Poverty reduction in uganda

Name: Nguyen, Thi Hai Yen Student ID: 2012470037 Subject: Special topic ininternational development: African economics and politic Topic: Uganda – The bright inpovertyreduction for other Sub – Saharan African countries Uganda is a landlocked and relative small country in East Africa. After independence in 1962, Uganda experienced a decade of relative political and economic stability before 15 years struggling under the power of Idi Amin who lead the country to conflict and reduced country to a failed state and a collapsed economy.

It stopped by 1986, when Yoweri Museveni took power brought a period of sustained economic and political renewal to Uganda. Uganda is a relative rich of natural resources including fertile soils, regular rainfall, small deposits of copper, gold, and other minerals, and recently discovered oil. Just like other African countries, export of Uganda heavily depends on coffee with 63 per cent of total export revenues of the country. Uganda has been a bright point in Sub – Saharan Africa by being the first country in the region to embark on liberalization and pro-market policies in the late 1980s.

Thanks to the right policies, the government has maintained a stable macroeconomicenvironmentand sustained private sector-oriented reforms that graduated Uganda into a mature reformer in 2006. GDP growth accelerated from an average of 6. 5 per cent per year in the 1990s to over 7 per cent during the 2000s. Together with the sustained economic growth in the past two decade, Uganda enabled substantial poverty reduction and some progress towards Millennium DevelopmentGoals(MDG).

Although other MDGs such as achieving universal primaryeducation, reducing child mortality rates, improving maternalhealth, combating

HIV/AIDS, malaria, and other diseases have been slow, the first goal of poverty reduction has been achieved successfully in Uganda. In 2009/2010, Uganda surpassed the 2015 MDG of halving the 56. 4 per cent poverty rate recorded in 1992/1993 to 24. 5 per cent. However, in 2011, at a per capita income at 500 USD or 1300 USD in PPP, ranked 203 in the world, Uganda remains a very poor country and far from the middle income status it aspires to achieve in one eneration. This paper therefore reviews the economic background of Uganda; examines the trends and patterns of poverty; the government strategies to reduce poverty and concludes with challenges in sustaining the poverty reduction achievement and policy recommendations. Economic background Table 1. Sectoral contributions to GDP and Growth Rates in Uganda (from 2001-2010) As can be seen from table 1, Uganda remained high growth rate during the period from 2001-2009 with 7. 9 per cent in average before cool down by 5. per cent in 2010 and 4. 3 per cent in 2011 because of the reduce of demand from the main export markets of Uganda, especially the USA and European countries since the world recession.. In terms of structure, Ugandan economy has a modern structure in which GDP is attributed largest from the services sector, follow by the industrial sector and least by the agricultural sector. However, in fact, agriculture is the main sector of the economy, employing over 82 per cent of the work force even it contributed only 22 per cent of GDP (2011).

The budget deficit has improved by reducing gradually from 10. 2 per cent of GDP on average during 2000 - 2004 to 7. 9 per cent of GDP on average during 2005-2008 and reached 5. 9 per cent of GDP in 2011. Uganda remained high domestic investment rate at 23. 9 per cent of GDP, thus kept the national debt rate at a safety rate compare to other countries. However, after a decade remained one digit number of inflation, the consumer prices in the country became worse in 2011 at 18. 7 per cent in 2011.

Economic development has been made as the most important priority of Ugandan government and the economic policy is focusing on the private sector, attracting foreign direct investment, improving access to world markets and on achieving relief from excessive debt. Therefore, it has adopted a number of policy initiatives to jump-start the economy, including the National Development Plan which is the master development plan; Plan for the Modernization of Agriculture, the Medium Term Competitiveness Strategy for the Private Sector, the Competitiveness and Investment Climate Strategy, the Poverty Eradication Action Plan among others.

The trends and patterns of poverty in Uganda Table 2: Number and percent of Ugandans that are absolutely poor, insecure non-poor and middle class (from 1992-2010). Table 3: The characteristics of poor, insecure non-poor and middle-class households Table 4: Inequality based on the Gini coefficient (from 1992-2010). Source: UNHS various years and IHS 1992/3 Table 2 indicates that during the 1990s, the proportion of Ugandans whose incomes below the poverty line fell dramatically from 56. 4 per cent in 1992 to 33. 8 per cent in 2000.

It meant there were 2. 5 million of Ugandan people escaped from absolute poverty within 8 years; they moved to the group of non – poor but insecure which increased significantly by 10. 5 per cent. During 1990s, the per cent of middle class in Uganda also rose sharply from 10. 2 per cent to 22. 4 per cent. The middle class own more household assets, are much more educated and spend moremoneyin education rather than onfooditems like the poor. The key reason of these trends was increase in average income, rather than by redistribution in society.

Income inequality was basically decreased from 1992 to 1997, but increased thereafter; the Gini coefficient was between 0. 37 and 0. 35 until 1997, but rose to 0. 39 in 2000. After 2000s, Uganda did not remain the success which was achieved in the previous decade, when the proportion of people lived with 1. 25$ a day rose by 5 per cent from 2000 to 2003, meanwhile the inequality also increased which measure by the GINI coefficient rose from 0. 365 in 1992 to 0. 428 in 2003, and in urban area the inequality was more clear and increased faster than rural area.

