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Uganda Economic Update

17th Edition

From crisis to green, resilient growth: Investing in sustainable land management and climate smart agriculture

Presentation outline

PART 1: STATE OF THE ECONOMY

- How has the global economy impacted Uganda ?
- What have the domestic crisis response policies achieved ?
- What have been the outcomes for the economy and the people?
- What to do going forward?

PART 2: SUPPORTING RECOVERY: INVESTING IN GREEN AND RESILIENT PATHWAYS

- What is the cost of natural capital degradation in Uganda?
- What can be done for Uganda to achieve a green and resilient development path?
- What are the barriers to technologies like sustainable land management and climate smart agriculture?
- What strategy could be used to scale up SLM and CSA to achieve a green transition?

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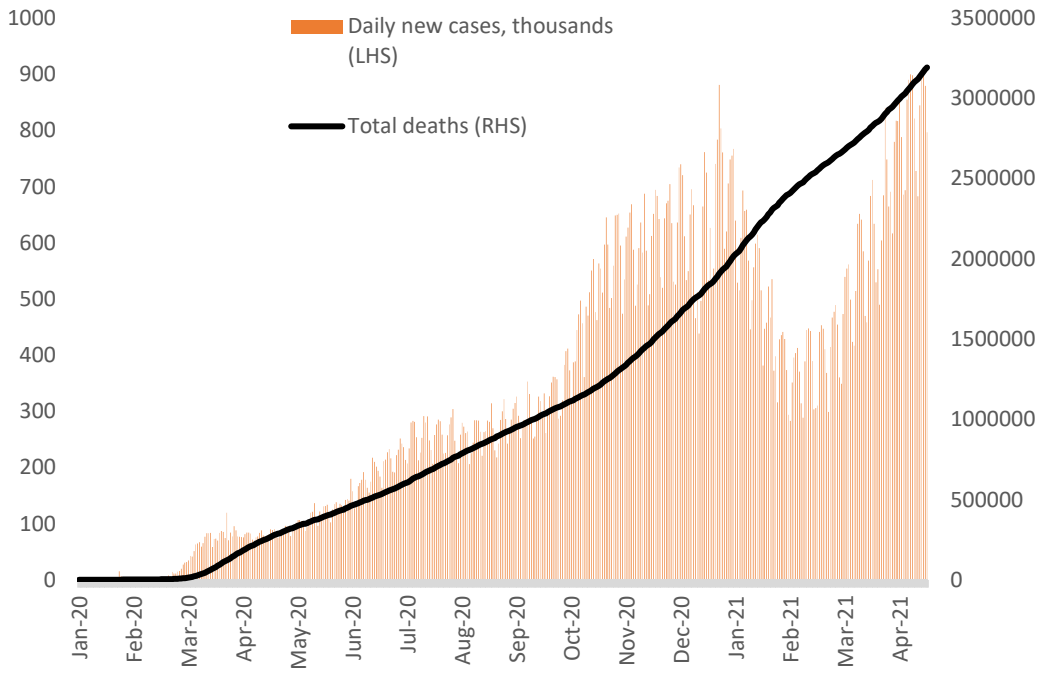
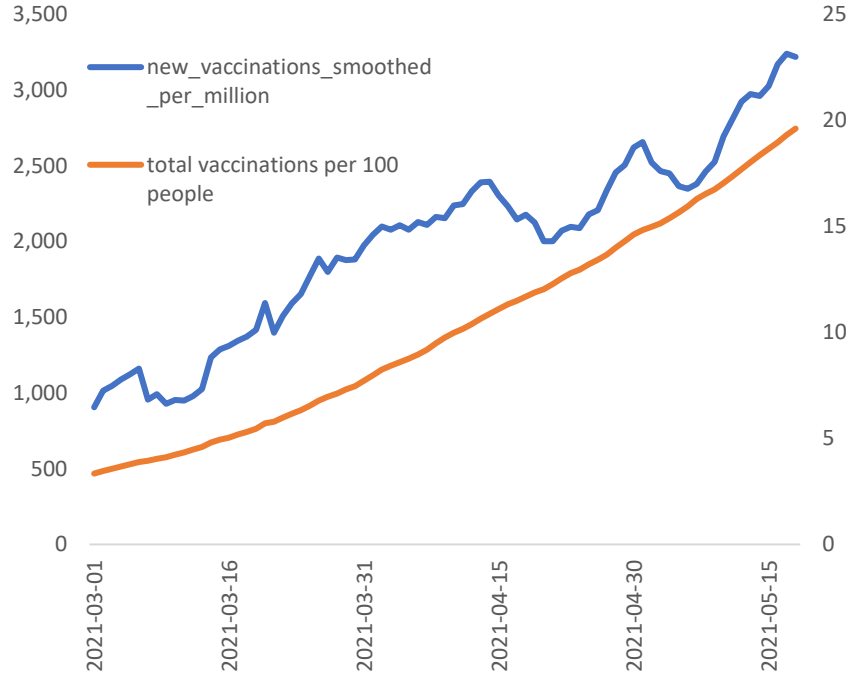
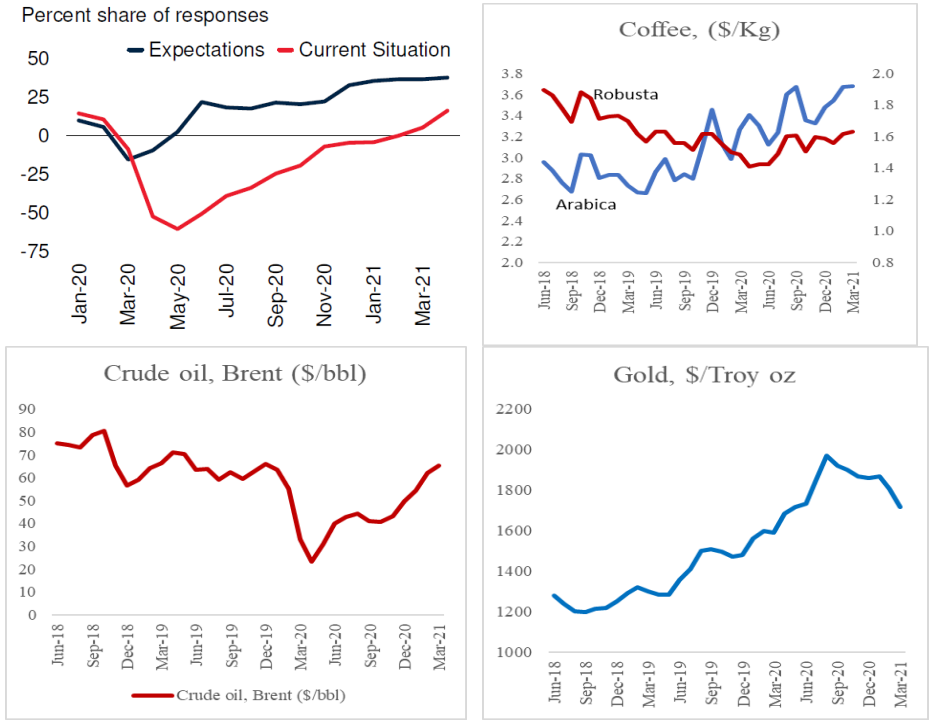
State of the Economy

