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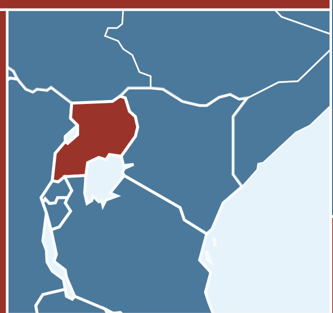
HARNESSING THE DEMOGRAPHIC DIVIDEND

ACCELERATING SOCIOECONOMIC TRANSFORMATION IN UGANDA



Brief

Uganda National Planning Authority

Population Change and Development in Uganda

Over the past three decades child mortality has declined steadily while fertility rates have remained high in Uganda. This imbalance has resulted in high population growth and a youthful population with a high child-dependency ratio. The population grew from 9.5 million in 1969 to 35.3 million in 2013, and according to UN projections, will grow to 83 million by 2040. Due to the country's high fertility, Uganda has one of the most youthful populations in the world with just over half of its population under age 15. As noted in the 2008 National Population Policy and Vision 2040, the high child-dependency ratio is a major barrier to social transformation and development in Uganda. A large average family size makes it difficult for families and the government to make the requisite investments in education and health that are needed to develop high-quality human capital and achieve a higher level of socioeconomic development. Savings are low because parents spend most of their income on their children's basic needs and it is difficult for the economy to create enough high-quality jobs for the rapidly growing youthful labour force.

Opportunity to Earn the Demographic Dividend

Uganda's population dynamics can be turned into a valuable "demographic dividend" if it emulates the policy road map followed by the East Asian Tigers against which country benchmarks itself in its long-term strategy, Vision 2040. The demographic dividend refers to the economic benefit a society enjoys when fertility and mortality rates decline rapidly and the ratio of working-age adults significantly increases relative to young dependents. Experience from the Asian Tigers shows that in order to earn the demographic dividend, countries should prioritise investments in health and education to develop high-quality human capital; accelerate economic growth and job creation to ensure that the "surplus" labour force is gainfully employed and has strong purchasing power; and enforce accountability and efficiency in the use of public resources and delivery of social services.

The dividend is not automatic—it depends on investments and reforms in three sectors: family planning (FP), education, and economic policy. First, a country must undergo steady fertility decline to achieve an age structure concentrated in the working ages. Childbearing declines as individuals choose to have smaller families and have the means to realise those intentions. Voluntary family planning programmes play an important role in reducing fertility desires and enabling couples to realise their reproductive preferences, thereby shaping a country's demographic path while simultaneously improving health and increasing savings across development sectors.

Achieving the dividend requires investments in human capital and the implementation of sound economic policies. Investments in high-quality primary, secondary, and tertiary education—as well as vocational training—are needed to create a skilled and efficient workforce that is capable of meeting the evolving needs of the national economy. Importantly, labour markets must be flexible in order to absorb new workers and shift workers from one economic activity to another. Nurturing an environment that is amenable to domestic and international savings and investment requires financial market efficiency, including increased access to high-quality financial services, loans, and venture capital. Finally, investments to strengthen the quality of public institutions, expand mobile phone usage and internet connectivity, and promote exports not only attract local savings and foreign investment but also enhance the efficiency and productivity of a nation's resources and industries.

Can Uganda Harness a Demographic Dividend?

In cooperation with the United Nations Population Fund (UNFPA), the African Institute for Development Policy (AFIDEP), and the USAID-funded Health Policy Project, led by Futures Group, the National Planning Authority (NPA) applied a computer model to explore policy options for Uganda to achieve a demographic dividend in the context of its long-term development plan, Vision 2040. These policy scenarios were derived from the average FP, education, and economic indicators for four benchmark countries after which Uganda modelled Vision 2040:

- A *Business-as-Usual* scenario of continued slow progress in the expansion of FP use, educational attainment and economic reforms. In this scenario, Uganda attains just 30 per cent of the education and economic goalposts of its benchmark countries. FP use increases at approximately .53 percentage points per year.
- An *Economic Emphasis* scenario in which Uganda achieves improvements in labour market flexibility, information and communication technology (ICT) use, financial market efficiency, public institutions, and imports that are roughly equivalent to the current average for the benchmark countries. Education and FP are held constant as per the business-as-usual scenario.
- A *Combined Vision 2040* scenario of intensified investments in FP and education, in addition to the reforms of the economic emphasis scenario. By increasing contraceptive prevalence to 67 percent, Uganda attains a fertility rate of two children per woman by 2040. Through an overhaul of the educational system, it also fully achieves the education levels of its benchmark countries by 2040.

