An open development model

Interview with MARIA KIWANUKA

Minister of Finance, Planning and Economic Development

MARIA KIWANUKA graduated with a Bachelors degree in Commerce (BCom) from Makerere University and holds an MBA from London Business School. From 1980, she worked as an economist for more than ten years with the World Bank. She has also served as a non-Executive Director on the Board of The Aga Khan Foundation (East Africa), Nabagereka Development Trust, Nkumba University, Uganda Development Bank and Stanbic Bank Uganda Limited.

Could you briefly outline your objectives and responsibilities as Minister of Finance?

I am responsible for finance, planning, and economic development. I am responsible for raising and allocating finance and making sure these funds are spent properly. In other words, my mandate is to maximise resource mobilisation and ensure efficient use of those resources, as well as to ensure monitoring and timely accounting. In that way I spread across all the sectors - not just finance. This means that if I want to set up a project under the auspices of the Ministry of Economic Development, I must get the money from the Finance Ministry, and as the Minister of Economic Development I must also make sure that it generates sufficient tax revenue for the Ministry of Finance.

How does the government intend to take Uganda to the next phase of economic growth?

Apart from 2012, when the global financial crisis affected us, Uganda's annual overall growth rate over the last decade has been more than 6 per cent. We intend to retain that 6 per cent growth rate, athough it becomes more of a challenge as our economic base gets bigger. We have an open economy in both the current and capital account, which means you can bring any amount of money in and then repatriate it. Obviously, we hope that most of it will stay, to help kick-start development. We have a five-year development plan within which we try to ensure that our development priorities are reflected. We have a framework for the economy. We have limited resources, which means that we have to establish priorities: this is where we are going to be putting our tax resources; this is where we'll put financing; and we hope that foreign investment will come in as a result.

We recognise the importance of the private sector, which is responsible for more than 80 per cent of our economy. The government's role is not to try to pick winners, not to compete; but to enable. We ask ourselves what can government do that the private sector cannot or will not? The government is committed to maintaining the macroeconomic stability that has made us the envy of the region for the last two decades. We are one of the few major African economies whose debt was forgiven in the early 1990s and that has not been back to ask for more debt forgiveness. We want to keep inflation low, below five per cent – certainly in single digits – and we want to keep interest and exchange rates predictable, but we will not intervene directly.

What role do you see the government playing to help the business community?

The government has a comparative advantage over the private sector in providing large-scale infrastructure. That is our job. We are trying to close the infrastructure gap as quickly as we can. We are committed to rolling out the road network, power and generation capacity, and also to provide the main ICT backbone, and then let the private sector do the rest. We are prioritising infrastructure. Our job is to lower the cost of transport, lower the cost of power and increase access to power. We also have to provide water for production, for industry – this is how we aim to help the private sector. Over the last year alone we have managed to construct more than 800km of road, 1,600km of transmission lines and connected more than 40,000 new users to the grid, mainly in rural areas.

We also have a responsibility to develop the human resource potential. That means education. This is something the government must do by providing training to try to move our people into the technological bracket where they can be of use in the private sector.

We have a large and growing young population. We see this as a demographic dividend, and the way to utilise this dividend is to increase our young people's skills capacity. One of the areas we want to get young people interested in is agroprocessing. That is the next stage of value addition in agriculture and the beauty of this is that it uses local inputs: we have no import costs, so that water, produce, labour, etc, is all local. The idea is to have more Ugandans working in higher-value jobs and create agricultural businesses, where farmers sell their small surplus. As they increase productivity, labour can go into higher-value processing, so we would then be exporting our agricultural products: maize flour, bean paste, fruit juices, etc. It's all about adding value and expanding our exports.

Our other task is to create an impartial regulatory framework that will not hinder private investment.

The kind of projects you are talking about require significant upfront capital. What role do you see the international investment community playing in Uganda's development plans?

Our development partners have their own issues at home. Now the question is trade and aid, which we agree with. There are four areas for financing our infrastructure projects: Overseas Development Aid, Foreign Direct Investment, domestic resource mobilisation, and by increasing the tax to GDP ratio, which we are implementing: from 12 per cent to 18 per cent over the next four years. We will use this to leverage entry to the international capital markets. We are looking critically at all long-term sources of finances. Potential lenders want to know about cost recovery, operations and maintenance, how is their money going to be spent and paid back. But we have no problem with where the money comes from: a dollar is a dollar, a rouble is a rouble, and so on. Our criteria is how a given financing structure fits in with the long-term vision of the sectors involved. Obviously, we would not take out a short-term commercial loan to finance health and education, but we would finance an income-generating project such as a refinery or pipeline, in this way.

Then there is the issue of repayment terms. We are going to increase our borrowing, but we want to keep debt servicing manageable. We have just had our second policy support instrument from the IMF, a letter of recommendation from your local bank manager, we're prudent with our debt and are always looking at cost recovery, and to optimise the cost of finance.

You mentioned increasing tax revenue…

We are rolling back tax exemptions, as well as collecting back taxes. We are now issuing everybody with a tax number. The idea is to bring in the informal sector, to tap into that tax base and get everybody to pay their fair share of taxes. We will encourage the informal sector to join the formal economy. In the case of agriculture, for example, this will mean farmers all have to keep accounts. Obviously, if you are merely growing to feed your household you don't pay tax, but if you sell your surplus at the market, you should make a contribution to the infrastructure that is helping your business.

