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The challenge of pro-poor growth in Uganda

by Barbara Barungi, UNDP Regional Service Centre, Johannesburg and Eduardo Zepeda, International Poverty Centre, Brasilia

Uganda's economic recovery, an African model, provides an insightful illustration of two growth periods: in the 1990s when strong growth was accompanied by poverty reduction, and more recently, when growth occurred at the same time as poverty increased. These divergent patterns in poverty performance can be explained in terms of both structural and policy factors, but on the whole, they underscore the need to have strong and sustainable pro-poor policies and institutions.

A recent paper by Kappel et al (2004) provides a wealth of information and insights. The proportion of people living below the national poverty line had declined from 56% in 1992/93 to 34% in 1999/00; between 1999/00 and 2002/03, poverty increased to reach 38%. The growth performance of the economy during the second period was clearly inferior to the first one. Using changes in GDP per capita as the measure of growth, for example, the annual rate of growth declined from an average of 4.3% between 1993 and 2000 to 2.9% between 2000 and 2002. Assuming everything else remained the same, this lower rate of growth should have been responsible for the slow down in the pace of poverty reduction in Uganda, but it can hardly account for the reversal in poverty trends – something must have changed drastically. For one thing, while inequality in Uganda, measured by the Gini coefficient, increased throughout the whole period, that is, from 0.364 in 1992/93 to 0.395 in 1999/00 and to 0.428 in 2002/03, it did so at a much faster rate during the last years; in fact, the speed of increase almost doubled, from an average annual change of 1.2% in the first years to 4.1% in the last three years.

Fast growth and poverty reduction during the 1990s were due to the immediate benefits of recovery from civil war and from overcoming the economic mismanagement that prevailed during much of the 1980s. It was also the result of economic reforms that, among other things, introduced market regulation in the cash-crop sector of agriculture, liberalizing, for example, the coffee market. In a country where 85% of the population lives in rural areas, the role of agricultural production is key to understanding the performance of the economy. According to Kappel et al, the two main factors explaining the rapid reduction of poverty and the strong growth of the 1990s were increases in the production of cash crops and high international prices for Uganda's export products, mainly coffee, cotton, tobacco and tea. The economic reforms of the 1990s implied greater reliance on market conditions. When market conditions are favourable, as in the 1990s, particularly in the second half of the decade, the economy fares well, but when markets do not perform well, the economy suffers, especially the poor. By November 2001, the price of *robusta* coffee had decreased by almost 90% relative to its peak in 1994. According to figures from the Economic Commission for Africa (2003), total revenue from coffee exports decreased from 270 to only 85 million dollars between 1997/98 and 2001/02. On top of this, the prices of cotton, tobacco and tea also decreased. The economic environment had changed drastically, the pace of the economy slowed down and poverty increased.

Rapid growth and the substantial reduction in poverty of the 1990s are a welcome outcome for Uganda, especially for Uganda's poor. According to a minimalist definition, the performance of the Ugandan economy was clearly pro-poor during the 1990s and not pro-poor after 2000 because there was poverty reduction in the first years but not in the second. However, a more demanding definition of pro-poor would tell us that the 1990s were not pro-poor and that the years after 2000 are a case of *immiserising* growth. But whether the 1990s should be considered as pro-poor or not pro-poor is a question that can lead to different policy conclusions. Accepting that the performance of the 1990s qualifies as pro-poor would, most likely, lead to a continuation of the same policy framework. In this scenario, one risk is to be unpleasantly surprised, as happened with the poverty reversion of the 2000s. If, instead, the informed dominant view holds that the 1990s were not benefiting the poor sufficiently, as a stricter definition of pro-poor suggests; then, policy makers and stakeholders are forced to look more carefully into ongoing policies. The poverty outcomes of the years between 2000 and 2003 will only reinforce such a stance.

While closely considering alternative policies, it is worth keeping in mind at least two points. First, one should look carefully into building appropriate safety nets to protect the poor in Uganda from market shocks, as well as making sure that current investments in the assets of the poor have a large and sustained impact on their capacity to generate income as cash crop growers, as subsistence agriculture peasants, or as workers in urban settings. Second, when designing and implementing economic reforms, countries must ensure they are strongly pro-poor from the start. The early adoption of a pro-poor path, strictly defined, facilitates further and faster reductions in the incidence of poverty, and thereby, many argue, stronger growth.

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International Poverty Centre (IPC)
SBS – Ed. BNDES, 10º andar
70076 900 Brasilia DF Brazil
Telephone: +55 61 2105 5000

www.undp.org/povertycentre
povertycentre@undp-povertycentre.org

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