The modelling exercise shows that the *Combined Vision 2040* scenario, with economic and demographic emphasis on investments in education, family planning, infrastructure, and economic reform would provide the strongest benefits to Uganda and allow it to attain the target level of gross domestic product per capita (USD 9,500 in 2040) that is set out in Vision 2040. This result is largely driven by the change in the age structure under the Combined Vision 2040 scenario which results in more people of working-age relative to those under age 15, as seen in Figure 1.

Under the *Business-as-Usual Scenario*, where the prevailing lacklustre performance in both the economic and demographic environments would continue, Uganda would achieve limited economic growth and development, and the per capita GDP would increase from USD 506 in 2010 to USD 927 in 2040. This level of economic growth falls far short of the USD 9,500 target defined in Vision 2040. Also, the gap between the population over age 15 and the employed population grows from 5 million to 22 million.

Figure 1. Uganda's Possible Age Structures

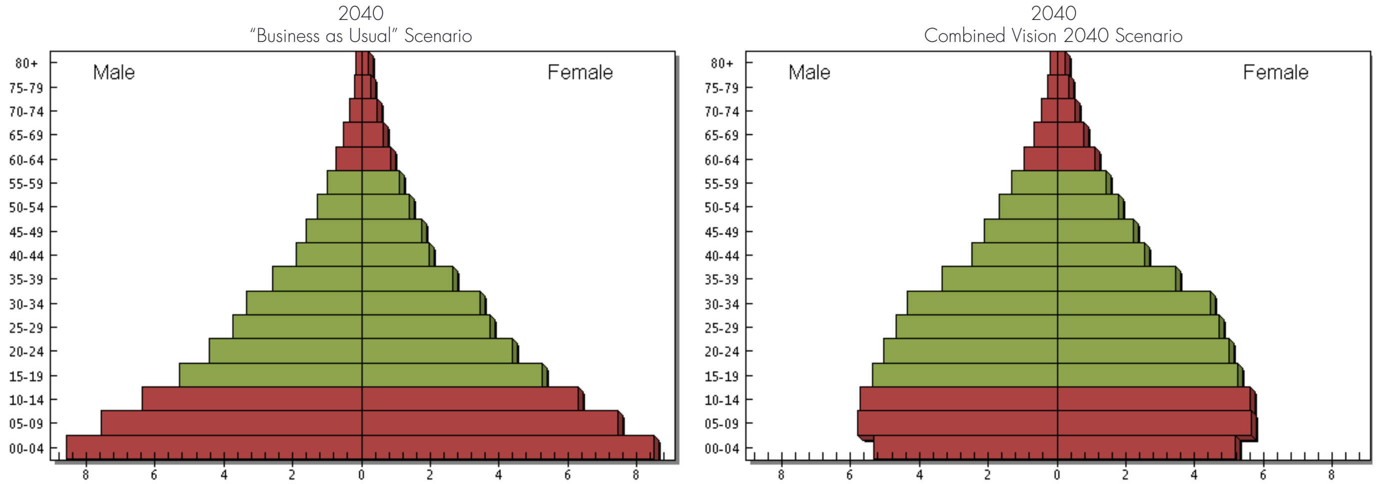


Figure 2. GDP Per Capita under Three Scenarios

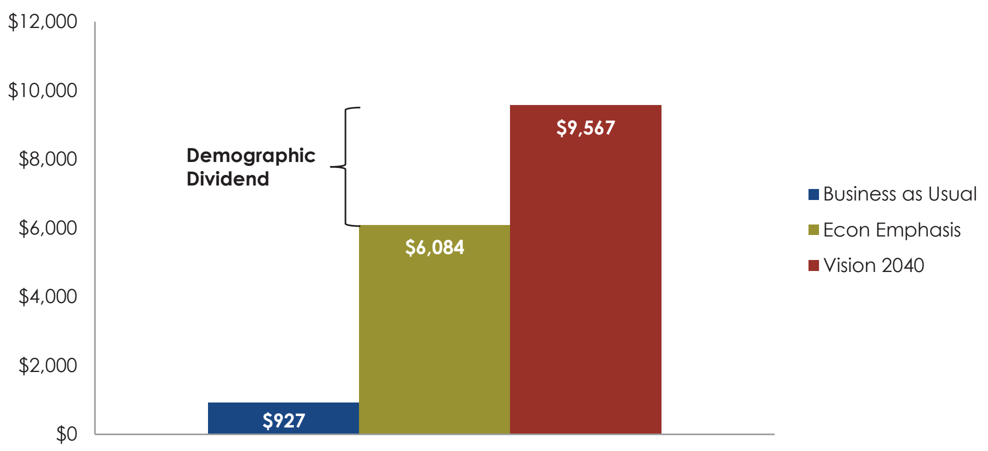
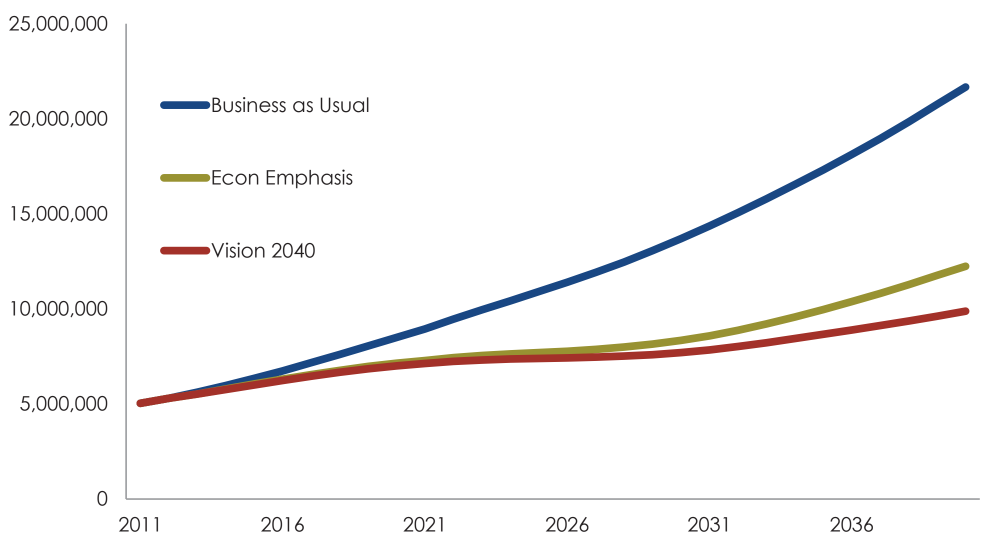


Figure 3. The Gap between the Population > 15 and Employment



Under the *Economic Emphasis Scenario* the country prioritises economic reforms and investments to the level articulated in Vision 2040 and enjoyed by the benchmark countries, per capita GDP would increase to USD 6,084. This would be a sizable improvement from the 2010 income level, but still far short of the Vision 2040 target. Under this scenario, the employment gap increases to 12 million.

Under the *Combined Vision 2040 Scenario* where the country prioritises economic, social, and demographic factors to achieve the socioeconomic transformation envisaged in Vision 2040, per capita GDP would increase to USD 9,567. This is the V2040 target. This scenario produces the smallest gap between the population over 15 and employment.