And oil revenue?

We are about to start production. But we will not mortgage our reserves. We may use the revenue to secure loans, but not the oil itself. Secondly, oil will receive value added here in the country. There will be an inland refinery in Uganda, aimed at supplying 33 million consumers within its catchment area who are already using refined products. So we can expect oil revenue to be used to finance development. We have to use our oil revenue to build for the future, to make life better for our children and their children and more jobs for more Ugandans across the country.

How reliant will you continue to be on international aid to fund health and education?

If we are to improve people's health and education we have to tackle poverty. Uganda has more than halved the number of people living in poverty from 48 per cent a decade ago to 19 per cent now. It always comes back to poverty; we have to provide people with the means to improve their lives, so we are using international aid to help reduce poverty. We are focused, for example, on eliminating malaria. Over the next six years we want to bring incidents down to 10 per cent of population. We believe our performance indicators will convince our aid partners that their money is being well spent.

Some agencies like the World Bank are emphasising infrastructure, because that is their speciality, others focus on rural development, health, or education.

We are saying to global investors: help us maximise our potential

The Uganda Coat of Arms, Parliament building, Kampala

Our malaria strategy brought together ministries, development partners, private sector, and NGOs and said “here is our strategy.” Our partners are happy to work with us if everything is transparent and accounted for.

Has the strategy to expand the middle classes proven successful?

Creating a middle class is very important, it is the market for industrialisation and processing. Uganda has been growing very quickly over the last decade, and inequality has dropped. The proportion of households living in poverty has dropped from over 30 per cent a decade ago to 21 per cent today. The challenge is to make sure that the newly emerging middle class does not ship back, and we must make sure that as many as possible of the remaining 20 per cent are helped out of poverty. The government is not a major employer, but we want to see job creation across the country so that more Ugandans are working at more value-added jobs, which will help them join the middle classes.

What role do you see for tourism in Uganda’s economic development?

We have tremendous tourism diversity. We have the biggest variety of bird life in the world. We have the source of the Nile, the longest river in the world. We have the equator crossing the middle of the country, We have the Kidepo Valley National Park in which is the hidden treasure of Karamoja. We also have a welcoming population that is a melting pot of the main tribal groupings of Africa. We all live in peace and harmony with our 40 different cultures, each with their own languages, culture, dress, and practices.

What role do you see for foreign companies in helping Uganda develop its economic potential?

The time has come to start telling the world about Uganda’s potential. We have the jewels in the rough. So, we’re saying to investors, help us maximise our potential. In the area of tourism, we have bird life, and we want to know how to make it easy for bird watchers to come here. We have mountain ranges, and so we need help to arrange climbing expeditions. We want to bring groups interested in community and cultural tourism. Uganda is the home to one of the oldest monarchies in Africa: the Kingdom of Buganda. There is a lot of tourism potential, a lot of targeted opportunities to exploit.

As Finance Minister I will reiterate the safeguards and the potential for maximum returns. Regarding the oil sector, we still have opportunities for prospecting: we haven’t even gone over 50 per cent of the most promising acreage.There is a need for support services for oil production in Western Uganda, where we are going to develop a satellite city from scratch. At the same time, we need to make sure that there are opportunities for employment for the local people.

We also have opportunities for power generation. Our system will take anything independent producers can supply: we have a tariff for each energy sub-sector, so you can work back and say that I have a captive market that will take whatever I can produce, and set a price.

We estimate that the first oil will come on stream in three years. Over time, it will amount to 15 per cent of GDP. Our strategy is based on using oil to develop our agricultural potential, which is renewable and will last for ever. Let’s use the revenue to fill the infrastructure gap. Our prime need is not for pensions, but to provide the infrastructure so people can get to work.

How do you see the financial services sector developing in the coming years?

I am responsible for this in so much as I mobilise resources for national projects. We are working on spreading financial inclusion. We have started a financial literacy campaign with the banks to harness the capacity of ‘mobile money’, to spread banking services to rural areas, where it is too expensive to build a bank. The aim is not just to provide for facilities to withdraw money, but to offer people a range of financial products such as loans, appraisals, financial services... and we’re working with the Bank of Uganda and the private sector, even the credit card companies, to see how we can roll out financial inclusion. We have a good relationship with the foreign banks operating in Uganda. There are no caps on pricing their products.

What makes you confident about Uganda’s future?

We are confident because we have two God-given comparative advantages. Geographically, we are in the middle of East Africa, and a part of the East African Community, which has a population of 150 million people, compared to our own 35 million people. We’re the quickest route to the sea for South Sudan and the DRC, at least the eastern part of it. The borders of Kenya, Tanzania, Rwanda, and Burundi are within a four-hour drive of Kampala. We’re in a very good position to become the distribution hub of East Africa, the region’s inland warehouse. Our second advantage is that we have the best agricultural climate in the region, with two growing seasons a year. This has made Uganda a net exporter of staples to the EAC, eastern DRC, and South Sudan. Our challenge is how to turn the potential of these two factors into the reality of accelerated sustainable and inclusive growth, which is what development is all about. F

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