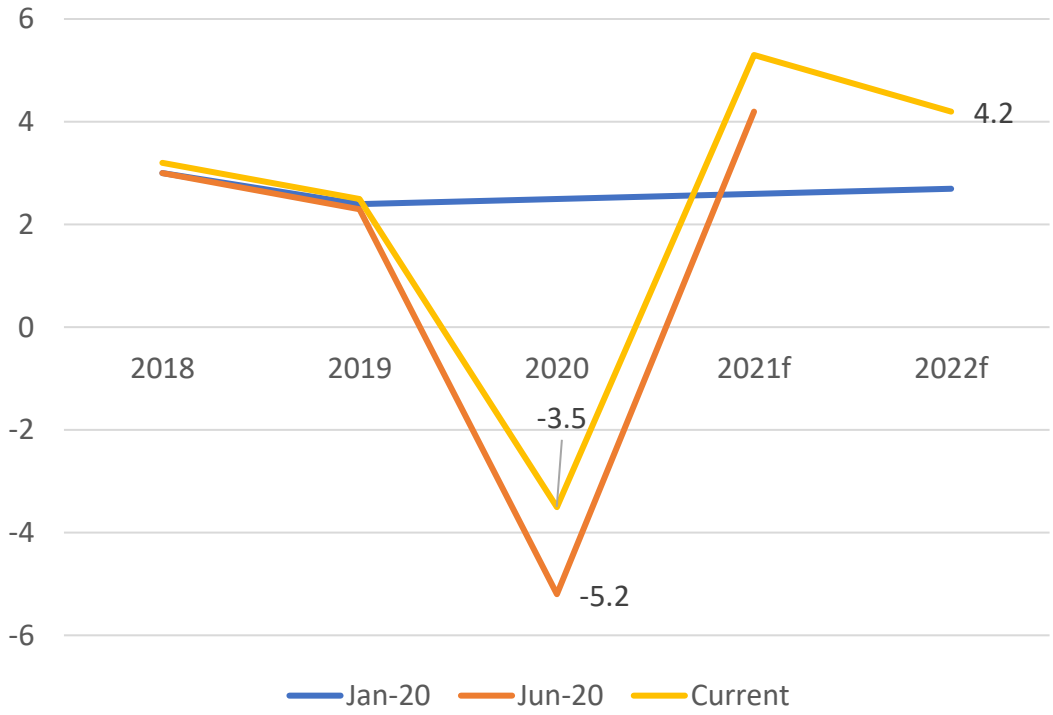
Covid-19 pandemic remains unpredictable





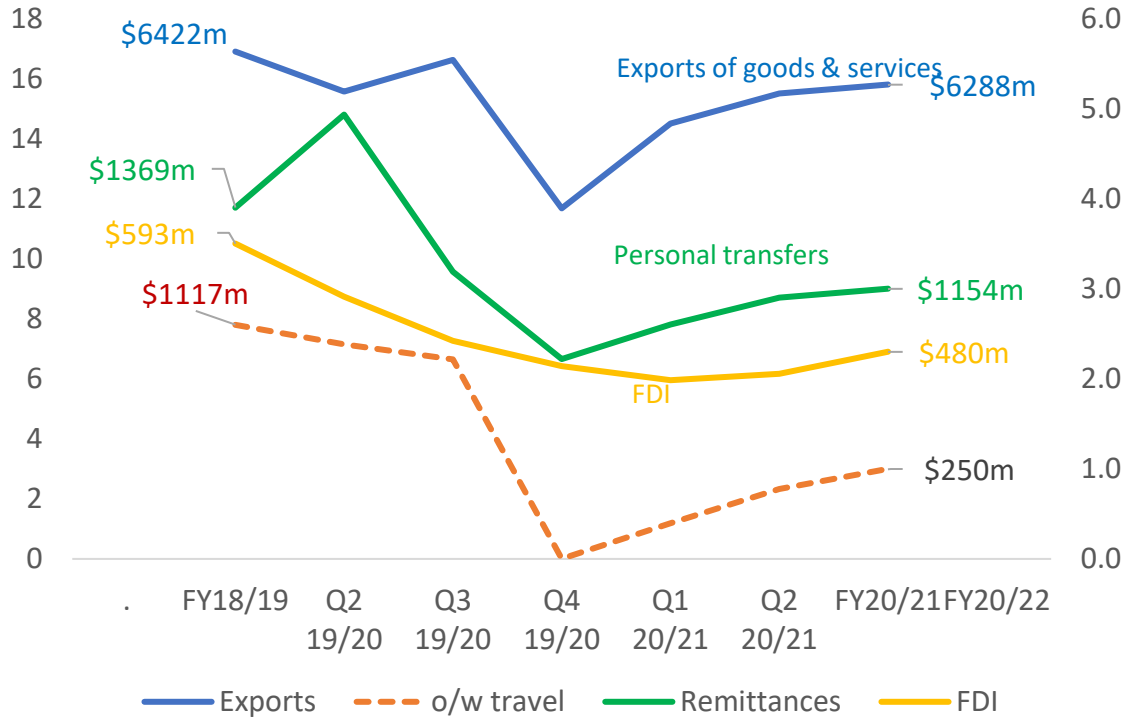
Stronger global recovery and regional developments

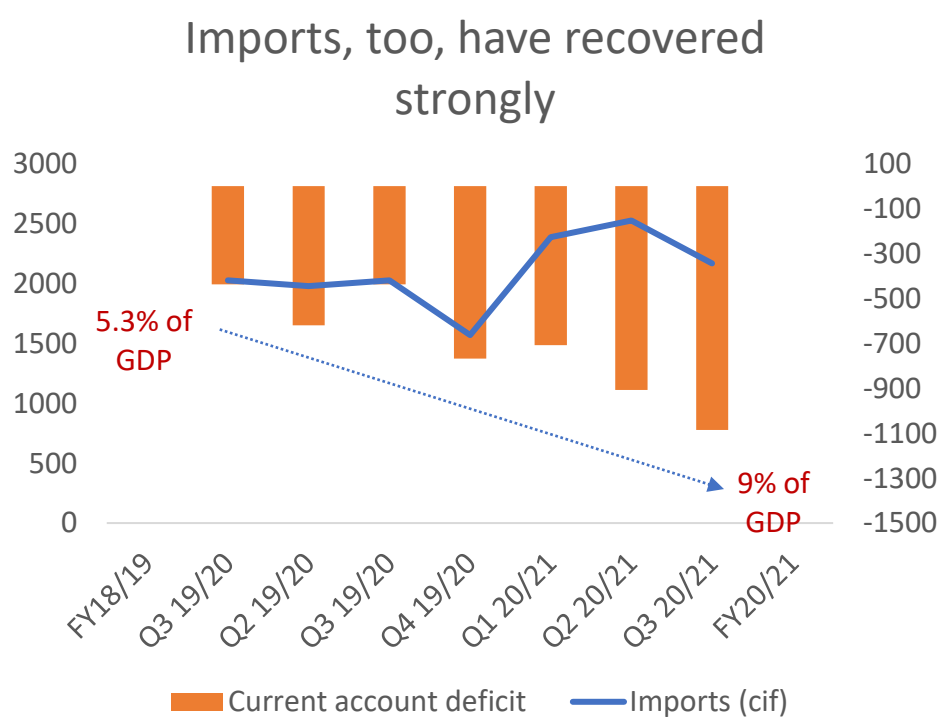




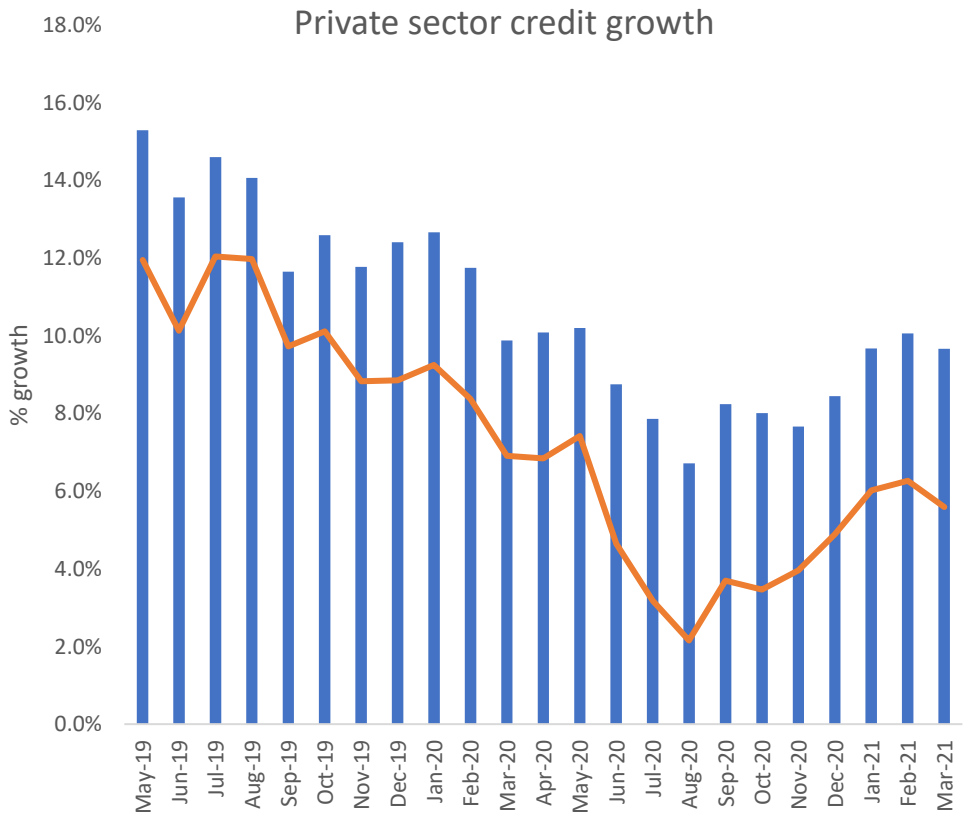
- Global economy is recovering much stronger (~5%), from contraction of about 3.5% in 2020
- SSA growth expected to moderate at about 2.5%, but regional neighbors are recovering strongly
- Yet risk abound - new waves of COVID-19, limited vaccine roll out, limited fiscal space, and investor averseness

