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Transforming secondary urban areas for job creation:

A study of Uganda



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JustJobs Network

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Abbreviations

BDS	Business Development Services
KCCA	Kampala Capital City Authority
LED	Local Economic Development
LG	Local Government
MGLS	Ministry of Gender, Labour and Social Development
MLG	Ministry of Local Government
MTIC	Ministry of Trade, Industry and Commerce
OWC	Operation Wealth Creation
PPP	Public Private Partnership
PSFU	Private Sector Foundation Uganda
UIA	Uganda Investment Authority
UPDF	Uganda's People Defense Forces
URA	Uganda Revenue Authority
YLP	Youth Livelihood Fund
UWEP	Uganda Women Entrepreneurship Programme

Preface

In recognition that creating employment opportunities in small towns and urban areas will be critical to inclusive development and meeting the objectives set forth in Vision 2040, government officials in Uganda are taking steps to strengthen secondary urban area economies.

Higher-value economic activity and quality jobs are still concentrated in Kampala, the capital and currently only recognized city, which continues to grow rapidly with migration from other parts of the country. However, as more young people enter the working-age population, and youth in the proximity of smaller urban settlements look for non-farm work opportunities, secondary urban areas, particularly given their locational advantages, can play an increasingly important role as centers of growth, prosperity and job creation.

Despite a growing emphasis on regionally balanced urbanization policies, national strategies on economic diversification, private sector development and job creation may not account for how localities will adapt those policies or cater to the locational advantages of specific regions. To gain insight into challenges and opportunities for developing and implementing job creation strategies in secondary urban areas, JustJobs Network studied the following issues:

1. According to international experience, what is the role of secondary urban areas in job creation and economic development, and what are contributing factors to their potential for job creation?
2. What are the main demographic characteristics and trends of Uganda's system of urban settlements?
3. What are the characteristics of local economies and labor markets of different types of settlements in Uganda, and how have they changed over time?
4. How effective is the current policy framework in promoting job creation and local economic development in secondary urban areas, and to what extent do national and local stakeholders coordinate effectively in policy implementation?

To address these issues, JustJobs Network compiled relevant literature on secondary urban areas and local economic development; analyzed secondary data on subnational economic and employment trends in Uganda; and conducted a case study in Mbale, a secondary urban area in Uganda. As part of the case study, JustJobs Network conducted key informant interviews with 23 Ugandan government, private sector and civil society stakeholders in Kampala and Mbale.

Executive Summary

Rapid population growth and a growing youth workforce, coupled with rapid urbanization, have created a policy imperative to generate jobs on a large scale across Sub-Saharan Africa. To meet this challenge, governments must consider job creation through a spatial lens, look beyond primary metropolitan areas and consider how smaller urban settlements can be turned into productive centers of job creation and growth.

Large primary cities can be important drivers of national economic development. By leveraging the benefits of the capital city economy through revenue collection, national governments can translate primary city prosperity into investments in human capital and infrastructure in the whole country. Nevertheless, secondary urban areas and smaller towns also have important roles to play in promoting economic development and structural transformation. Recent research in the region highlights that secondary urban areas are important to poverty alleviation and help to foster the transition from agriculture to non-farm work.¹ These smaller urban settlements often have specific locational advantages as well. Moreover, an urban system with one major city and no vibrant secondary urban areas may reflect an overly centralized system of government with a shortage of viable destinations for firms, the result of which is lost economic potential.²

While economic development in secondary urban areas has increasingly become a priority for governments across Africa and beyond, the policies required to spur growth and employment in these locations are less evident. Nascent research suggests that effective policy initiatives are context-specific. A few general principles apply, however. Investments in infrastructure, improving local institutions, and supporting the growth of small and medium sized enterprises (SMEs) are all critical steps in promoting employment opportunities and a vibrant business sector in secondary urban areas.

Uganda has one of the most rapidly expanding populations in the world, growing at around 3 percent per year. Youth (ages 15-30) form a major part of the working-age population. The capital city of Kampala dominates the country's urban system, with over 4.3 million inhabitants in the metropolitan area. Much of the growth in the capital city region is due to migration from other parts of the country. Beyond Kampala and its satellite municipalities, Uganda has a very flat urban hierarchy, with no urban areas above 200,000 inhabitants. Due to negative net migration, population growth rates of secondary and tertiary urban areas lag far behind Kampala as well as more rural parts of the country.

