service; organized farmers and producers around the niche product; value addition and agro-processing for the niche product; Government targeted support for those areas around the niche product.

35. Case Kiruhura district is one of the districts to look at for domestic examples; it is highly associated with livestock farming. It is estimated that 56.7 percent of its population is engaged in livestock farming and 32.4 percent in agricultural production (Kiruhura, 2012) According to the 2008 livestock census; Kiruhura has 342,315 heads of cattle and 188,686 goats. By 2006, it was estimated that the district produced more than 100,000 liters of milk daily. Infrastructure has tremendously developed around livestock farming: In 2014, Amos Dairy Investors opened up a milk plant in Akageti, in Kiruhura District with a target of processing over two million litres of milk per year. The quality of the cows has also improved through artificial insemination, improved pasture and quality water dams to reduce the distance of the cows walking to drink. This is augmented by other agricultural extension services.

36. Improvements in livestock farming have formed linkages with social organization: currently Kiruhura has 24 registered SACCOs and 18 cooperatives registered with the district. The district has a total of 45 markets and 165 milk coolers with an average of 3000 litres each. The district sells an estimated 492,000 litres of milk daily (Kiruhura, 2015. This has improved incomes of the district farmers similar to those desired for middle income.

4.2.3. Emerging Lessons from domestic best practices

i) An agricultural strategy focused on specific priority commodities involving the wider community e.g. Kalangala (palm oil), Kiruhura (milk and beef), kanungu (tea) etc.
ii) Organized farmer grouping to support production and to bring market nearer to the producer
iii) Agro processing and value addition linked to the specific commodities
iv) Availability of infrastructure tailored to specific commodities

v) Targeted Government support to the specific area commodity (infrastructure, agriculture extension, land and other policies

5. Towards a Middle income status: NDPII Strategic Direction

5.1. Type of Middle Income Envisaged by NDPII

37. NDPII middle income target is much broader than the international definition of middle income. While the international middle income definition is limited to increasing per capita incomes, this may not necessarily reflect improvements in the citizens' welfare. Uganda's development approach of attaining middle income status is much broader, focusing on improving general socio welfare and socioeconomic indicators.

38. The development focus for Uganda targets a lower middle income status that comes along with improvements in socioeconomic welfare for all Ugandans. In addition to targeting a per capita income of USD 1,039 (UGX 3.5 million per person per year and UGX 290,000 per person per month), it also targets socio-economic indicators. It targets a reduction in poverty levels from 19.7% to 14%, increasing the percentage of national labour-force in employment to 79%, increasing access to electricity from 14% to 30%, increasing life expectancy to 60 years, 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. Uganda therefore aspires for an inclusive lower middle income status.

39. This means that a transformational approach that recognizes the dignity, value, and importance of each person, not only as an ethical norm and moral imperative, but also as a legal principle, a society goal and ultimately practiced. No human being should be condemned to endure a brief or miserable life as a result of his/her class, religious affiliation, ethnic background or gender.

40. In terms of the NDPII per capita income target, to-date Uganda is at USD 764. This means that to achieve the NDPII target of USD 1,039, the country is less by a per capita income of USD 275 from its target of lower middle income. This means that the current per capita income must be scaled up by a factor of 1.36 times.

Box 1: What middle income means at household level in Uganda

i) **Average household earning**: each member in the household should be able to earn or produce an equivalent of Ushs 290,000/= per month or 3.5 million per annum from the current Ushs 210,000 per month or 2.5 million per annum.
ii) **Consumption:** every individual in a household should be able to afford at least two meals a day (equivalent to at least 1,500 Kilo calories of food per day)
iii) **Average years of schooling**: at least every member of the household should be able to complete ordinary level education (attain 11 years of schooling).
iv) **Access to electricity**: Currently 1.03million have access to electricity. At least 2.2 million out of the current 7.3 million households should have access to electricity by 2020.
v) **Safe water coverage**: all urban households should have access to safe water. At least 4.8 million (80%) out of the 6 million rural households.

5.2. Key Assumptions to achieve the Middle income status

41. To attain the middle income status NDPII assumes the following:

i) GDP must grow on average by 6.3% over the NDPII period;
ii) Macroeconomic stability must be ensured: Headline inflation is expected to remain in single digits;
iii) The NDPII must be financed: Revenues to GDP must grow to 15.9%;
iv) Budget Expenditure must be in line with NDPII: Expenditure will peak to about 23% of GDP (deficit to peak to 8% of GDP and later decline to 4.7% at end of NDP) mainly financing infrastructure and human capital development;
v) Export led growth: Exports of goods assumed to grow to average 14% of GDP (currently at 11%);
vi) Productivity across sectors must be increased;
vii) Provide cheaper development finance to support private sector.