The trends were mainly driven by the slowdown of the economic when the GDP growth rate dropped from 8. 5 per cent in 2001 to 6. 5 per cent in 2003 and the agriculture sector which employed majority of the workforce was disappointing when the growth rate fell dramatically by 5 per cent during that period, while the service sector decreased slightly and the industry sector even performed well (according to table 1). The slowdown in agriculture relative to other sectors tended to increase inequality in this period, both because the poor are concentrated in agriculture and the share f labor in the incomes of other sectors may be quite small. The reasons for the recent patterns include a slowdown in agricultural growth during the last three years, declines in farmers’ prices reflecting world market conditions, insecurity, high population growth rate and morbidity related to HIV/AIDS. The trends of poverty in Uganda changed differently in the next period from 2002 to 2010 compare to the previous time; the poverty proportion fell sharply and surpassed the first goal of 2015 MDGs of halving the 56. per cent poverty rate recorded in 1992/1993 to 24. 5 per cent. Uganda became the first country in Sub- Saharan Africa countries achieved the first goal of MDGs before due date of 2015. However, together with this achievement, the inequality in the country rose which measured by the increase of GINI coefficient from 0. 408 in 2005 to 0. 426 in 2010. It seem easy to explain those two diverse trends because of the growth of economic also lead to the rising of income inequality even in the country who have good social welfare system.

The middle class of the country also reached one third of the population in 2010 who was claimed that benefited from small business rather than agriculture sector. The emergence of the middle class will lead to greater spending power and, the ability to invest in the future represents an opportunity to accelerate the socioeconomic transformation process. However, the insecure non poor (42. 9 percent) are another group requiring specific attention, while the fight against absolute poverty continues for 24. percent of Ugandans. Ugandan government's strategies to reduce poverty Uganda is among the very few countries which surpassed the MDGs before 2015, especially in Sub- Saharan region. As mentioned above, over the last 20 years, Ugandan government has implemented a number of policies to jump-start the economy and it has been worked well and lead to the relative high and sustained economic growth rate as well as eradicating significantly the poverty.

Among those policies, there were two main programs geared towards reducing poverty which were the Poverty Eradication Action Plan (PEAP), Plan for the Modernization of Agriculture (PMA). First, the PEAP was adopted in 1997 as the framework for addressing the key poverty challenges. The plan was made to range the public policies and interventions relevant to poverty reduction. It was highly participatory with the central and local government, the donors, non – government organizations, civil society and economic scholars.

The plan was succeeded because it was implemented by the government's budget and a medium – term spending framework. Right after the adoption of PEAP, the public expenditures on basic services were significantly increased in 1997. One part of Ugandan government's budget for PEAP came from the assistance of World Bank and International Monetary Fund to help the low – incomes countries develop poverty reduction strategies. The PEAP was revised twice in 2000 and in 2005. The latest version was launched in 2005 which aimed at contributing towards transforming Uganda into a middle-income country.

The PEAP was based on five pillars: (1) economic management: aims to sustained relative high growth rate by facilitate to investment; improve infrastructure; modernization and commercialization of agriculture, with emphasis on value-addition; improve rural access tofinanceand to strengthen SMEs; focus on HIV prevalence reduction; (2) Enhancing production, competitiveness and incomes; (3) Security, conflict-resolution and disaster management; (4) Good Governance; (5) human development to strengthen the human resources by improving education system and social health care system in order to improve sanitation, community mobilization, familyplanning and reduce malaria, HIV/AIDS; improve the water supply in urban and rural areas and increase the role of private sector.

In implement of the PEAP, the central government was responsible for ensuring a basic framework of legality, rights and freedom, nondiscrimination among citizens and intervening in the economy to promote economic efficiency, equity and growth, meanwhile the private sector played the key and active role in investment; the private sector is responsible for the majority of productive investment and it supports public goods for altruistic, cultural or prestige reasons; civil society works free from the government to handle to advocacy for the interests of groups who might otherwise be neglected; support conflict resolution and finance service in sectors not covered by the government; and the donors plays important role in providing financing public expenditure. Second, Uganda's Plan for Modernization of Agriculture, PMA, was issued in 2000, and it has been implemented since 2001. The PMA is an integral part of the strategies of the PEAP, and contributes directly to two of the four overarching PEAP goals: (1): rapid and sustainable economic growth and structural transformation, and (3): increased ability of the poor to raise their incomes. The PMA is a framework which sets out the strategic vision and principles upon which interventions to address poverty eradication through transformation of the agricultural sector can be developed.

The vision of the PMA is poverty eradication through a profitable, competitive, sustainable and dynamic agricultural and agro-industrial sector. Rural poverty is seen to be best addressed through promoting the commercialization of agriculture, and in particular providing a coordinating framework for support services and public goods in rural areas. The PMA core document sets out these principles, but also identifies priorities for interventions and activities in the form of seven pillars, to be implemented by various government ministries and local government, and a non-sectoral conditional grant. The PMA identifies seven pillars where priority actions are recommended.