Compared to other urban areas, Kampala has far higher wages (real wages are 50 percent higher than in any other geography), and more job opportunities and wage employment per capita. Higher-value economic activity and quality jobs are still concentrated in Kampala. However, as the city continues to grow rapidly with migration from other parts of the country, a declining real wage and increasing unemployment demonstrate that its labor market may be growing saturated due a lack of other vibrant urban centers.

The negative net migration observed in smaller urban settlements can be attributed to lack of economic opportunities. Structural transformation in secondary and tertiary urban areas has been proceeding slowly, and non-farm employment opportunities remain limited. Moreover, most employment continues to be poor in quality.

Some bright spots, however, signal the potential in these secondary urban centers: first, wage jobs are increasingly being created outside of Kampala; and second, the share of qualified labor found in

secondary/tertiary urban areas compared to Kampala has increased since 2002. Greater focus on job creation and economic development in these geographies can accelerate the momentum.

One of the constraints to promoting vibrant urban economies beyond Kampala is the institutional architecture for job creation initiatives, which is characterized by fragmentation, lack of coordination and inter-ministerial competition. The most relevant and effective job creation initiatives are controlled by the central government, with local governments having limited ability to adapt initiatives to local needs. This is despite previous efforts and policies to promote local economic development and create a conducive institutional structure. Moreover, current efforts by the national government to support job creation focus on promoting self-employment through entrepreneurship, as opposed to more vigorous support for growth-oriented SMEs, which could go further in generating wage employment and fostering strong local business climates in secondary urban areas.

The case study of Mbale in the east of Uganda provides insight into the challenges of translating central government policies at the local government level, and the factors influencing growth and labor market outcomes in secondary urban areas. Mbale makes for an appropriate case study given that the demographic, economic and labor market trends of the district are generally representative of those identified in secondary and tertiary urban area districts across Uganda.

Mbale District and Municipality have seen relatively low population growth compared to the rest of the country, with substantial out-migration. These trends may be linked to the relatively high population density and resultant land scarcity in the district. The quality of employment in the district as a whole has been improving gradually, with increasing shares of wage employment. Sector employment trends reveal a slow shift towards non-farm employment, unlike most other secondary and tertiary districts in the country. In terms of non-farm work, services and trade provide the largest share of employment.

Mbale has substantial economic potential stemming from natural resources, such as a fertile coffee-growing region, as well as scenic and cultural attractions. Therefore, there is potential for growth and job creation in the food system value chain and tourism, conditional on appropriate support to the private sector that is also adapted to the comparative advantages of the region. In addition, with appropriate interventions to ensure strong linkages with the local economy, an industrial park currently under construction could also provide a boost to the local economy.

In Mbale, business owners report that challenges to growth and job creation include access to finance, infrastructure and labor force constraints. For example, they report inadequate access to finance, underdeveloped transport, insufficient access to land, and low labor force skills. However, despite a well-developed institutional structure for local economic development, both the municipality and district lack policy autonomy and funding to influence the shape and direction of existing programs or develop their own initiatives. Engagement and coordination with the private sector are also limited.

Based on findings from the analysis, the report identifies policy options that could facilitate the creation of the quantity and quality of jobs the country needs in secondary urban areas to support economic opportunity for the growing youth population.