External developments have supported Uganda's trade, remittances and investments, but not services yet





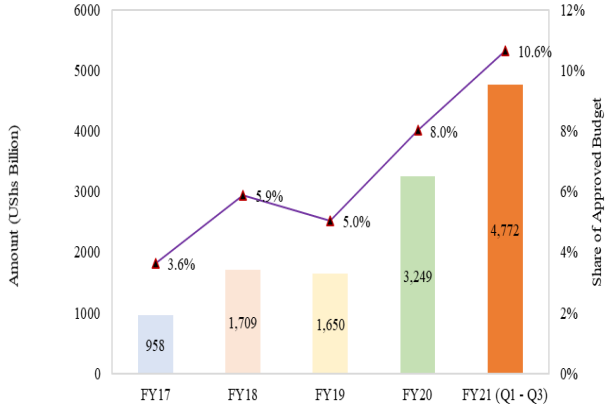
Domestic policies: monetary and financial policies supportive

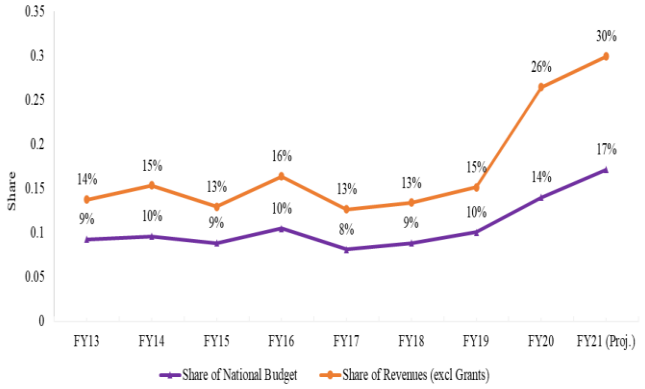


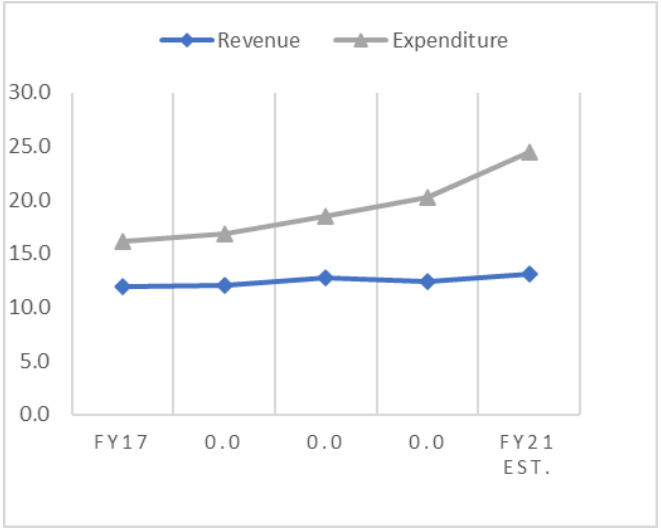
- Monetary and financial response, lowered interest rates, yet private sector credit growth has remained below pre-COVID growth rates in real terms, due to the busines environment and other intermediation challenges
- NPLs (reached 10% before declining to 5.3% by end December thanks to the macro-prudential measures) raise risks to lending.
- Credit went mainly for personal (esp. buying cars) consumption, with only telecommunications sector realizing sizable increase.
- Current low inflation environment and stable currency provides space for continued liquidity support, if provided against sound financial and business institutions

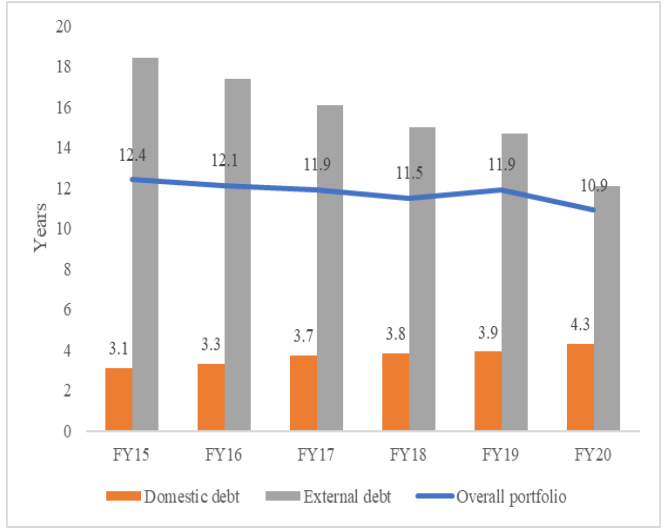
Domestic policies: fiscal policy

- Revenue short falls – 12.1%
- Without re-adjustment, supplementary budgets, with a significant part classified spending
- Total spending – 24.5% of GDP, due to increased capital spending to support infrastructure investments, as well as recurrent expenditures, largely driven by debt interest
- Deficit estimated at 9.9% of GDP this year.
- Debt rising fast, close to 50% of GDP