These are: (1) research andtechnology, (2) national agricultural advisory services, (3) agricultural education, (4) improving access to rural finance, (5) agro-processing and marketing, (6) sustainable natural resource utilization and management and (7) physical infrastructure. These two above key programs succeeded in helping Uganda surpass the poverty reduction goal in MDGs. However, Uganda is still very poor country and is still faced with many challenges from internal as well as external factors. Thus, the Ugandan government has launched a new policy framework, the National Development Plan as a response to the success of the PEAP in poverty reduction.

It continues the vision of poverty eradication and more focus on economic transformation, wealth creation and equally distribution; in order to transform Uganda society from a peasant to a modern and prosperous country within 30 years. Due to the limitation, this paper just analyzes the two main programs which helped reduce poverty from 56. 4 per cent in 1992 to 24. 5 in 2010 and briefly introduces the new strategies of Ugandan government in the next period. Conclusion and recommendations What Uganda economy has achieved is outstanding among Sub-Saharan Africa region, however, Uganda is still among the poorest countries in the world, the income per capital ranked 203 in 2011 and the inequality has been raising which means majority Ugandans still live in bad and vulnerable condition. 0% of the workforce is working in agricultural sector which contributed only 22% of GDP and the sector easily get negative impacts from climate conditions or the reduce term of trade. Therefore, the Ugandan government needs to take action to sustain the poverty reduction, create more equal opportunities for citizens and improve economic performance. The country could learn from experiences of South Korea, which experienced one of the most dramatic declines in absolute poverty that the world has seen. Compare to South Korea in 1960 when South Korea started its industrialization, Uganda economy at present is in a better status. At that time, South Korea was destroyed by the Korean War, high absolute poverty rate, in the 1950s the majority of Korean people lived in absolute poverty.

Even as late as the mid-1960s, between 60-70 per cent of the population was estimated to be living in poverty. The area of Uganda is about 2. 4 times bigger than South Korea with relative rich natural resources. Moreover, the official language of Uganda is English which is very useful and easy to do business abroad. Thanks to the economic transformation, since early 1960s, Korea has been able to achieve rapid growth with equity, and by the mid-1990s, the absolute poverty had dramatically declined to levels as low as 3. 4 percent of the population. Indeed, by 1999, the Korean averages for poverty in single person households was comparable to other OECD countries.

There are number of lessons that Uganda can learn from South Korea on its development path: fully utilize the foreign aid which highly supports government expenditure for education, improving health care system, infrastructure…; encourage domestic savings and private domestic investment; the government intervention needs to be active and relevant to create stable macroeconomic with a favorable environment for private investment; growth with job-creation, initially led by labor intensive export promotion; highly invest in developing human capital especiallyprimary and secondaryeducation for better – educated labor force; create favorable environment for foreign direct investment with careful collective technology which can spillover to help develop the domestic industry later on… In brief, human capital and technology should be more focus to achieve growth in the long run.

Being a latecomer, Uganda has chance to learn from successful economic development model, but the model should be modified to adapt the situation of the country and avoid failures of the early comers. References CIA World Fact book (2011), Uganda, https://www. cia. gov/library/publications/the-world-factbook/geos/ug. html, accessed on 7th October. International Monetary Fund (2005), “ Uganda- Poverty reduction strategy paper”, IMF country paper No 05/307. International Monetary Fund (2010), “ Uganda-Poverty reduction strategy paper”, IMF country paper No 10/41. Government of the Republic of Uganda, “ Plan for modernization of agriculture: eradicating poverty in Uganda”. Jeffrey Henderson, David Hulme, Richard Phillips, and Eun Mee Kim (2002), “ Economic governance and poverty reduction in South Korea”.

John Mackinnon, Ritva Reinikka (2000), “ Lessons from Uganda on strategies to fight poverty”. Ministry of Finance, Planning and Economic Development

(2012), Ugandan government, “ Poverty status report”. The World Bank, “ Uganda: Country at a glance”, http://www. worldbank. org/en/country/uganda, accessed on 7th October.
-- [1]. The World Bank: http://www. worldbank. org/en/country/uganda. [2]. Ministry of Finance, Planning and Economic Development (2012), Ugandan government, “ Poverty status report”. [3]. 4 CIA World Fact book 2011: https://www. cia. gov/library/publications/the-world-factbook/geos/ug. tml [5]. Uganda: Poverty reduction strategies paper, IMF country paper (2005). [6]. Uganda: Poverty reduction strategies paper, IMF country paper (2005). [7]. John Mackinnon, Ritva Reinikka (2000), “ Lessons from Uganda on strategies to fight poverty”. [8]. Ministry of Foreign Affairs of Denmark (2005). [9]. Government of the Republic of Uganda, “ Plan for modernization of agriculture: eradicating poverty in Uganda”. [10]. Uganda: Poverty reduction strategies paper, IMF country paper No 10/41 (2010). [11]. Jeffrey Henderson, David Hulme, Richard Phillips, and Eun Mee Kim (2002), “ Economic governance and poverty reduction in South Korea”.