42. Restrictive as the assumptions are, it is possible to achieve NDP goal of middle income status by 2020, if the transformational approach proposed (discussed in section 6) is adhered to. For instance, while current growth outlook is below NDPII targets, with the right transformational approach that increases efficiency in public service delivery can provide benefits that can boost the current economic outlook.

5.3. NDPII Strategic Direction

5.3.1. Development Strategies

43. A number of development strategies are to be pursued over the NDPII period, including:

i) Fiscal expansion for frontloading infrastructure investments - NDPII estimated the direct contribution to GDP of these infrastructure projects however, the positive effects of these projects on the economy are expected towards the end of the NDP II period after their completion.
ii) Industrialization – In order for the country to attain the set target, promotion of investment in Agro-processing; mineral beneficiation; and light manufacturing will be critical.

iii) Employment creation through fast tracking skills development - Addressing the unemployment problem would require promoting activities that are labour intensive to absorb semi-skilled workers especially in the industrial and services sectors, as well as, investment in massive skills development programmes for rapid build-up of a skilled labour force that can perform high productive jobs.
iv) Harnessing the demographic dividend – There is need to reduce the country's dependency ratio (the share of young people below working age in the total population) through implementation of policies aimed at accelerating a rapid decline in fertility and increasing productivity of the working age population.
v) Planned Urbanization – implementation of strategic policies aimed at accelerating planned and controlled urbanization to ensure a critical link between urbanization and modernization of agriculture.

5.3.2. NDPII Drivers of Growth (Priority Development Areas)

44. The NDPII identifies; three critical growth opportunities of: Agriculture, Tourism, and Minerals, Oil and Gas; and two fundamental of: Infrastructure and Human Capital Development that should drive Uganda to lower middle income status by 2020. Further, to maintain and improve competitiveness, Uganda must strive to increase productivity throughout its economy especially in the key growth sectors along their entire value chain. Increased productivity with an outward orientation across these sectors would propel growth by 2020 (NPA, 2015). In specific priority sectors the following strategic interventions and focus is necessary.

5.3.3. Agriculture sector

45. To achieve an inclusive middle income status, improving production and productivity in agriculture will be critical. This is because agriculture employs majority of Ugandans (over 68%) and most of them are in peasant and subsistence agriculture. As such, to achieve a sustainable middle income status by 2020 with everyone on board would mean targeting growth to this sector. Leaving the 68% of the population which forms a greater base in this growth equation would leave them in abject poverty or in an insecure non poor state. It is against this backdrop that NDP prioritized Agriculture.

46. Emphasis was placed on value addition in the 12 prioritized commodities, increasing productivity, addressing challenges in the selected thematic technical areas including critical farm inputs, mechanization and water for agricultural production; and improving agricultural markets, among others. The specific interventions planned include:

i) Development of interventions along the value chains of different prioritized commodities such as coffee, tea, horticultural crops, citrus etc;

ii) Strengthening and/or up scaling research and development – rehabilitating and equipping existing research facilities, developing local human capacity in research, etc;
iii) Regulation and structuring of input supply in the country. Proposals include:
iv) Enhance dissemination of developed planting materials, from the labs to the producers;
v) Certification of nurseries, closer monitoring of inflow (import) of agro-inputs and activities of input dealers;
vi) Adoption of innovative and efficient approaches in the government input distribution programmes. For example the 'Garuga' Model' that was adopted for up scaling Tea production in Western Uganda.
vii) Promotion of good agricultural practices – for example soil moisture management, use of fertilizers and proper post-harvest handling
viii) Pest and disease control. This is critical for both crops and animals. For example, as a way of increasing beef and milk production, its proposed mandatory and regular animal vaccination and treatment programmes should be implemented at the sub-county level
ix) Strengthening of extension services – across the board, and
x) Enhancing farmer groupings and cooperatives.