Potential policy priorities for central government to consider

1. In the short-term, **adopt an integrated strategy for supporting the growth of existing SMEs in sectors that are strategic for secondary urban centers.**

- A. Support industries in which secondary and tertiary urban areas have a locational advantage, such as agribusiness and tourism, could help boost job creation and growth in secondary urban areas.
 - B. Adopt a systematic value chain approach to vocational training, with an emphasis on on-the-job training and practical skills will help improve labor force skills.
 - C. Establish a local content unit to bolster existing initiatives under the Buy Uganda, Build Uganda Policy can help through identifying existing capacity and constraints across industries and deepening supply chain linkages between local firms and foreign investors.
2. For the long-term, **focus on strengthening existing infrastructure, business clusters and local government capacities.**
- A. Reorient policy initiatives for job creation towards place-sensitive policies that—unlike the industrial parks program—leverage existing infrastructure and business clusters rather than constructing new ones, while encouraging investment in a larger geography, such as a urban area or district.
 - B. Reinvigorate the push towards decentralization, taking advantage of the political support for the declaration of new cities to promote additional policy autonomy and funding for local governments in emerging urban centers.
 - C. Strengthen the local economic development function of local governments by resourcing and staffing local commercial offices to serve as a coordinating entity for job creation initiatives at the local level.

Potential policy priorities for local government in Mbale to consider:

- 1. Market Mbale as an agro-tourism destination by:
 - A. Promoting homestays, coffee plantation tours, gourmet coffee tasting, and related activities to leverage the tourism potential of coffee growing.
 - B. Establishing a Mount Elgon-brand certification and appropriate standards for agricultural products.
 - C. Hosting specialty coffee auctions and special events and festivals.
- 2. Promote higher-value-added and less land-intensive agriculture, which is more suitable for the high population density of Mbale. For instance, poultry farming is a less land-intensive form of livestock rearing compared to cattle farming.
- 3. Leverage the newly established commercial office to enhance enterprise support across a range of sectors, through:
 - A. Raising awareness among local businesses of available sources of support from government and development partners.
 - B. Developing an investment profile for Mbale.
 - C. Taking on a coordinating and marketing role on behalf of the tourism sector in the district and region.
 - D. Facilitating linkages between the industrial park and the local business community, vocational training institutes, and other relevant stakeholders in collaboration with the Uganda Investment Authority (UIA) industrial park manager.
 - E. Incentivizing firm compliance with licensing fees and registration through linking service provision with regulatory and tax enforcement.
- 4. Adopt a regional/cross-district approach to economic development and engage with the vibrant private sector in the region.

- A. Establish a regional sector-specific public entity to coordinate cross-district initiatives and exchange of ideas in agribusiness and tourism, in order to exploit cross-district synergies related to, for instance, marketing and investment.
- B. The new entity can engage with the vibrant private sector in the region to establish specific roles and responsibilities for local governments, the private sector, and civil society in improving the ecosystem for job creation.

Secondary Urban Areas, Local Economic Development and Job Creation

Overview

This section considers the critical role of secondary urban areas in urbanization in Sub-Saharan Africa and outlines nascent research on strengthening economic growth and job creation in secondary or non-primary urban areas.

Rapid population growth and urbanization in Sub-Saharan African countries creates a policy imperative to generate productive employment at great scale. While primary cities must play a role in this job creation, it is unrealistic to imagine all the necessary jobs, or even the majority, can be created in a single metropolitan area. In addition to supporting continued growth and job creation in the largest cities, governments must also consider the role of smaller urban settlements in meeting inclusive development objectives and promoting economic development and structural transformation. Through their role as market and service centers for their regions, smaller urban settlements have the potential to expand rural households' access to non-farm employment, enabling income diversification and growth with a larger aggregate impact on poverty reduction compared to primary cities. Creating a more balanced urban system will require more deliberate government interventions to ensure that emerging urban settlements become productive centers of job creation and growth.

Existing evidence suggests that effective policy initiatives to promote a vibrant business sector and the creation of jobs in secondary urban areas build on place-specific advantages and vary by context. However, some common best practices can be identified: investments in infrastructure, improving local institutions, and supporting the growth of SMEs.

