Africa – Opportunities and Challenges by Mr. Lawrence Bategeka

A) Key messages from the presentation:

1. What is not driving growth?

i) Endowment and Geography; ii) Natural resources; iii) Terms of trade.

Discussion: Why approach the question from this perspective? Why ask "What is not driving economic growth" and not "What is driving economic growth". We have more lessons to learn from the latter compared to the former. It is destructive to accept that favourable terms of trade, natural resources abundance, geography (location to the cost), and endowment are important for economic growth, especially the kind that is rooted in the economic fundamentals of the economy. If these factors are not driving Africa's economic growth, then its growth during the past two decades is weakly rooted in its economic fundamentals.

2. What has helped?

i) Disinflation; ii) External debt reduction; iii) Reserves build-up

Discussion: Low inflation, declining external debt and build up of reserves are important. However, we need to assess the direct and indirect costs associated with the achievement of each of these. For example, austerity measures that have been invariably used across Africa to control inflation during the past two decades led to low growth in domestic investment and employment; domestic interest payments rose; and commercial bank lending interest rates rose. These developments suggest that the economic growth African countries recorded during the past two decades were most likely driven by factors different from productivity increases.

What may have helped?

i) Changing trade patterns; ii) Rising aid inflows iii) Political structural reform Definitely changing trade partners

Discussion: There is no doubt that increasing regional trade, rising aid inflows, and political stability (political structural reform) helped the growth process of the Uganda economy. However, the adverse effect of foreign aid (read dependency) should not be forgotten. For example, Uganda's low tax/GDP ratio could partly be explained by reduced tax effort because of dependency on foreign aid. Similarly, stronger accountability by the Uganda Government to donors may explain reduced accountability to the electorate in terms of development outcomes.

3. Economic Outlook

- Global context
- Growth in Sub-Saharan Africa to remain strong
- Rising investment to remain driver of growth

Discussion: The economic outlook, which is very optimistic, fails to factor into the adverse gobal context. Foreign direct investment (FDI) to Africa is flowing mainly to extraction of resources, especially oil and minerals. If Africa is to take off in the near future, it could take off leaving her people behind. The growth of Africa in such a situation will hardly be linked to productivity increases, employment creation, and production for exports.

4. Challenges

i. The global economy;
ii. Rising debt levels;
iii. Outstanding sovereign bonds – not matched by higher public investment;
iv. Natural resources;
v. Macroeconomic volatility;
vi. Inclusiveness;
vii. Infrastructure – especially energy;
viii. Structural transformation.

Discussion: The list of challenges is relatively longer compared to the list of opportunities, which raises question on the thesis of the report. There is need to put people at the centre of Africa's development through ensuring their participation in the economic growth process. The above binding to private sector investment and growth must be addressed expeditiously.

B) The Report is silent about the following:

5. What is driving growth in Africa?

- Private sector-led economic growth
- Services – banking; telecommunications; trade; transport; social services (Thanks to liberalization and roll back of the state in this regard)
- Construction – fdi; natural resources (oil and minerals)

The report is silent on the drivers of growth, which in the case of Uganda are mainly services such as telecommunications and banking; others are construction and wholesale trade. These services are mainly provided by foreign firms, which raises the likelihood that should Africa's economic take-off occur in the near future, it could do so while leaving her people behind.

6. What sectors have not performed well?

- Agriculture – yet it employs 66% of the labour force
- Exports – especially of agricultural commodities; leading to weak inclusivity in the economic growth process
- Manufacturing

It is important to note that agriculture that employs 66% of the Uganda labour force has grown dismally (at less than 2% per annum compared to a population growth rate of 3.2 per cent per annum). This suggests low investment in agriculture (both private and public). Furthermore, there is inadequate focus on production for exports, which is leading to weak inclusion of farming households in Uganda's economic growth process.

7. Major Challenges not mentioned

i. Increasing inequality and unemployment
ii. Insufficiency of the policy environment – role of the state and limits of the MDGs development driven agenda

iii. Inadequate focus on the vulnerable

The report is silent on the above major challenges. Africa’s economic growth is characterized by increasing inequality and unemployment, which could work against continued sustainability of the growth of the continent. Income inequality is widening among households and also across regions.

The role of the state in situations of market failure, like the case is in rural Uganda, is not well defined. The development framework that is focused on the achievement of the MDGs is correct but the desire to do so through public service delivery has faced many limitation, which the state needs to address expeditiously.

The report is silent on vulnerability and how to address it. In situations like that obtaining in Africa, Government tends to categorize some of the physically able as vulnerable. As such, the very deserving vulnerable people hardly receive the attention they require.