5.3.4. **Tourism**

47. This is one of the opportunities through which Uganda can attain a middle income status. The government will provide the necessary inputs like the development of tourism related infrastructure ((expansion of Entebbe International Airport, construction of Kabaale Airport in Hoima, upgrading of strategic airfields, construction and maintenance of strategic tourism roads, as well as, investing in water transport), skills development, product development and aggressive marketing. On the other hand, the private sector is expected to respond by investing in activities for example in hotels, restaurants, and providing transport and tour services for the sector. This would generate employment along the entire value chain. Further, a strategy to develop and encourage domestic/local tourism has potential gains for the industry.

5.3.5. Minerals , oil and gas

48. In addition to oil projects, there is need to plan and fast-track the realization of the iron ore and phosphates industries which would be a milestone in the realization of the middle income status. These will create jobs, fertilizers for the agricultural sector; boost the steel industry and generate steel products required by the country in the current northern corridor infrastructure projects and thus save the country the foreign exchange.

49. The anticipated growth from oil investments will to a greater extent create a middle income country with high poverty disparities. Therefore this will require proper income redistributive policies for oil revenues if we are to attain a middle income country status with inclusive growth by 2020.

5.3.6. Infrastructure Development

50. Addressing Uganda's infrastructure deficit should enhance the country's competitiveness, and drive productivity enhancements in all sectors. Investment in an economy is majorly constrained by a huge infrastructural deficit, unfavorable business environment. Investments in the infrastructure along their different entire value chains would create enormous jobs, and cause tremendous faster realization of the middle income status. This would also increase competitiveness through reducing the cost of production and of doing business; widening and integrating markets; achieving economies of scale; encouraging participation of the private sector; and attracting foreign direct investment and technology. The overall resultant impact of these investments would be an attainment of middle income status. For Uganda to attain the middle income status, Government should:

i) Fast track the construction of the Standard Gauge Railway System
ii) Finalize construction of key Hydro-Electricity Dams (Karuma, Isimba, Ayago) and extend the transmission lines
iii) Fast track the construction of the oil pipeline and oil refinery
iv) Revival of the National Carrier with a focus on the need to build capital as opposed to leasing as an investment option as well as taking a business management approach. The airline should be viewed not only in financial terms but as an economic infrastructure. The National Carrier is needed to strengthen the country's competitiveness.
v) Entebbe Airport rehabilitation and expansion
vi) Finalize the construction of strategic roads especially Express Highways
vii) Extension of the National Backbone Infrastructure (NBI)
viii) Development of the Central Corridor route through the Bukasa Port and to reduce the cost of doing business.

5.3.7. Human capital development

51. Human capital development particularly in health and education is key in improving productivity, enhancing competitiveness and propelling economic development. Realizing a middle income status will require development of functional health systems, training systems, research and innovation system in the country.

52. NDPII focuses on improving maternal health in order to increase new born survival; provision of early childhood survival and full cognitive development; increasing enrolment, retention and completion of the primary schooling cycle; re-designing of the curriculum to facilitate proficiency, talent and relevant skills development; designing appropriate vocational training courses; providing adequate and appropriate sexual and reproductive health information and services; skills training programmes targeting the rapid build-up of skills within this already available labour that has acquired general education and those that have

dropped out of school at primary, secondary and tertiary levels. Futher, it proposes to urgently institute a mechanism for international standardization and certification of the immediate skills requirements especially in oil and gas, minerals and other key infrastructure; Fast tracking establishment of the National Service Programme and the introduction of soft skills in the education and training curriculum at different levels; and, Strengthening the visibility and capacity of the Directorate of Industrial Training to support certification of informal trades and skills.

6. The Transformational Approach Required to Accelerate the Attainment of Middle Income Status

53. Picking from the lessons and international experiences highlighted in this paper, the country requires a transformational approach in a number of areas to fast track the attainment of the middle income goal. Specifically, the following transformational approach is required:

6.1. Strengthening implementation, effectiveness and efficiency in Public Service Delivery mechanisms

54. Define and entrench ideological orientation for attainment of long term national aspirations. For those countries that have attained desirable socio-economic outcomes, policy makers understand that successful development entails decades-long commitment, and a fundamental bargain between now and the future. The consumption-saving tradeoff is high and policy makers at all levels communicate a credible vision of the future and strategy of getting there. This motivates and rallies the populace to attainment of these aspirations. Therefore, there is need to re-orient and train all policy makers and public officials on the country’s strategic direction and what is expected at all level in order to ensure a mindset and attitude change.

