Post-Conflict Recovery in Uganda

Teaching Notes

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Contents

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This case has been written to facilitate analysis of economic growth prospects in developing economies, with special emphasis on those emerging from military or political conflict. We have used this case in both classroom and workshop settings and in these notes provide suggestions for its effective use.

The Big Picture

We have written the case in three parts. Part A discusses the evolution of the Ugandan economy from independence to 1987. Part B examines the period 1987–92. The last part is a postscript, providing details of more recent policy choices as well as continuing problems for the future. The case has two "decision points" in 1987 and 1992, corresponding to the end of parts A and B, respectively. At these points, the workshop participants are asked to analyze the situation and provide recommendations. Parts A and B should be distributed and read in advance of the session at which they will be discussed, although part B should not be handed out until the discussion of part A is complete.

This case will work best as a teaching medium if undertaken in parts. We recommend that part A be examined in a 1.5-hour session. The product of that session should be a list of recommendations for the Ugandan government to implement in order to achieve its goal as stated in the case. In a subsequent 1.5-hour session, although not necessarily immediately following, the group can examine part B. Once again, the product of the session should be enumeration of policies to attain the government's goals. The last part, the postscript, can be handed out at the end of the second session for the participants' edification and comment, if time permits.

We have chosen this structure because we believe that the issues of economic growth in Uganda can be separated into two stages. The first, bringing productive resources idled by conflict back into operation, dominates part A. The second, the need for investment in social capital, infrastructure, and productive capacity to sustain economic growth, is more evident in part B. You may not view this distinction as important in your own use of the case, but you will find that the following notes are keyed to that distinction.

Part A

Uganda's history (with the possible exception of Idi Amin) is not common knowledge, so we would advise beginning the case discussion with an introductory period focusing on the political and economic situation in Uganda from 1962 to 1987. Useful initial questions to ignite comment might include:

- Where would you rather live: Uganda in 1962 or Uganda in 1987?
- What is the quality of life in Kampala in 1987?

This instructor's note has been prepared to accompany a case in three parts created by Frank Warnock and Patrick Conway of the University of North Carolina at Chapel Hill on the subject of Ugandan economic growth. Thanks to Philip English and Jorge Araujo for useful comments on its content.

- Has Uganda provided a successful example of economic growth since independence?

These questions will lead to an enumeration of the political and military crises of the intervening period. The most important points for the group to take away from this discussion is the strong potential of the economy in 1962, especially in agricultural crops for the world market, and the effect of the crisis in destroying productive capacity (physical and social capital) and idling economic resources. Most participants will recognize the direct effect of war and destruction in idling resources but may not recognize the indirect effects through the manipulation of relative prices of export crops and foreign exchange to meet budgetary needs. You could introduce this concept through a question such as:

- The fields of coffee growers were for the most part unscathed by the crisis, but the production and export of coffee nevertheless fell steadily after 1965. Why?

Once a common base of understanding is established among workshop participants, you can turn to the task at hand. Have the group identify the actor (Francis Unyofu) and the task (strategy to increase economic activity while maintaining macroeconomic stability). Defining terms and agreeing on ways to measure the goal are usefully done at this early stage.

If you as instructor have set the goal of economic growth, it will be helpful to define possible sources of growth and possible markets for increased production. For example, this discussion could lead to the following matrix:

Sources:	*Agriculture*	*Manufacturing*	*Services*
Ugandan			
East African			
World			

Each entry in the matrix is a possibility, although some are more likely. For example, agriculture in Uganda implies coffee and tea, but those only find sufficient buyers on a world market. Conversely, manufacturing can probably not compete on the world market initially and will have to focus on the local (Ugandan or perhaps East African) market.

For a change of pace, at this point we recommend a bit of role playing. Once the potential sources of growth are identified, designate individuals within the workshop to play the parts of producers in those areas, for example, a smallholder in coffee production, textile mill operator, or hotel manager. Have each of them describe what incentives are necessary for them to expand their operations. Do not limit them to economic incentives, because political security should be quite important. You can list the economic incentives by sector for use in the policymaking phase of the workshop. Encourage questioning of the role players by those not taking a role. Perhaps, designate the others as members of a presidential fact-finding commission.

The goal of the session is to come up with a strategy for encouraging economic growth. Build on the results of the role playing to define candidate strategies. (These will almost certainly include export-oriented and import-substituting strategies but may also include government stimulus.) Ask for the pros and cons of each, listing them and eliciting comments as you go. These comments should include discussion of the implications of each pro and con for macroeconomic stability. In the end, ask for a vote. If time permits, look for ways to build a consensus strategy (i.e., try to address the objections of the minority).