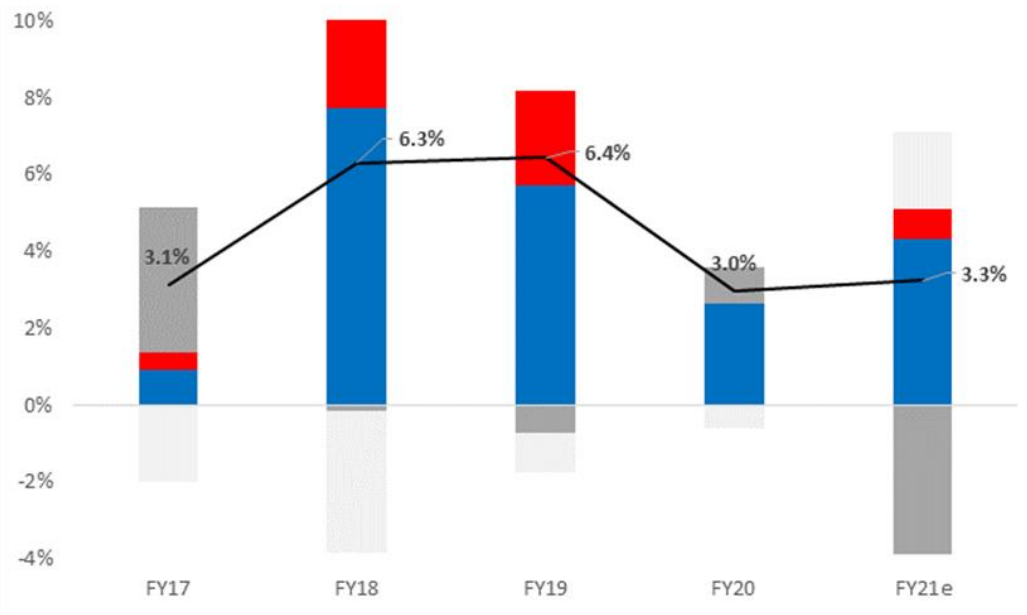




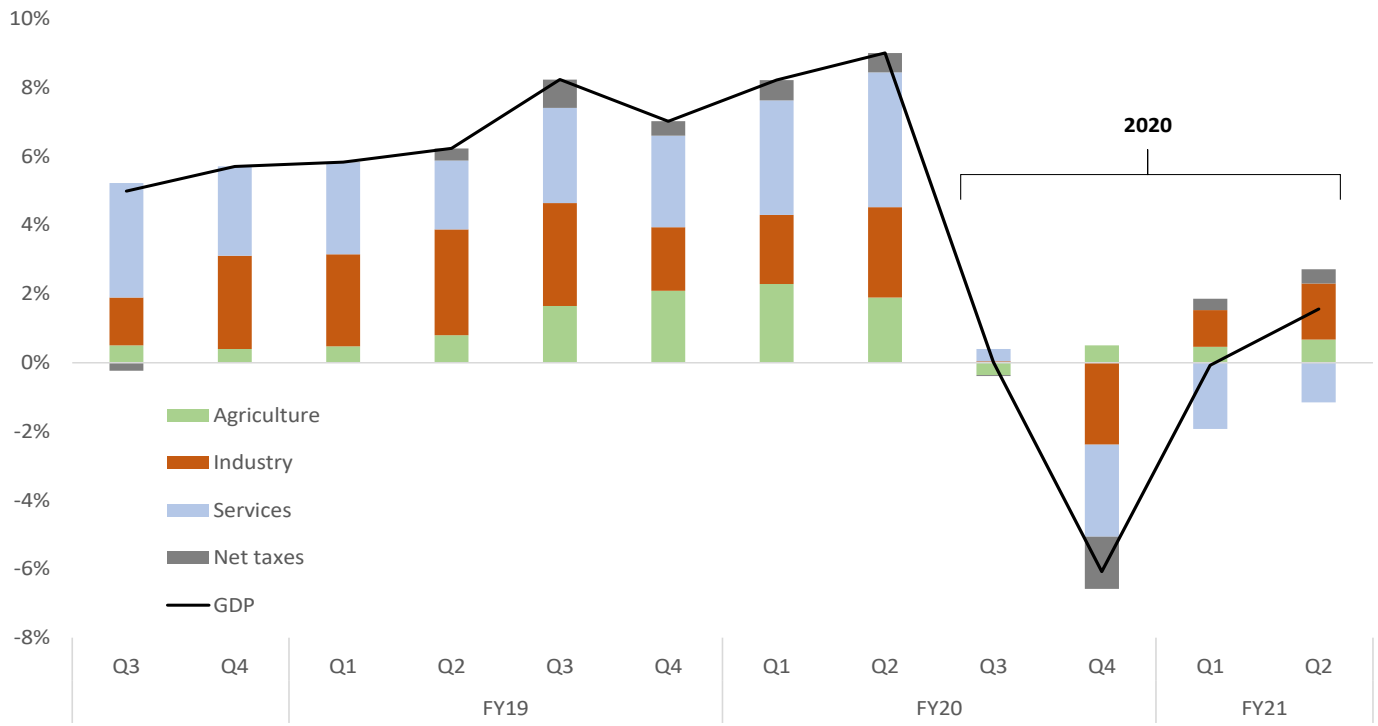


Domestic policies worked against several challenges, some blurring their effects, but investments and consumption are gradually picking up

- Government capital investments have remained strong through the first half of FY21
- Firms , too, restarted activity following the easing of lockdown, and have overcome the dip due to election uncertainties going by the rise in new order by manufacturers (e.g. the PMI was 53.2 in March)
- Export growth outpaced import growth in quarter ending March 2021
- Aggregate demand in the economy picked up in H120/21

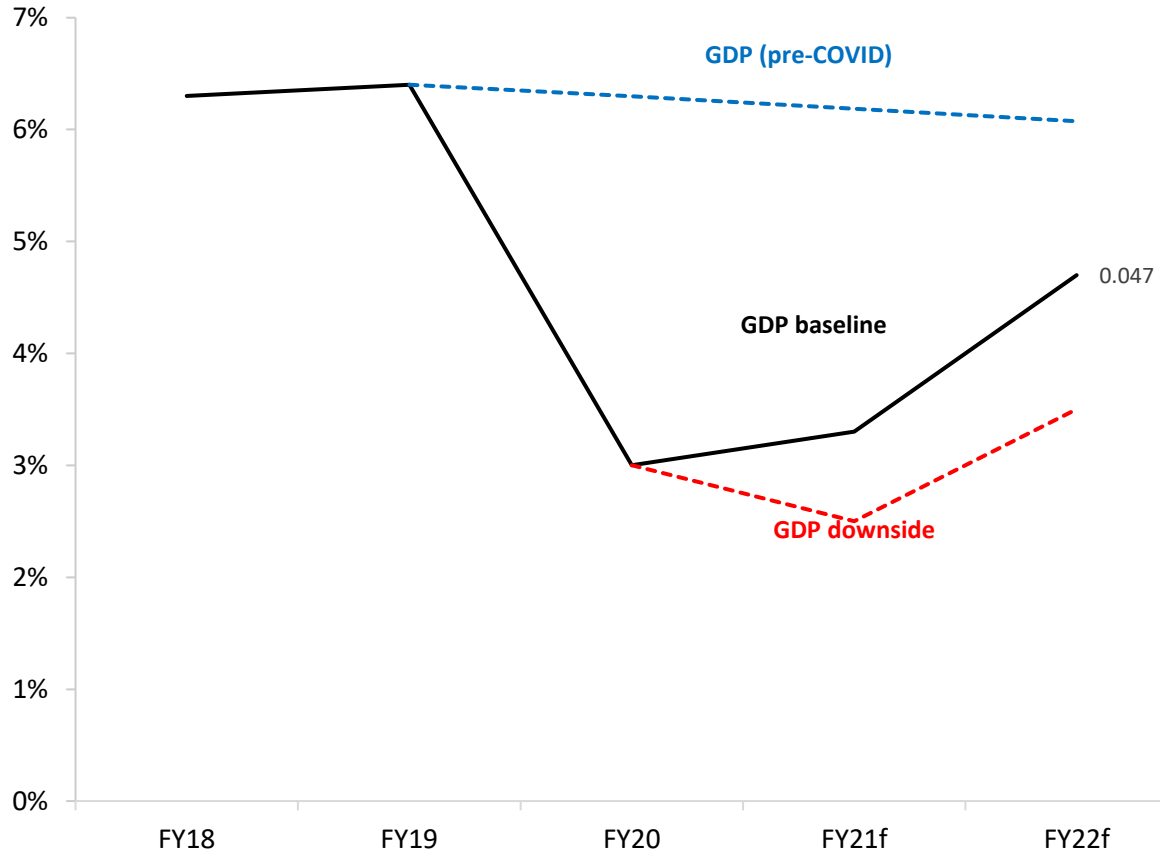


Recovery commenced in key sectors of the economy



- Agric
- Manufacturing
- Telecommunications
- Construction

……and the economic outlook has improved, with growth expected to accelerate into FY22, even though there are risks

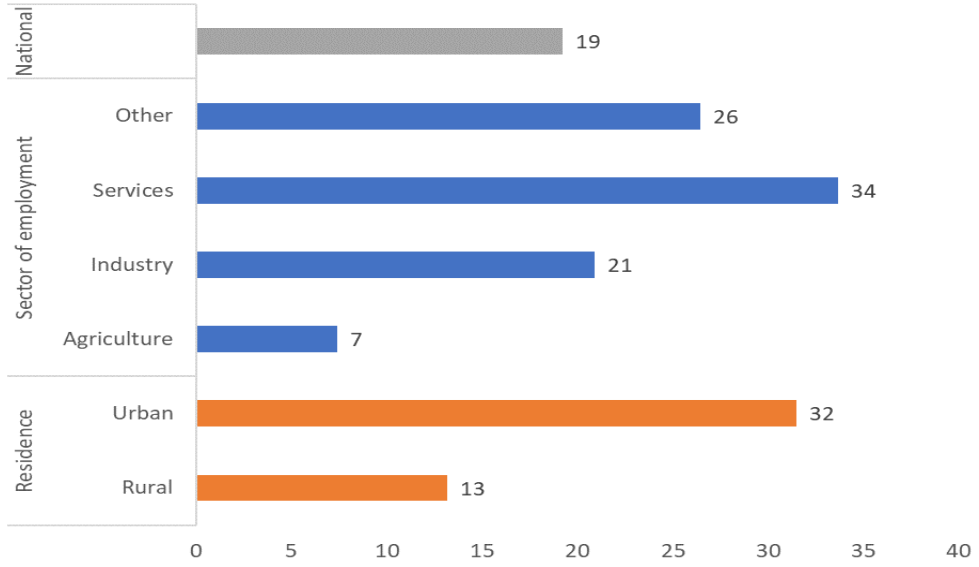


	FY21	FY22
Private consumption	4.1	3.5
Government consumption	11.2	-1.6
Total investments	3.0	6.9
Exports	3.2	14,6
Imports	8.3	10.2

Risks: Covid, fiscal vulnerabilities and debt, escalating business costs, climate shocks