55. Entrenching planning across all levels including non-state actors. All Sectors and MDAs should have strategic plans and budgets aligned to the National Development Agenda. Sectors without approved strategic plans should face clear sanctions. Incentives mechanisms to direct efforts of non-state actors towards the NDP agenda should be put in place.

56. Administer and enforce performance contracts for all accounting officers with clear incentives and sanctions for non-performance. These contracts should be clearly linked to results to ensure accountability across government with accounting officers given the mandate to hire and fire. There is also need to fast track optimal pay reforms for Accounting Officers at all levels that are linked to performance contracts. For example, if the pay structure for all Permanent Secretaries, and Chief Administrative Officers was revised to UGX 15 Million it

would cost Government about UGX 30 Billion annually but would deliver enormous results if attached to clear service delivery standards and performance contracts. Learning from the international experience, incentives and sanctions should be accompanied with requisite decentralization of powers and adequate resources to deliver results.

57. Develop, disseminate and enforce regulations, service and service delivery standards towards quality assurance, value for money and compliance. These standards should inform the performance contracts.

58. Strengthen Public Investment Management (PIM) so as to maximize returns from public investments. This will require strengthening sectoral and national capacity across the entire PIM cycle right from: project identification, development, implementation and management. There is a need to put in place a project planning and coordination mechanism for flagship/core projects which are elevated above sectors and given the multi-sectoral nature of these projects. The project development function within government should have the capacity to rally and lead the coordination of planning of core and other key projects in the country in a systematic manner by bringing all stakeholders together and assigning requisite roles along the results chain for a project. The PPP function of government should be strengthened to effectively undertake project financial analysis and negotiation of various financing options, including transfer and management of project risk and project inception.

59. Adequately sequence projects and multiyear commitments through coordinated and adequately sequenced planning. This will require; first prioritizing interrelated sub projects intended to support the implementation of the main project. Secondly, discipline of action by all sectors will necessitate commitment of resources to ongoing projects until they are completed before embarking on other pipeline projects. Lack of discipline of action is partly responsible to uncompleted programmes, projects and activities which have staggered growth.

60. Strengthen the Prime Minister's Delivery Unit (PMDU) to effectively realize its objectives. In line with the NDPII implementation strategy, the delivery unit was set up to, catalyze and track the implementation/execution of core projects other and key priorities. In this regard, the delivery unit should on monthly basis provide progress reports on implementation of all NDPII core projects and other priorities clearly indicating challenges and recommendations in order to fast track realization of intended outcomes.

61. Strengthen the decentralization system through regionalization of service delivery. There is need to rationalize the limited resources through scoping the entire range of services offered within districts at regional level. These regional service centers need to be fully equipped and resourced to efficiently deliver the expected services with high level of

accountability. For sustainability, there is need to strengthen fiscal decentralization for Local Governments to be fiscally self-reliant with a high level of accountability and ownership.

62. Leverage leadership synergies at the local level for improved service delivery. There is need to strengthen the role of and partnership with local leadership including: traditional leaders, faith based leaders, CSOs, and parish chiefs. These leaders are important in mobilizing the communities towards the realization of the country aspirations.

63. Strengthen the linkage and synergies between planning, budgeting, public procurement and implementation with a view of ensuring efficiency and value for money.

6.2. Addressing the high cost of capital

64. Develop affordable long term financing options to drive domestic investments. This requires:

i) Diversifying investment financing options such as Islamic Banking;
ii) Strengthening and fast track recapitalization of Uganda Development Bank; implement pension sector reforms to leverage pension financing;
iii) Establishing a highly competitive public commercial bank to drive competitive market interest rates through reducing the oligopolistic financial market structure for instance by capitalizing Post Bank.
iv) Consider land reforms with focus on increasing registration and ownership for building collateral.

6.3. Implement a development approach to wages

i) Raising Uganda's productivity across the entire economy (with a focus on job creation and labour productivity) is critical for sustainable wage increases in the country.
ii) In addition to economic growth driven by productivity gains, raising domestic revenue mobilization is crucial for sustainable wage increases in the public sector.
iii) An adequate sector/job specific minimum wage, accompanied with effective labour legal framework and enforcement will go a long way in addressing wage inefficiencies (exploitation) in the private sector.
iv) With only 18% of employed persons in wage employment, increasing access to basic social services especially health and education is critical for addressing vulnerabilities.
v) Rationalizing remuneration in the public sector in line with productivity and service delivery enhancement will go a long way in addressing wage inefficiencies (low and un justifiable wage variations) in the public sector.

