Food and Agriculture Organization of the United Nations

POLICY ANALYSIS

FAO AGRICULTURAL DEVELOPMENT ECONOMICS
POLICY BRIEF 45

Prioritizing public investment in agriculture to spur Uganda's inclusive economic recovery

Urgent economic recovery

Uganda has managed to navigate the global economic recession relatively well for now, although it has undoubtedly experienced an unwelcome economic slowdown and socio-economic impacts. According to a 27 July 2021 update from the Uganda Bureau of Statistics (UBOS), at constant prices of 2016, gross domestic product (GDP) had grown an average of more than 9 percent between 2016 and 2019. Growth in agriculture, forestry and fishing outstripped overall output growth during the same years.

The most recent forecast of the International Monetary Fund (October 2021) at the time of writing, projected a contraction of Uganda's GDP of -2.1 percent for 2020, followed by a rebound with an expected growth of around 4.7 percent in 2021. This raises the question: what will drive such a strong economic recovery?

Without strong drivers of economic recovery, Uganda may face important challenges. The COVID-19 pandemic has not compromised overall food supply nor severely disrupted agricultural supply chains in the country. However, there is concern that an overall reduction in income will affect household access to food and economic activity and, consequently, increase the number of poor and food-deprived people.

Agriculture is key to inclusive recovery

In Uganda, it makes sense to put the agriculture, forestry and fishing sector at the centre of recovery efforts. The sector represents about 24 percent of GDP and, according to the Uganda National Household Survey (UNHS) 2016–2017, it employs more than 64 percent of the working population. This and the heavy reliance of the population on informal economic activities are clear indications that agriculture provides livelihoods for a large part of Uganda's population.

Unsurprisingly, the agriculture sector is expected to play a central role in the National Development Plan (NDP) III. The government's vision for the sector is captured in one of its 18 strategic programmes, which focuses on agro-industrialization. However, the NDP III was developed in a context where the COVID-19 pandemic, with all its health, economic and social repercussions, did not yet exist. The implementation of the plan will now have to consider the effects of the pandemic and ensure that it is well-aligned with recovery strategies for the post-COVID-19 era.

KEY MESSAGES

- Modest but well targeted public investment in agriculture can support inclusive economic recovery in Uganda.
- Lower food prices and increased labour income would result in rural poverty reduction.
- Cost-effectiveness of investments in agricultural sectors requires a careful consideration of their heterogeneous impacts on key outcomes, such as private consumption, GDP, agrifood GDP, exports and rural poverty.

Modest public investments in agriculture will support GDP growth

Focusing on public investment to reactivate an economy makes sense in a context characterized by an economic slowdown or downturn. In such context, private investors are more risk-averse and the government must intervene through public policy to create an environment that is conducive to private investment.

Prospective scenarios suggest that modest public investment in productive infrastructure in agriculture, representing only 0.25 percent of GDP (on average, about 373 billion in 2017 Uganda shillings) during 2023–2025, will generate positive impacts – compared to a business-as-usual (or base) scenario. This is because these investments – which may very well entail improving, for example, rural roads, irrigation systems, and storage infrastructure – trigger a productivity shock and support capital accumulation. Even beyond 2025, it is possible to see GDP setting up to 0.28 percent above a situation without such modest investments (see Figure 1).

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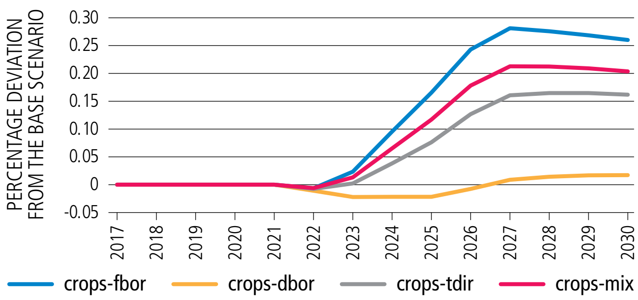
FIGURE 1. Real GDP under four scenarios of public investment in crop sectors with alternative financing sources, 2017–2030



Notes: All crop sectors together are recipients of the public investment and the names of the scenarios denote the source of investment financing: foreign borrowing (crops-fbor), domestic borrowing (crops-dbor), income tax (crops-tdir), and mixed financing (crops-mix). The latter assumes a combination of tax and non-tax revenue, oil revenue, grants, domestic and foreign borrowing.