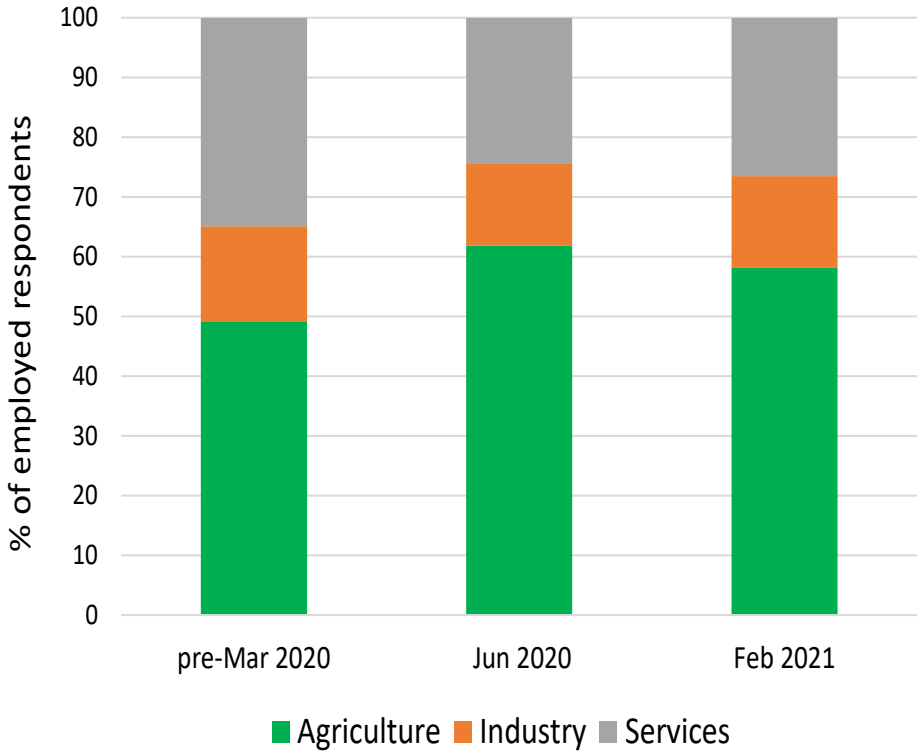
Despite the recovery, vulnerabilities remain, and poverty has increased

Loss of jobs was highest in the services sector



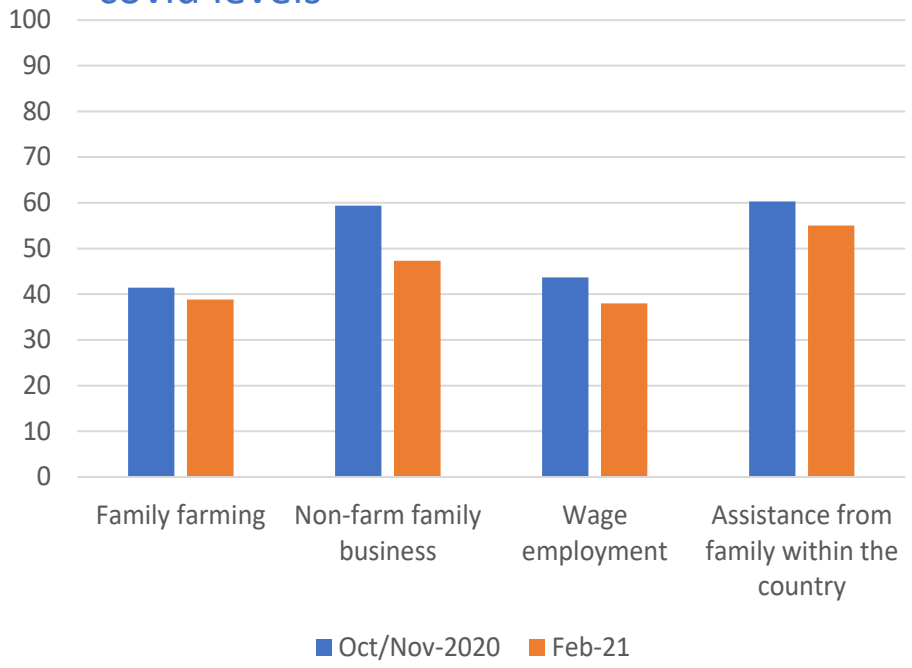
% of respondents in June who stopped working after working before March 20, 2020

➢ **Those who lost work returned to agriculture, which is battered by climate shocks and land degradation**



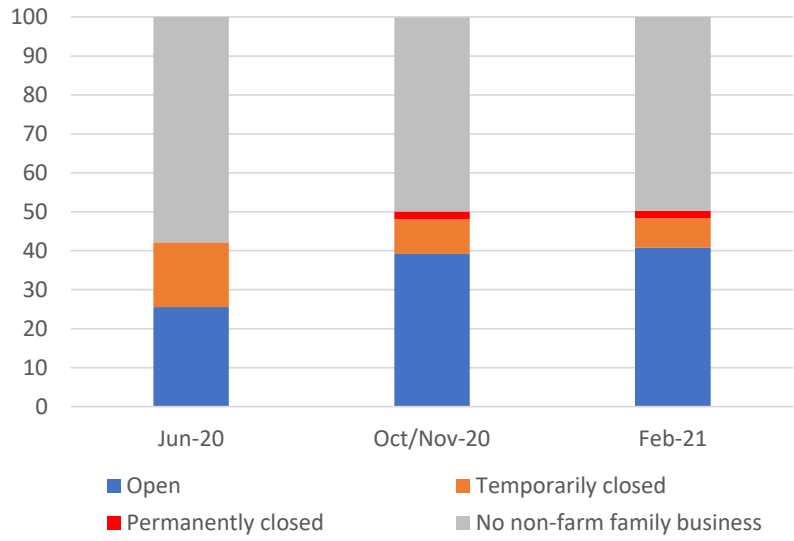
Incomes have not yet recovered, some firms remained closed by Feb 2021

50% of HHs report incomes below pre-covid levels



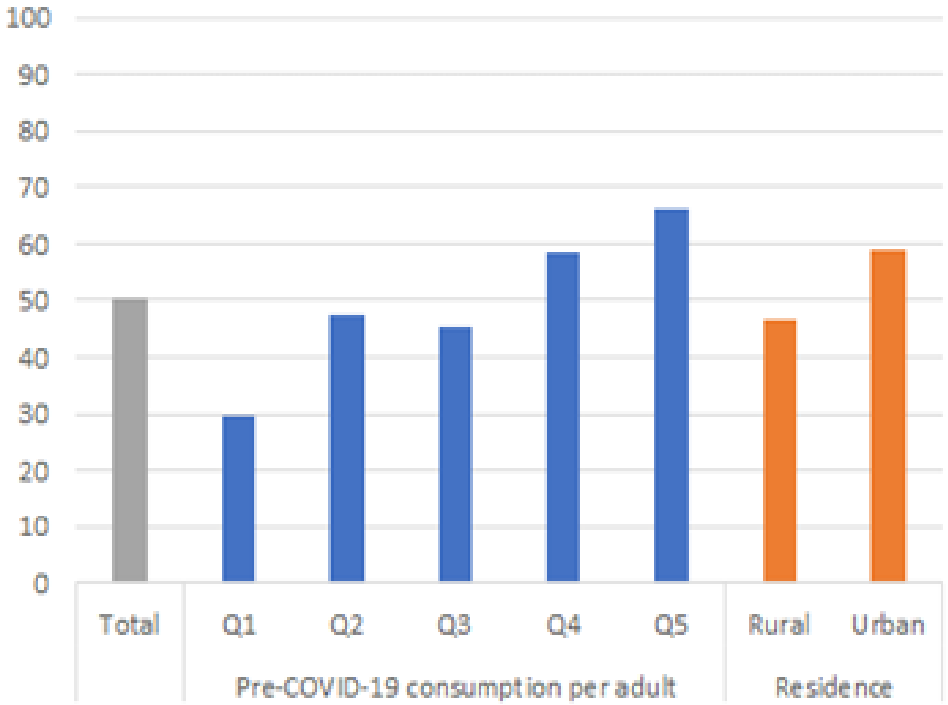
➢ **Yet social safety nets limited, with efforts to them strengthen lagging the increasing problem**

40% of HHs enterprises were fully open by Feb 2021

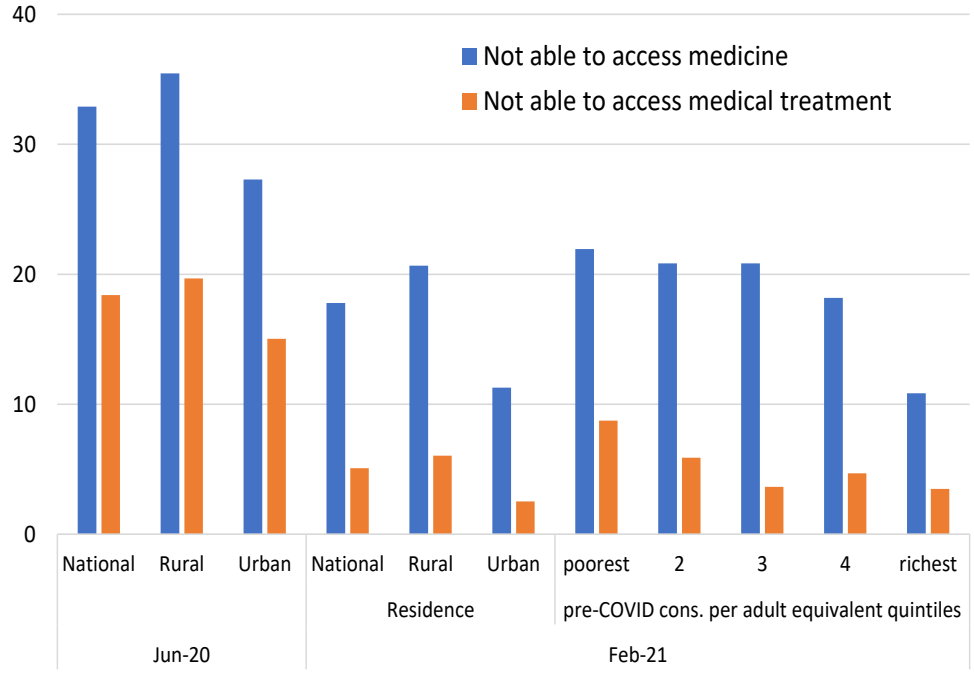


Inequalities in access to health and education have widened - human capital development impact huge