Policy Actions for Harnessing the Demographic Dividend in Uganda

Fulfilment of Uganda's aspirations for socioeconomic transformation and transition into an upper-middle-income country by 2040 can be enhanced considerably if the country adopts policies that will harness a sizable demographic dividend. To maximise the demographic dividend, Uganda should concurrently prioritise investments in family planning and female education to reduce fertility and the high child-dependency burden; reinforce industrial and export-oriented economic reforms to accelerate economic growth and job creation; enhance investments in education and health care to develop high-quality human capital; and reinforce governance, accountability, and efficiency in the use of public resources. These are the policy options that propelled the Asian Tigers to achieve "miraculous" economic development between 1970 and 2000. Specific policy actions that Uganda can take include:

Health and family planning

- Sustain and accelerate the current decline in infant mortality through immunisations, IMCI, nutrition, ITNs
- Address the unmet need for family planning by reducing barriers to demand, access, and use
- Sustain a high level of government investment in family planning

Education

- Increase investments in education, including universal secondary and higher education
- Address quality issues, school dropout rates, and gender differences in enrollment
- Strengthen vocational education

Economic policies, employment, and jobs

- Promote labour market flexibility
- Address barriers to employment facing youth
- Encourage investment in fast-growing, labour-intensive sectors such as construction, modern agriculture, and agro-processing
- Invest in the development of economic infrastructure including energy, transportation, and communication
- Address the skills mismatch between what the market requires and what the education system produces