The critical role of secondary urban areas in economic development

Secondary urban areasⁱ or urban centers play an important role in promoting economic growth and poverty reduction. As proximate destinations for rural commuters and short-distance migrants, they expand rural households' access to non-farm employment, enabling income diversification and protection against economic shocks in agriculture.^{3,4} Research actually suggests that migration to small towns may have a larger aggregate impact on poverty reduction than migration to primary cities.⁵ These towns also create a market for farmers to sell their agricultural surplus, thereby boosting income from rural activities.^{6,7} In addition, small towns and secondary urban areas can play important roles in local governance, acting as nodes in decentralized systems of service delivery.^{8,9} If well managed, secondary urban areas also become viable investment destinations for firms once primary cities become too costly, enabling a national economy to sustain a broad economic base while moving up the value chain.¹⁰

However, there are obstacles to secondary urban areas supporting these development aims.¹¹ Primary cities are disproportionately larger than other urban areas in a country, and in the case of a primate urban system, dominate the urban and economic system of the country. Primary or primate cities can sometimes absorb so much of the capital and skilled labor that prospects for growth in other urban areas are circumscribed, and this situation is sometimes exacerbated by political economy factors that privilege big cities.^{12,13}

ⁱ In terms of population size, secondary cities are generally defined in relation to other urban settlements in the country. See also Brian H. Roberts, "Managing Systems of Secondary Cities" (Cities Alliance, 2014).

Some scholars suggest that high levels of urban concentration could be more efficient in early stages of structural transformation, and that as a country develops, its urban system will inevitably become more decentralized as the secondary urban centers become more cost-effective for certain businesses compelled to relocate.¹⁴ However, governments would be ill-advised to simply “wait and see,” hoping that secondary urban areas will eventually catch up. Theories suggesting eventual de-concentration of the urban population assume that policymakers will invest in infrastructure to support secondary urban area growth. In other words, productive secondary urban areas *require* state support to grow; this transition may not occur through market forces alone. Without policies aimed at promoting regionally balanced growth, firms and workers may continue to migrate to primate cities despite rising costs and underemployment.

Box 1: Drivers of Primacy

The dominance of a primary city—both demographically and economically—is often described as urban primacy. This type of unbalanced urban growth is particularly common in African countries.¹⁵

One often cited explanation for primacy is the concentration of political power in the capital city and favoritism in resource allocation.¹⁶ The concentration of decision-making power in the capital city means that firms that need to interact with the state’s regulatory and administrative bodies are more likely to locate there. Moreover, the concentration of investments in the primary urban area mean that the infrastructure and overall business climate is more attractive for firms as compared to that of smaller towns.

Once differences in city size emerge, divergence is accelerated by the same agglomeration economies that drive people and businesses to cluster in cities in the first place: larger cities provide a relatively greater market and have higher degrees of specialization, higher productivity and wages, and therefore attract relatively more people and firms.

After cities grow beyond a certain size, diseconomies of scale can set in—as factors like pollution and congestion increase the cost of doing business. However, cities may still continue to grow if they hold a substantial advantage over other urban settlements. This is also more likely to be the case if there are poor transport links and high costs of trade and transport between urban settlements.

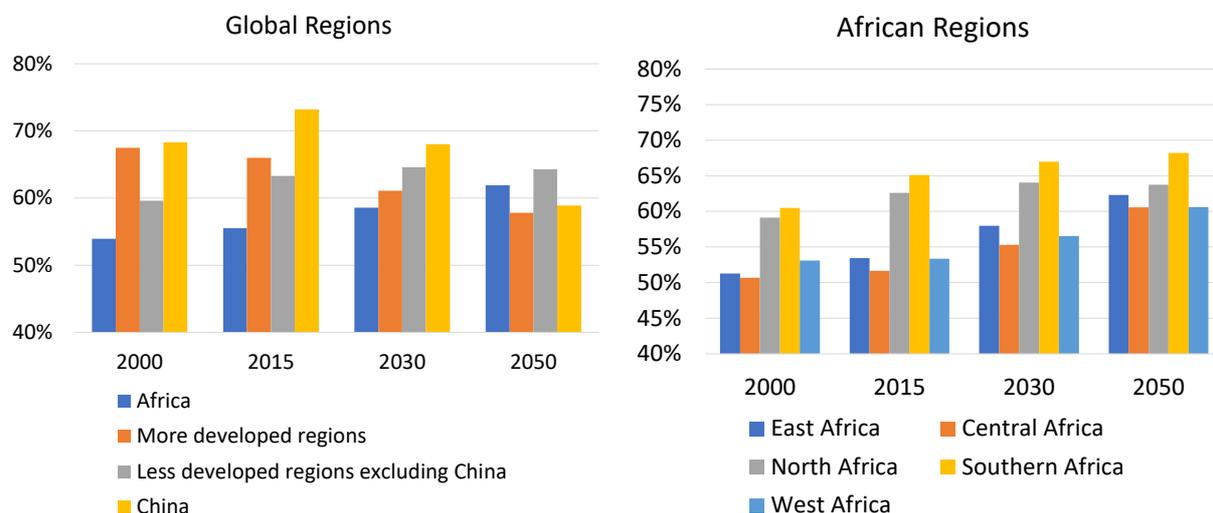
The structure of the economy is also an important factor in the level of urban primacy. Mature firms in tradable sectors—goods or services that can be sold outside of the location produced—can relocate away from the primary city once land and labor costs increase and infrastructure in the secondary urban areas improves. But non-tradable sectors cannot relocate before there is a viable market in secondary urban areas.