Access to education increasingly unequal



.....so is in accessing health services



The immediate priority remains ensuring health of the population

Containing the virus

- Allocating sufficient resources for the acquisition and deployment of the vaccine
  - global cooperation has been critical in managing financing and logistical constraints*
- Strengthening surveillance, testing, case management
- Community engagement to improve uptake of the various interventions
  - more sensitization, knowledge, and awareness programs, to promote stronger acceptance and more successful vaccination programs

Boost the capacity of the health system to concurrently respond to the pandemic and other health conditions

- the gaps left due to the pandemic must be addressed and the impact on lives through
  - malaria,
  - maternal and child health cares, and
  - HIV treatment lapses

Sustaining economic recovery requires a multi-pronged approach

Pro-recovery macroeconomic and macro-prudential management policies

- Fiscal management remains the lynchpin to recovery and resilient growth
- Monetary and macro-prudential policies will need to be closely coordinated with fiscal policy to maintain internal balances, avoid inflation and minimize financing costs for firms
- Careful unwinding of policies that have been used to mitigate the impact of the COVID-19 crisis

Longer-term policy actions to spur a greener, resilient, and inclusive recovery

- Strengthening social safety nets to protect the livelihoods of the poor and vulnerable
- Restoring and strengthening the education response
- Promoting sustainable business growth and job creation
- Raising productivity of the agricultural sector and other natural resource based activities - arrest degradation and depletion of natural capital – especially land – and building up resilience to climate variability

PART 2: INVESTING IN SLM AND CSA FOR GREEN AND RESILIENT ECONOMIC GROWTH, FOOD SECURITY AND POVERTY REDUCTION

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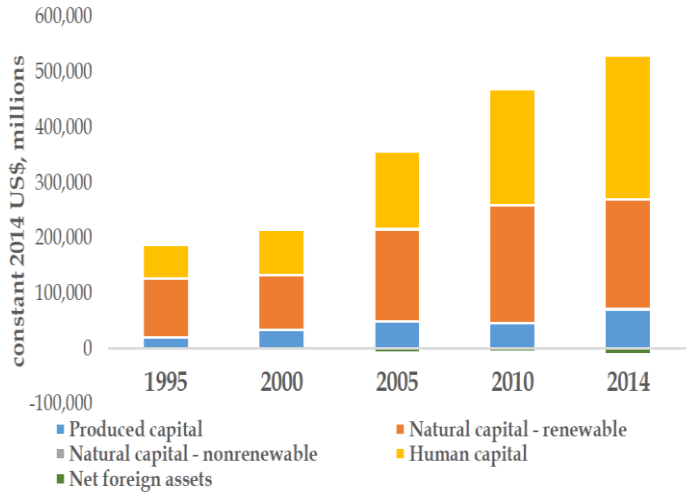
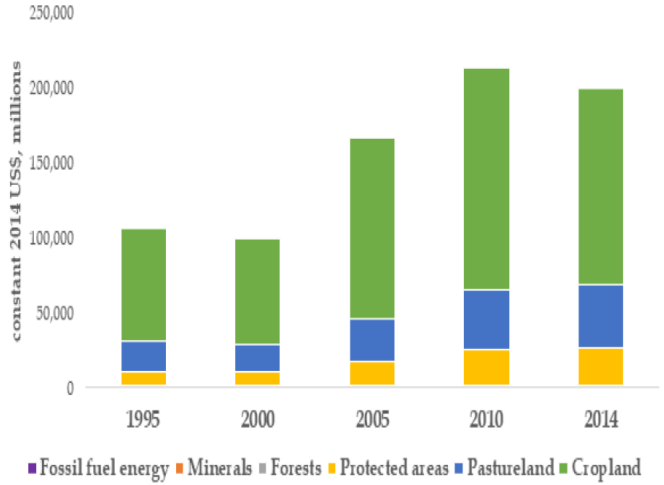
1 Natural Capital and Well-Being in Uganda

Uganda's natural capital is a huge contributor to the economy and poverty reduction.

Comprehensive Wealth in Uganda



Natural Capital Wealth in Uganda

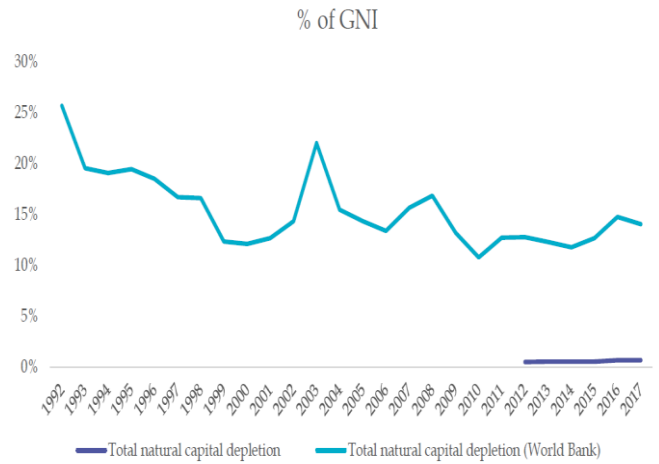


- Agricultural land (pastureland, cropland), forests, wetlands and water bodies, made up 38% of Uganda's wealth.
- Cropland (65.4%) and pastureland (21.1%), take up a vast amount of the renewable natural capital wealth . The protected areas (12.7%), and forests (1%), take up a considerable portion.
- More than 80% of Ugandan households depend on natural resources for their livelihoods.

2 Natural Capital Degradation

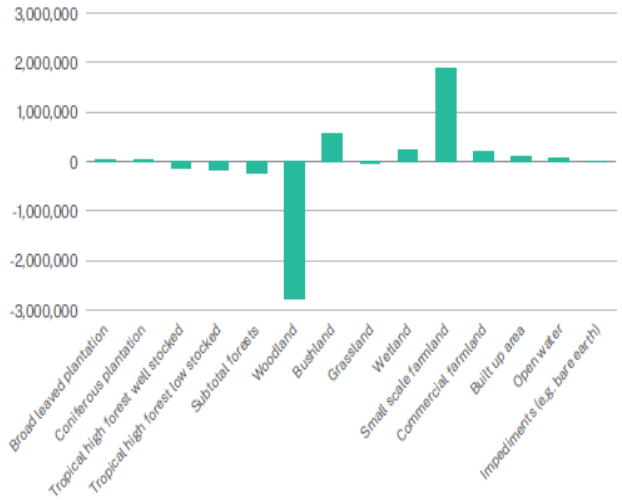
Natural resource mismanagement Is leading to severe depletion…

Total Natural Capital Depletion ($ of GNI)



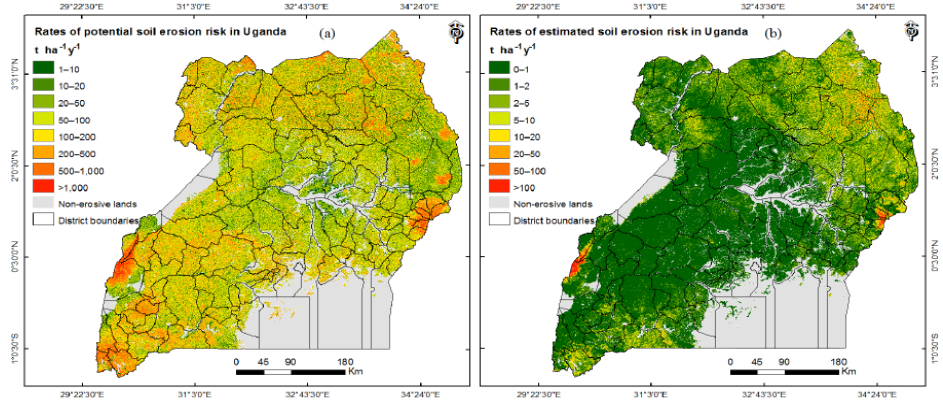
- Renewable resources are being exploited faster than they are being renewed

Changes in landcover area – 1990-2015



- ***Forest*** cover declined rates of 2.6% per year—among the highest rates globally
- Of the 13% of land covered by ***Wetland***, only 8.9% is intact.
- Agricultural land expansion and demand for biomass for energy are major culprits.