To wrap up, ask whether the choice of strategy was driven in the minds of participants by the specific situation in Uganda. Did the existence of unused resources (excess capacity) make one strategy or another more attractive? If so, why? Is this a strategy that Uganda should maintain for decades or only for the near future?

Part B

We presume that workshop participants will already have worked on part A and no need exists for further review of Uganda's economic history. Some review of the analysis conducted in the first session will, however, be helpful.

The initial question for this session could mirror that of the first session, for example:

- Where would you rather live: Uganda in 1986 or Uganda in 1992?
- What is the quality of life in Kampala in 1992?
- Has Uganda been a successful example of economic growth since 1987?

The goal of this opening question is to *(a)* put the participants "in character," that is, thinking as Ugandans, and *(b)* focus on the economic growth and quality-of-life aspects of the economy. After responding, the participants can answer "why." These answers will fill out the group's shared knowledge of economic performance since 1986.

You will note that we have divided the economic performance tables in the appendix of this section into four periods. The first (fiscal 1985–86) represents the situation at the end of part A. The second (fiscal 1986–87) represents the impact of the policies chosen. The third period (fiscal 1987–88 to fiscal 1990–91) was one of relatively stable performance, which is indicated by the annual average of those years. The fourth period (fiscal 1991–92) may be considered the present for purposes of decisionmaking in the case. A written summary for this final period is presented in the section entitled "The Current Situation: June 1992" near the end of part B.

Next, we recommend reviewing the policy decisions of the first session and comparing those with the policies undertaken by the Ugandan government. Did the Ugandans follow your advice? It is important to note both similarities and differences. You may ask the participants to speculate on why the differences occurred.

It is important to highlight early on the apparent inconsistency in the sets of reforms put forward in this part. Promises of fiscal balance occur side by side with increased public investment and increased wages for public sector workers. Whatever the merits of the latter policies, participants in the workshop should recognize the evident tension. As you proceed, you can then ask what impact these tensions had on the economy (i.e., inflationary pressure, real exchange rate appreciation, and increased foreign indebtedness).

Be sure to define the task for this session early on. Focus on both parts of the task. "Increase productive investment" need not be capital stock but could also be human capital. For what reason must "fiscal and monetary discipline" be maintained? Are fiscal and monetary discipline independent constraints, or are they related? If so, how?

You could mirror the structure of the first session by playing the roles of various potential investors (agricultural, manufacturing, and service as well as private domestic, government domestic, and foreign). What will be necessary to encourage such investment? Alternatively, for a change of pace, designate small groups to devise a strategy for encouraging investment by sector (agricultural, manufacturing, and service). In this case, task the groups to identify a strategy targeted to that sector. They should identify present constraints on investment, incentives they would offer to investors, and the identity of the investor they are targeting (government, private domestic, or foreign).

Participants may find themselves returning to the prescriptions offered in part A as recommendations for this part as well. This is useful and important to understanding the Ugandan experience. You can pursue this line with such questions as:

- From your perspective (manufacturers), has foreign exchange reform improved your access to currency to purchase essential inputs? Why or why not?
- From your perspective (agricultural), has reform of the Uganda Coffee Marketing Board improved incentives to coffee growers?

After these activities, return to a plenary session. Pull together a list of constraints to investment. These should fall broadly into the following categories:

- Unprofitable to invest
- Foreign exchange costs
- Insufficient infrastructure
- Insufficient labor skills for wage paid
- Foreign competition at lower prices
- Government competition at lower prices
- Lack of access to economic financing.

This list can be linked directly to a list of incentives to productive investment. Collect a list of such incentives, and evaluate each for its effect on fiscal and monetary discipline.

A similar role play will be useful in examining the incentives to domestic saving. You could begin with a question such as:

- This investment must be financed. To whom should we turn for financing?

Then ask for the identities of potential financing sources. Designate an individual to represent each source, and explore the potential for increased financing from each. Do not allow the stock answer "let the government finance it." Given that the government is already in fiscal deficit, explore where the government will in turn obtain financing.

Call for proposed strategies, look for common ground among them, and encourage participants to forge a consensus strategy. If a number of strategies remain, conduct a vote for the preferred strategy. If time permits, designate one (or more) participants as the president and his advisors. Have the others present the strategy to him, and ask for his critique of it.

Wrap up this session with a review of the beginning and ending points of discussion. Highlight the differences in strategies derived in parts A and B, as well as any similarities.

Distribute the postscript so the participants may see what the Ugandans actually did in 1992.