6.4. Land Reforms

65. Implement land legal framework reforms to facilitate acquisition of land required for public projects and agricultural production. The other reforms include: strengthening land use planning to increase availability of land for production and facilitating partnerships

between landlords and commercial famers for effective utilization of land; gazetting and de-gazetting land to provide for infrastructure development. Further, there is need to fast track urbanization in order to free land for agriculture and leverage urbanization in driving development.

6.5. **Urgently prepare the economy to maximize the benefits from oil and gas with a focus of diversification**

66. Urgent development of the required manpower through supporting the process for international certification of the required workforce. More than 10,000 craftsmen and technicians urgently require international certification to support the development phase in the next three to five years.

67. Development of the local content policy and legal framework to support local capacity development and use in the oil and gas industry. This will also require developing and strengthening the capacity of Ugandan Enterprises to participate in the upstream, mid-stream and downstream phases.

6.6. A national local content policy and necessary legal frameworks to increasing local participation in the national development agenda

68. Develop and implement national local content policy and legal frameworks in all sectors to ensure that:

i) all ongoing projects in the country maximize the utilization of locally available materials and services;
ii) Ugandans are employed especially on projects undertaken by foreign companies so as to create knowledge transfer, increase per capita incomes and reduce outward remittances;
iii) Communities and local enterprises participate in public works;
iv) The BUBU (Buy Uganda Build Uganda) initiative is implemented. For example, the Nile Bridge offers a good example for the use of Ugandan Steel. This should also be extended to other infrastructure projects.

6.7. Enhancing domestic revenue mobilization

69. Increase domestic revenue generation to support development financing through: strengthening Non-Tax Revenue collection (Lands, Immigration, Judiciary, etc); limiting utilization of NTRs at source (Forestry, Aviation, KCCA, UCC, etc); widening the tax base through incentivized formalization of the informal sector; strengthening tax administration (URA Capacity, computerization of VAT-able sales points); and re-organizing the minerals sector for better coordination of NTR revenue collection.

70. Since the informal sector contributes 45% of GDP and employs over 90% of the working population, incentive formalization of the sector is important for widening the tax base. This can be through;

i) Increasing incentives for transition to formal sector: access to finance, entrepreneurship training, e.t.c.
ii) Formal business registration for nurturing with a grace period before assessment e.g. through associations, and trade, agriculture and industry departments in cities and local governments
iii) Expansion of direct income support schemes for poor and vulnerable groups
iv) Expansion of contributory social security schemes to the informal sector
v) Certification of informal sector skills
vi) Review labour laws to support the informal sector
vii) Leverage national identification and registration information

6.8. Strategic stepwise industrial development

71. Urgently develop an stepwise industrial master plan that: First pursues agricultural led industrialization, second diversifies to other labour intensive light manufacturing and lastly prepare and transit to heavy manufacturing, particularly linked to available natural resources.

72. To leverage the limited public resources by investing in infrastructure through special economic zones and industrial parks while promoting the diffusion of technology.

6.9. Increased Export Oriented Growth

73. Increase export oriented growth by sustaining and growing Uganda's presence in foreign markets through conformity to buyer and market requirements, competitiveness and increased capacity to sustain supply. Implement deliberate export promotion actions towards market diversification to non-traditional markets. Specific commodity export growth targets required to propel Uganda's development agenda as highlighted in NDPII are attached in Annex 1. The proposed actions include;

i) Support value addition for export especially in agriculture and minerals. Develop detailed value chains for all priority commodities and services; restrict the export of some raw materials for example, in minerals, there is need to maintain the ban on steel and iron material, granite and marble, among others.
ii) Developing and nurturing national and enterprise brands into the export market for Uganda's export commodities such as tea and coffee.
iii) Fast track the establishment of a Tea Auction in Uganda to take advantage of the increasing tea production.
iv) Disseminate market information to guide the activities of value chain actors. Information relating to market entry and access requirements, standards, competitiveness and product development should reach the targeted actors.

v) Enhance productivity growth in export production through technology acquisition and establishing new investment in exporting industries. This requires, government to attract foreign direct investment geared towards export development, mobilizing and focusing domestic investment, and improving the availability of medium-long term credit.

vi) Increase outward orientation by deepening and diversifying labour-intensive exports. Uganda's strategic location, and labour cost advantage suggest that it should be able to deepen and widen its export basket.