Potential and Estimated Soil Erosion Risk in Uganda



Land in the highlands and cattle corridor is mostly degraded

- 41% of the country's land is now degraded, 12% severely
- 85–90% of the highlands are affected
- 75–80% of cattle corridor is affected
- In the hotspot highlands, average annual soil loss can exceed 30 tons per ha per year
- Topography, farming and livestock grazing are key culprits.

3 Cost of degradation

Natural resource mismanagement has a considerable economic cost…

1990-2015, forest cover loss amounted to $1.2 billion worth of economic loss.

Degradation can lead to a loss of around US$200 per capita worth of goods and services that are derived from wetlands.

The annual cost of soil nutrient loss due primarily to erosion was already about US$ 625 million per year back in 2003.

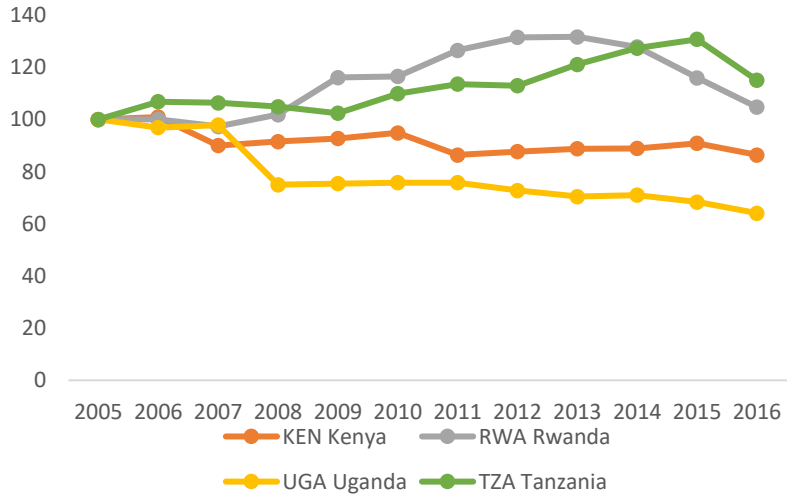
4 The agriculture effect

Given agriculture's outsized contribution to the economy and livelihoods of the poor (up to 70% employment, 25% of GDP, and main source of income for bottom 40%), it's concerning how much its affected by degradation, how poorly it is performing and how much it contributes to natural resource degradation itself.

Up to 27 percent of agricultural GDP can be lost from environmental degradation

Productivity loss per year for maize from soil erosion has been estimated in some places as high as 190 kg/ha, which increases pressure on food security

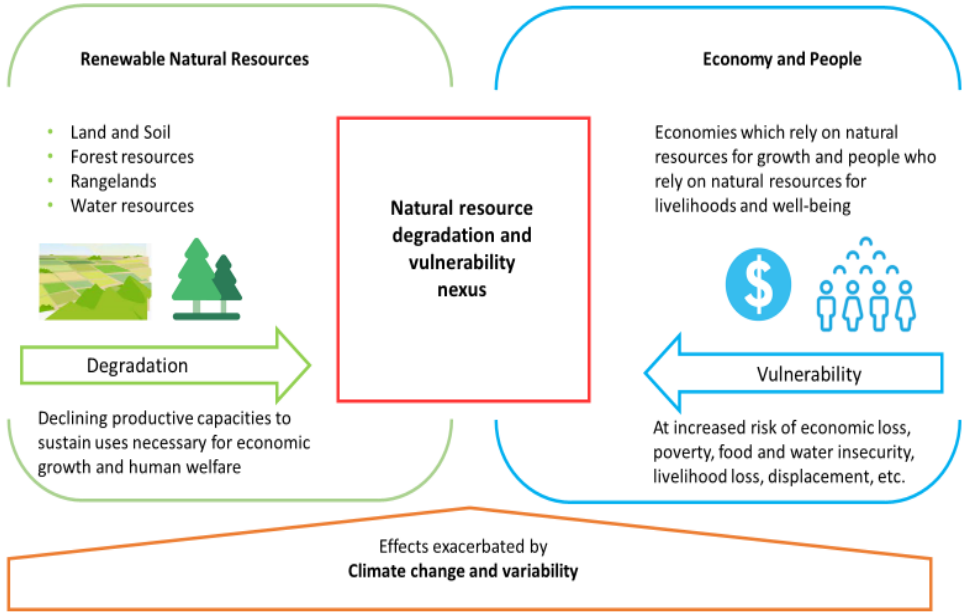
Furthermore, Uganda's Agriculture Total Factor Productivity (2005-2016) has been below regional peers and declining.



Agriculture contributes to 85% of land degradation is via soil erosion and nutrient loss. Soil erosion and land degradation in 2019 were estimated to costs about 17% of GDP.

5 The climate effect

Climate risks - both slow onset and extreme events, are exacerbating the negative relationship between agriculture, natural resources degradation, and poverty and the economy…



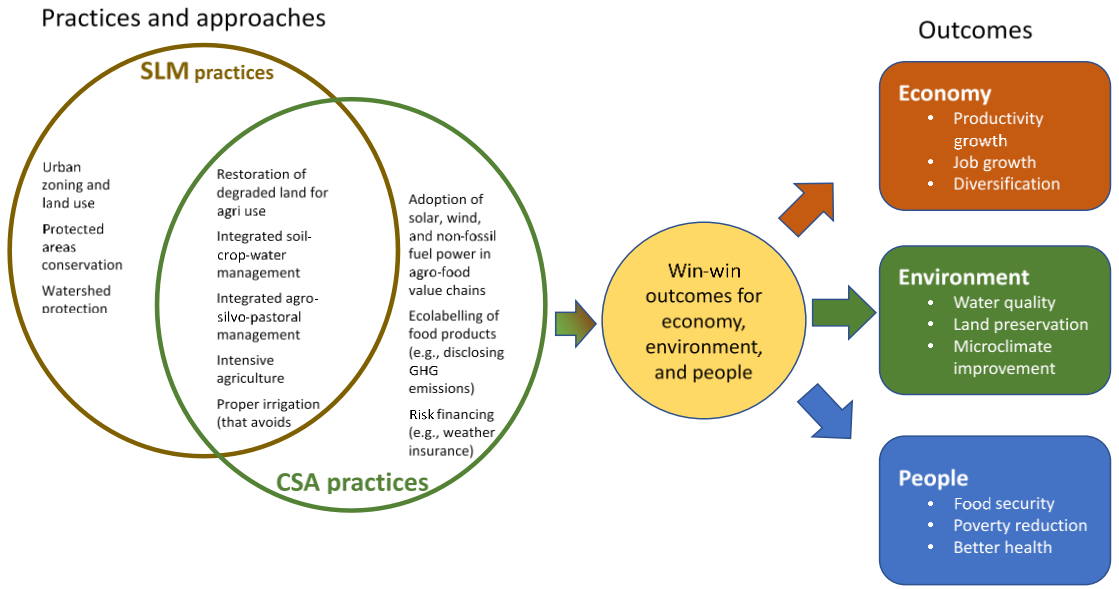
- Rise in the poverty rate in Uganda from 19.7 percent in FY 2016/17 to 21.4 percent in FY 2018/19, was spatially concentrated in sub-national regions facing high levels of natural resource degradation.
- Climate change inaction is projected to cost Uganda about 2-4 percent of the GDP annually, with damages to agriculture, water, infrastructure and energy estimated to cost equivalent to $7- $11 billion per annum over the 2010-2050 period.
- Crop production are predicted for cassava, potato, and sweet potato, which could decline by as much as 40 percent by 2050

Prospects for economic growth, poverty reduction and improved livelihoods in Uganda will dwindle if the country does not arrest natural resource degradation, build resilience to climate change, and boost agriculture productivity sustainably…

6 There is need for a fundamental shift

A green and resilient transition in Uganda's development, with interventions aimed at achieving not only inclusive economic and social outcomes but also sustainable environment and natural resources management outcomes…

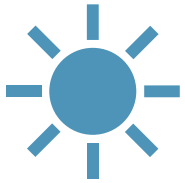
Scaling up SLM and CSA can help to achieve the multiple outcomes.