Meanwhile, a demographic transition is underway across the continent, whereby the proportion of the working age population (ages 15-64) will increase faster relative to young and elderly dependents (**Figure 1**). Whether this trend produces a ‘demographic dividend’,¹⁷ with more working people producing and contributing to a growing economy, rather than an unemployment burden,¹⁸ depends in large part on the extent to which urban settlements generate meaningful economic opportunities. Labor markets must create enough jobs to enable youth to drive productivity and innovation.¹⁹

While primary cities must play a role in this job creation, it is unrealistic to imagine that all the necessary jobs, or even the majority, can be created in a single metropolitan area. Moreover, smaller urban centers are emerging on their own; as population density and land constraints grow in rural areas of Sub-Saharan Africa, new towns are proliferating in settlements that were once

villages.²⁰ In this context, the relevant policy question is not so much what sort of urban system is desirable, but more how government can ensure that smaller and emerging urban settlements become productive centers of job creation and growth.

Figure 1 - Proportion of Working Age Population (%) (ages 15-64), by Region



Source: African Development Bank Group, OECD Development Centre, and UNDP, "African Economic Outlook 2016: Sustainable Cities and Structural Transformation," 2016.

Creating Jobs in Secondary Urban areas

While the case for economic development in secondary urban areas is relatively clear, the policies required to jumpstart growth *and* ensure that it translates into high-quality employment are less evident. Nascent research on strengthening secondary urban area economies points to particular roles for national and local actors,^{21,22} though most of these frameworks are more concerned with growth, not necessarily its distribution or the labor market structure that accompanies it. Measures highlighted to support job creation for urban settlements of any size include improving institutions and regulations and investing in transport infrastructure, skills development and support for enterprises. However, specific policies need to be adapted to relevant factors such as natural endowments, trade and transport linkages, and capabilities within industries, among others.^{23,24}

Urban labor markets in Sub-Saharan Africa are generally constrained by a scarcity of wage employment opportunities. Compared to other regions, countries in Sub-Saharan Africa are more characterized by urbanization without industrialization.²⁵ In many African countries dependent on extraction, production or exports of primary commodities, manufacturing and tradable services make up a smaller share of gross domestic product (GDP) and employment.²⁶ Instead, employment in urban areas is concentrated in local retail or personal services that are 'non-tradable'—they cannot be sold outside of the locations in which they are produced.²⁷ Urban labor markets that are heavily dependent on such forms of employment generally have higher poverty rates and lower welfare levels—highlighting the need to focus not only on growth, but growth that generates good jobs.²⁸

The extent to which smaller urban settlements sustain businesses that can grow also affects their potential for job creation. While larger private firms are important creators of jobs with higher pay, most businesses in low-income countries are micro-sized firms with only just one or a few employees.²⁹ Larger firms are not necessarily more productive than small firms; however, larger

firms tend to employ more workers and pay higher wages.³⁰ Subsistence entrepreneurship offers few opportunities, and the preponderance of micro firms limits the proportion of firms that can offer more and higher-paying jobs in secondary urban areas. Sustaining the growth of small and medium-sized enterprises (SMEs) can also be tied to efforts to formalize the labor market. However, for such a strategy to work, SMEs must see formalization as a pathway to growth, as opposed to an onerous set of burdens with no tangible benefits. This highlights the limitations of policies that seek to step up regulatory and taxation enforcement without also enhancing the provision of services to registered SMEs.