6.10. Faster human capital accumulation

i) Development and implementation of the National Human Resource Development Plan.

ii) Strengthening quality of primary education through review of capitation grants, enhancing school supervision, teacher training, and increase community participation.

iii) Comprehensive Skills Development through;

   a. Accelerating the development of five vocational/ technical institutions into Regional Centers of Excellence in delivering skills for strategic projects.
   b. Urgently institute a mechanism for international standardization and certification of the immediate skills requirements.
   c. Fast track establishment of the National Service Programme and the introduction of soft skills in the education and training curriculum at different levels.
   d. Strengthen the visibility and capacity of the Directorate of Industrial Training to support certification of informal trades and skills.

iv) Review of the education curriculum particularly the secondary education curriculum to offer more relevant education, and to support a guided transition to tertiary education with a major focus on science subjects.

v) Upgrade and fully resource all regional hospitals.

7. Conclusion and Way forward

74. Good planning and strategic direction is the first step to deliver Uganda to the middle income status. With the excellent strategic direction provided by the NDPII and Vision 2040 as indicated, additional effort is required to fast track the achievement of a middle income status. This effort will require doing business unusual on the part of all stakeholders particularly the implementing sectors, MDAs and LGs under the political leadership of the respective sector Ministers. 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, improvements have been registered in planning but significant challenges remain at implementation. As such, to fast track the move towards a middle income status we need to identify key performance and results points both in the private

and government sector. These should be focused, supported, monitored and strengthened to fast track the move towards middle income.

75. The informal sector should be holistically leveraged to deliver the middle income status. This is critical because of the importance of the large informal sector, particularly in urban centers, in driving Uganda's economy. The informal sector should not only be looked at as a missed tax base but as an engine of growth that if well tapped can be used to transform the economy. As such, efforts to formalization should go beyond the aim of increasing the tax base to aim at enhancing the informal sector role in development. Therefore, certification of informal sector skills; reviewing of labour laws to support the informal sector and leverage national identification and registration information are important.

76. Political commitment, ideology and accountability towards attaining the middle income is important. This, as evidenced from international lessons, is the foundation upon which a sustained development drive is based. This is because the process of transformation to middle income requires sacrifices and accountability towards the goal. This can only be achieved by strong political commitment to drive the country towards the goal.

77. In this phase attaining competitive advantage as opposed to comparative advantage should be the focus. Therefore, continuing to spend on infrastructure efficiently with a view of reducing the cost of doing business remains very critical at this time.

Attaining these development aspirations requires a patriotic involvement of everybody.

"Uganda Tulumbe!" middle income status is knocking

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Annex 1: NDPII Projectd Export Growth-Key Commodities

	2015/16	2016/17	2017/18	2018/19	2019/20
Cash crops					
Coffee	5.77	6.84	6.75	7.20	7.29
Cotton	2.88	2.20	1.43	1.10	0.99
Tea	7.38	5.14	4.65	2.49	2.20
Flowers	2.76	3.20	3.07	2.55	2.55
Food crops					
Maize	4.81	3.67	2.38	1.83	1.64
Rice	4.59	3.23	1.82	1.42	1.20
Cassava	4.49	3.29	1.96	1.41	1.20
Bananas	0.68	0.66	0.55	0.85	0.77
Beans	0.84	0.69	0.47	0.73	0.64
Processed food					
Meat	6.12	6.23	4.88	3.86	3.77
Fish	1.39	0.69	0.68	1.91	1.88
Dairy	5.47	6.08	5.74	5.11	5.18
Grain	29.82	37.56	28.43	17.00	17.44
Tea	8.48	7.96	5.00	3.81	3.59
Animal feeds	15.36	15.33	11.34	8.81	8.57
Edible Oil	7.36	6.64	4.45	4.00	3.75
Bakery	6.21	6.52	5.84	5.24	5.25
Sugar	22.44	23.48	15.54	9.66	9.25
Other exports					
Textile	1.73	1.89	1.89	1.89	1.93
Metalic products	24.11	24.69	16.80	11.20	10.70
Non-metalic products	18.84	18.38	12.80	9.29	8.90
Chemicals and Plastics	25.54	21.07	18.31	11.54	11.23
Electicity	9.27	9.45	8.52	7.59	7.53