Source: Sánchez, M.V., Cicowiez, M. & Pereira Fontes, F. 2022. *Productive public investment in agriculture for economic recovery with rural well-being: an analysis of prospective scenarios for Uganda*. FAO Agricultural Development Economics Technical Study No. 16. Rome, FAO.

In general, economic growth and the welfare of households – as measured by consumption – will be positively impacted to different degrees depending on the sector receiving the investment. The agricultural sectors targeted by government investment will increase their output (and food prices will fall), and this will stimulate growth in non-agricultural sectors, both by increasing demand for non-agricultural products and by lowering input prices and fostering upstream processing. Lower food prices will have a significant impact, since food represents a relatively large proportion of the consumption basket of the poorest households. Furthermore, labour income for rural households will increase with productivity growth, and this will reduce the rural poverty rate. Indeed, the results show that, compared to a situation with no additional investments, the simulated investments will reduce rural poverty in the future. For example, depending on the targeted sector, the rural poverty rate could be 0.02 to 0.18 percentage points lower by 2030. This is equivalent to have lifted between 7 667 and 71 137 Ugandans out of poverty in rural areas only in that year. The option of foreign borrowing to finance the new public investment, when used alone, will allow such new investment to generate the greatest short-term economic recovery (versus domestic borrowing and direct taxation which crowd out private investment/consumption), but using a mix of funding sources will be more realistic in the context of Uganda (see Figure 1).

What sectors to prioritize?

Targeting agricultural sectors will have to consider heterogeneous impacts on key variables such as private consumption, GDP, agrifood GDP, exports and rural poverty. A heterogeneous picture emerges if sectors are ranked according to the impact on these five variables of investing the same amount of resources in each sector (see Table 1). The sugar cane sector leads the ranking in three out of five variables (private consumption, GDP and agrifood GDP). For the remaining variables, the cassava and potato sectors have the highest impacts on rural poverty reduction, and the tea, coffee, cocoa and vanilla sectors lead the ranking in terms of impacts on exports. Sectors such as cattle, bananas and goats also rank high in terms of their impacts on private consumption and GDP and are potential recipients of investments that promote economic recovery, but only investments in the banana sector have the potential to significantly reduce poverty.

These findings provide important information about Ugandan priorities under the NDP III and the government's vision for agriculture, as well as for understanding options for economic recovery with increased well-being in a post-COVID-19 era. To foster agro-industrialization, the government has selected ten priority commodities (coffee, tea, fisheries, cocoa, cotton, vegetable oil, beef, maize, dairy and cassava). The ranking presented here validates the importance of prioritizing certain sectors (i.e., cattle, coffee, maize, tea, cotton, cocoa and cassava), because investing in them is expected to have significant effects on at least one of the five variables used to establish this ranking. However, it also highlights that other sectors (i.e., sugar cane, bananas and goats), which do not currently figure on the government's priority list, would be very cost-effective recipients of public investment.

TABLE 1. Sectoral ranking by the impact of government investment on five socio-economic indicators

#	Private consumption	GDP	Agrifood GDP	Exports	Rural poverty
1	Sugar cane	Sugar cane	Sugar cane	Tea	Cassava
2	Cattle	Goats	Sorghum	Coffee	Potato
3	Banana	Cattle	Rice	Cocoa	Sugar cane
4	Goats	Bananas	Coffee	Vanilla	Banana
5	Vegetables	Maize	Cotton	Sugar cane	Vegetables
6	Maize	Tea	Millet	Cotton	Beans
7	Potato	Simsim	Tea	Flowers	Maize
8	Cassava	Vegetables	Cocoa	Sorghum	Millet
9	Poultry	Millet	Soybean	Goats	Goats
10	Beans	Groundnut	Flowers	Maize	Poultry

Notes: Only the top ten sectors are presented for each variable, but the complete ranking includes 24 sectors per variable. Agrifood GDP is defined as the sum of the value added generated by agriculture and the food industry; as such, it captures the production linkages between both sectors.

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