Given that local capital constraints are particularly acute in smaller urban areas, researchers and policy institutions have advised governments in the region to prioritize public investment in secondary urban areas, rather than focusing on primary cities alone.^{31,32} To effectively sustain economic growth in urban settlements, local government or private sector actors can take steps to leverage these public resources.³³ Investment could help urban areas develop local markets and supply chains that boost employment.³⁴ These investments can be used to support measures for job creation that are similar to larger cities, but these measures need to be adapted to locational advantages and implemented alongside stakeholders who have an interest in the local economy's success.

For example, secondary urban areas offer locational advantages in the form of lower land and labor costs, proximity to agricultural and natural resource endowments, and in some cases proximity to tourist sites and shorter distances to borders.³⁵ Sectors that could potentially support job-rich growth in many African urban areas include food production and processing, construction and business services.³⁶ Secondary urban areas have a competitive advantage in sectors with direct links to agriculture, given their intensive rural-urban linkages. Research shows policies that improve agricultural production, agro-processing and the capacity of local suppliers are likely to boost job creation in smaller urban centers while also meeting growing demand for processed foods in urban areas and connecting urban growth to rural growth.³⁷

When designing appropriate job creation policies for secondary urban areas, policymakers need to devise reforms that will support secondary urban areas based on their competitive advantages. In order to boost local employment, initiatives with outside investors should be tied to strengthening the capacity of local SMEs and establishing linkages with these enterprises.³⁸

For example, to attract private investment in a context of limited public resources, urban areas have taken a number of steps, such as designating export processing zones or business parks that offer tax incentives and access to services in particular areas.³⁹ In developing such policies, however, the specific challenges of smaller urban settlements become more apparent. Compared to large metropolitan areas, secondary urban areas are generally characterized by longer distances to consumption markets, suppliers and transport; inadequate infrastructure or services; and a less skilled workforce.⁴⁰ In this setting, foreign or large domestic companies may never establish linkages to the local economy, limiting long-run local economic development (LED).⁴¹

A final consideration, often overlooked, is that local economic development in secondary urban areas is a multi-stakeholder endeavor. Strengthening secondary urban area labor markets requires effective collaboration within and across government agencies, the local private sector and civil society,⁴² especially to sustain productive businesses that are capable of hiring workers. For example, stakeholders can assess which markets and sectors could be competitive, and target workforce training to these needs.⁴³ They can also help conduct market research, facilitate exports, and upgrade technology.⁴⁴ Moreover, stakeholders with local roots are more likely to have an

interest in long-run economic development and build the social and economic networks that sustain a healthy and dynamic economy.

Best practices for effective collaboration include agreeing on roles and responsibilities, establishing shared outcomes and metrics among stakeholders, and mobilizing resources in response to needs.^{45,46} International agencies involved in urban interventions by sector, such as finance or education, should also coordinate approaches⁴⁷ to ensure they are aligned with local urban area strategies. Findings in selected secondary urban areas show that non-governmental stakeholders in particular, such as private sector associations or local businesses, can effectively mobilize capital and business expertise and help implement local economic development agendas.⁴⁸ These experiences suggest that in addition to developing strategies targeted to the needs and assets of the area, coordination of efforts is critical to turning plans into a vibrant local economy with good jobs.

Uganda's Urban Transformation

Overview

Uganda has one of the most rapidly expanding populations in the world, and youth (ages 15-30) form a major part of the working age population. The capital city of Kampala and surrounding areas continue to dominate the urban hierarchyⁱ, with faster population growth than any other geography and a disproportionate share of the working-age population. Beyond Kampala and its satellite municipalities, Uganda has a very flat urban hierarchy—i.e. there is a lack of settlements with large populations among secondary and tertiary towns.