However, adoption of SLM-CSA at sale has been low due to many factors, which need to be addressed.

7 A lot of SLM-CSA technologies have been tested.

… these have been largely pilots and demonstrations and scaling has been limited.



Cropland - SWC

- Terracing
- Contour ridges
- Water retention ditches
- Flood control measures
- Irrigation
- Water harvesting
- Water efficient crop varieties

Cropland – fertility and management

- Mulching and crop residue
- Intercropping
- Crop rotation
- Manure use
- Fallowing
- No/Low till
- Composting/green manure
- Integrated pest management and Fertility management
- Improved seeds and crop varieties
- Crop diversification

Rangeland

- Re-vegetation of rangelands
- Agroforestry on grazing systems
- Bush fire management
- Silvo pastoral systems
- Improved breeds
- Improved livestock feeding regimes
- Improved access to quality water
- Improved animal health management
- Grazing land management

Forestland

- Community-based afforestation
- Institutional Based Afforestation
- Integrated community agroforestry
- Woodlots
- Forest fire management
- Agroforestry
- Clean cook stoves
- Biogas energy

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Water systems

- Weed management e.g. water hyacinth
- Treatment of fish production wastewater
- Integration of aquaculture
- Water quality improvement

8 Barriers to SLM-CSA scaling

Progress has been made but several barriers to scaling exist...

Gaps in institutional arrangements, capacities, and coordination

GoU has taken some steps towards mainstreaming SLM-CSA, including policies and institutional frameworks

- The comprehensive multi-sectoral institutional frameworks for SLM-CSA are not fully operationalized.
- Key delivery institutions (land administration and agricultural extension) have weak capacities.
- Local institutions are limited and weak where they exists, leading translation of policy to action.

Uncertain land rights and poor access to markets

Over 75% of land is still under insecure tenure and Markets tends to exclude small-scale producers

- Land tenure system and related land insecurity remain major constraints.
- Poor access to markets and roads negatively influences farmer investment decisions on land management, since it affects local prices and profitability.

Poor access to appropriate technologies and knowledge

Adoption rates of SLM-CSA technologies have varied 10-87% depending on region and technology and average 30%.

- Producers and land managers have limited access to site specific and relevant technologies and information
- Technology interventions aren't always matched with locations, and prevailing household circumstances.
- Lack of actionable weather and climate information to inform producers' actions and choice of climate resilient practices.

Social factors, behavioral characteristics and norms

Dominant mindsets, practices and cultures are hard to overturn.

- Poverty, and limited livelihood alternatives make it difficult to adopt good land management.
- Predominant mindsets sustain bias for specific poor land management activities e.g. slush and burn and monocultures.
- Women are not empowered to make key land management decisions and are excluded from land ownership.

High costs and low funding

Costs of establishment of some SLM-CSA can be as high as $400-500/acre

- The high costs of establishing and implementing SLM-CSA on small pieces of land deters producers with limited assets and access to credit to adopt.
- Capital and buyers for PES projects have regularly been limited.
- Overall, public investment in SLM-CSA is still low, leaving technologies funded through development partners often in uncoordinated piecemeal way.

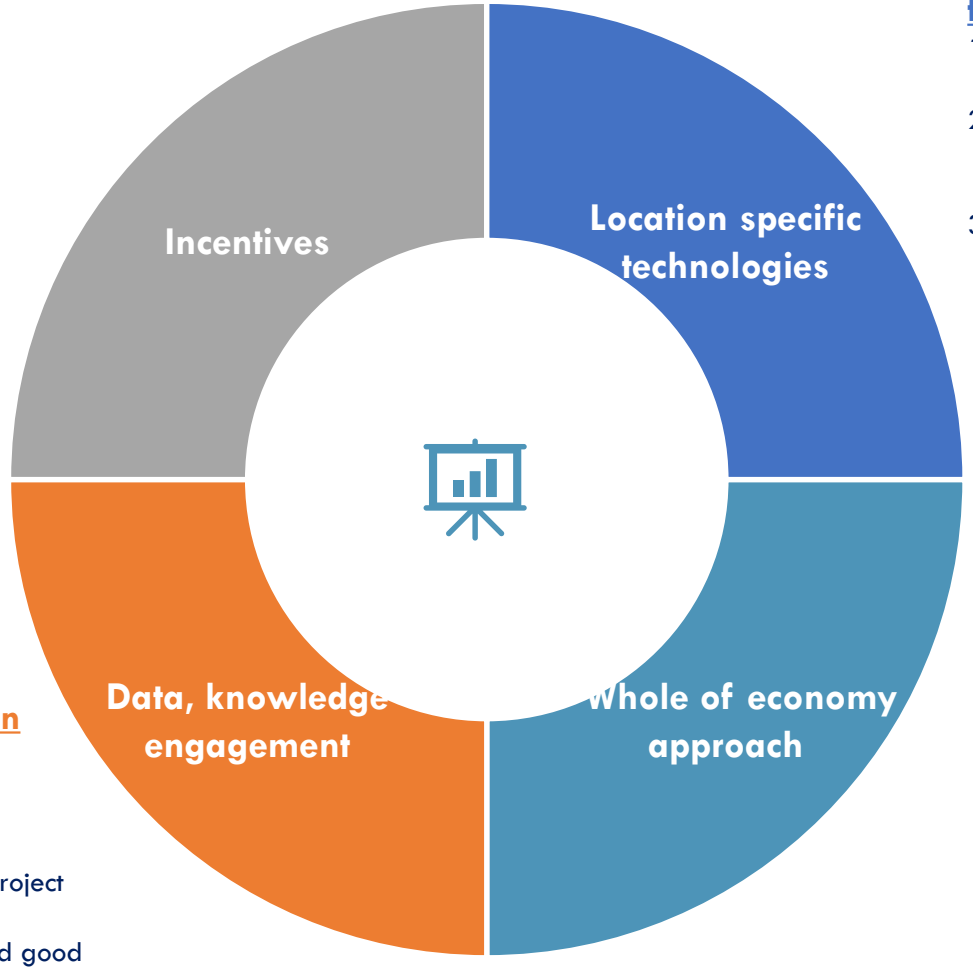
9 Key Strategies to address scaling and achieve a green transition

Increase budgetary support and provide incentives for uptake of SML-CSA.

1. Increase public funding in SLM-CSA that supports a shift from projects towards more programmatic approaches and from siloed sectoral approaches to multi-sector implementation.
2. Design and implement creative public support programs
   i. Repurpose distortionary subsidies e.g. fertilizer
   ii. Support private green businesses (e.g. tax breaks)
   iii. Support LIPWs for both social safety nets and for much-needed labor for communal SLM infrastructure
3. Give new impetus to PES programs
   i. Expand sources of funding for PES including public, private, and climate finance landscape.
   ii. Strengthen capacities to design PES in government
   iii. Design of PES to be flexible and account for heterogeneity in landowners'
4. Promote market access for diverse agriculture, and forest commodities that does not put pressure on natural resources, and which provide inclusion and value addition opportunities

Increase access to data and knowledge, and deepen stakeholder engagement for policy and behavioral change

1. Fast track integration of systems for land, crop production and environmental accounting data to improve policy making and project implementation.
2. Facilitate knowledge dissemination including lessons learned and good practices from pilot projects.
3. Prioritize investments in research and development, extension, and climate services, and create an environment for non-state actors in knowledge services e.g. private sector through PPPs.
4. Engage SLM-CSA implementing communities on an equal footing to build trust and instill confidence in technologies.



Promote location specific complementary technologies that address multiple objectives

1. Invest in site specific SLM-CSA packages, which prioritize addressing erosion and nutrient deficiency.
2. Promote Agro-forestry accompanied by energy saving technologies should be a leading entry point for addressing forest and grasslands degradation.
3. Erosion control and water conservation infrastructure will need to be a part of priority SLM-CSA packages (Terraces, contour bunds, and trenches, water harvesting, etc., especially in the Highlands. Where infrastructure has been neglected, it needs to be revived.

Streamline natural resource governance policies and institutions for consistency, comprehensiveness and effectiveness across all levels of governance.

1. Natural resource governance policies in Uganda need to be more coherent and cross-sectoral .
2. Institutional coordination at the national level needs to be enhanced, through green economy focused institutional arrangements and budgeting.
3. Strengthen the link between the national, local, and community-based institutions to effectively close the gap between policy and implementation.
4. Land policies should effectively accommodate customary land tenure and open access to land to a broader set of actors, including women.

10 Key messages