Given rapid population growth in Uganda, there are not enough centers of opportunity for current and future generations of young Ugandans. This lack of opportunity outside Kampala is reflected in migration patterns. Much of the growth of the capital city region in the past inter-census period is due to migration, particularly younger, working-age migrants. Many of these migrants come from secondary and tertiary urban area districts, which have experienced negative net migration. Due to negative net migration, population growth rates of secondary and tertiary urban areas lag far behind Kampala and more rural settlements.

Kampala alone cannot provide adequate access to services, housing and job opportunities for the growing youth population across the country. Therefore, these trends highlight the need to stimulate opportunity in towns and urban areas beyond Kampala.

National urbanization trends

Uganda has one of the most rapidly expanding populations in the world, growing at an average rate of 3 percent per year. The rapid population growth reflects the early stages of a demographic transition characterized by a decline in mortality rates that outpaces the decline in fertility rates.ⁱⁱ Forecasts suggest Uganda's population of 35 million (2014) will continue to grow at this rate until 2030, when it is expected to reach 55 million.

With the ongoing demographic transition in Uganda, the country has been experiencing a corresponding fall in its dependency ratio—the ratio of the working-age population to young and old dependents.ⁱⁱⁱ This trend is expected to accelerate in the coming years. The number of working-age Ugandans will increase from 17 million in 2014 to 31 million in 2030 and is expected to reach 42.4 million in 2040.

Approximately every fifth Ugandan lived in an urban settlement during the last population census in 2014, compared to only one in 10 in 2002. The total number of urban residents reached 7.4 million

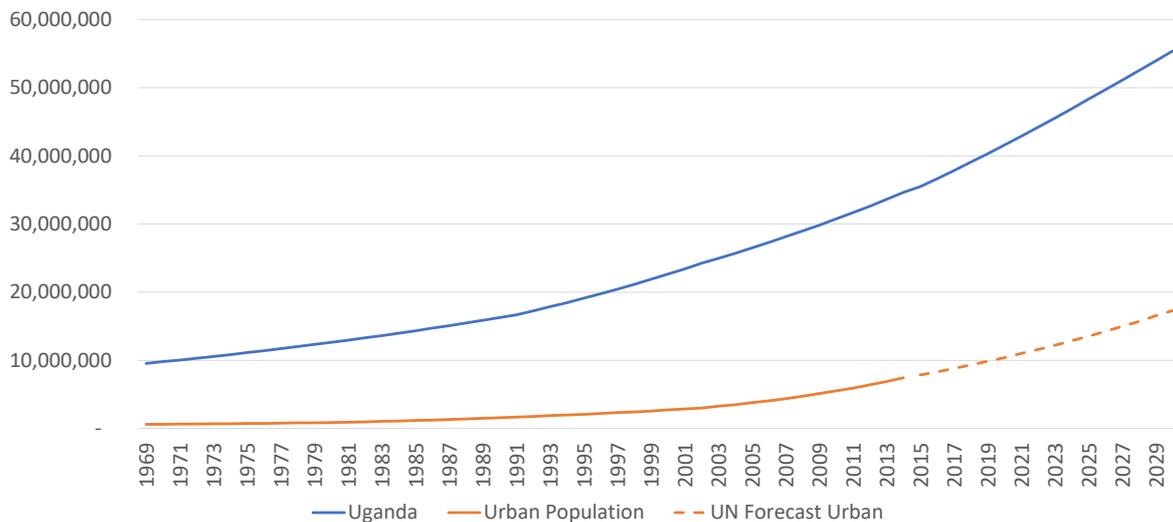
ⁱ The ranking of cities based on population size. Viewing cities in the context of a national urban hierarchy highlights that settlements are part of a national system of settlements with inter-dependent patterns of population growth and functional specialisation.

ⁱⁱ Infant mortality declined from 105 to 41 deaths per 1000 live births between 1991 and 2014 but the total fertility rate did not decline at a corresponding rate, only dropping from 7.1 to 5.8.

ⁱⁱⁱ With the slow decline in fertility rates, the share of the working age population increased by 2 percentage points from 2002 until 2014. Population forecasts suggest this trend will accelerate, with the working age share of the population reaching 60% in 2030. The transition towards the demographic dividend has been delayed by the effects of the HIV epidemic which caused average(?) life expectancy to drop to 44 years in 1991. The epidemic began to decline with implementation of effective public health campaigns and after effective treatments became widely available after 2002. This, coupled with increased investment in health improved the overall health of the workforce, and average(?) life expectancy recovered to 63 years in 2014. Accessed on 26th April 2019: <https://www.elibrary.imf.org/abstract/IMF071/14315-9781589063600/14315-9781589063600/ch01.xml?rskey=mAfwLw&result=6&redirect=true>

in 2014 and has been expanding rapidly (**Figure 2**). Average urban population growth per year was 8 percent between 2002 and 2014, far exceeding rural population growth of only 2 percent per year.

Figure 2 – Population of Uganda 1969-2030



Source: National Population and Housing Census Data 1969-2014, UBOS Population Forecast 2018, UN Population Forecasts

Despite the rapid growth in the urban population, Uganda’s urbanization rate (the urban share of total population) remains substantially below the average for Sub-Saharan Africa, which stood at 38 percent in 2014.⁴⁹ This anomaly primarily stems from how urban areas have been defined in Uganda, with a very high minimum population threshold (25,000) compared to other countries. Alternative measures of urbanization in Uganda estimate its rate as almost double the official national figure and roughly on par with the regional average.ⁱ

Urban population growth is often imagined as solely driven by rural-urban migration. However, the declaration of new urban areas contributed substantially to the rapid growth of the urban population between 2002 and 2014 in Uganda, accounting for 59 percent of the increase (see **Appendix 1** for a more detailed discussion).ⁱⁱ Natural population growth in settlements that were already defined as urban in the 2002 census accounted for 31 percent, while the residual 10 percent can be attributed to net in-migration from rural to urban settlements as defined in 2002.ⁱⁱⁱ

In the context of Sub-Saharan Africa, the low contribution of rural-urban migration to urban population growth is not unique. However, it stands in stark contrast with the experience of Europe and North America during their periods of rapid urbanization in the 19th century, when urban population growth depended largely on rural-urban migration.⁵⁰

ⁱ Uchida and Nelson (2008) consider an alternative measure of agglomeration based on density urban size and proximity to the urban center. Uchida, H., and A. Nelson. (2008). Agglomeration index: Towards a new measure of urban concentration. Background paper to World Development Report 2009: Reshaping economic geography. Washington, DC: World Bank.

ⁱⁱ 40% of these new urban residents are located in the primary urban area, 2% in secondary urban area districts, 16% in tertiary urban area districts, 16% in type IV districts and 26% in type V districts. (See **Table 1** for typology.)

ⁱⁱⁱ Since there are no estimates available of rural-urban migration in Uganda, one can estimate the scale of these two factors by assuming that the urban population grew at the same rate as the national population in the inter-census period. Given that reclassification itself results from some combination of natural population growth and migration, it is difficult to determine the exact contribution of rural-urban migration versus natural increase in the urban population growth of Uganda.

The large share of urban population growth due to reclassification of settlements underlines the importance of urban definitions and the process of reclassification for interpreting official statistics on urbanization. There are signs that urban definitions have not been applied consistently in Uganda, making it difficult to determine whether rapid urban expansion reflects swift functional and economic changes or simply a delayed “catch-up” of official definitions to realities on the ground (see **Appendix 1**). Employment trends discussed in subsequent chapters indicate that Uganda’s economic transformation is slower and subtler than urbanization figures might suggest. In any case, the proliferation of new urban settlements highlights the need to consider strategies for stimulating opportunities in towns and urban areas beyond Kampala.

Box 2: The Promise of New Cities

Kampala is the only settlement in Uganda that has been designated as a city. The city’s governance structure is unique compared to other urban settlements, with a corporate body, the Kampala Capital City Authority, overseen by a dedicated national minister. The political and public debate on granting city status to additional settlements has been ongoing for years, with various lists of urban areas proposed as potential candidates.

Uganda’s main long-term strategic planning document, the Vision 2040, identifies urbanization as a key driver of development. The vision names five regional cities and five strategic cities that will form nodal points in Uganda’s future urban hierarchy. The five regional cities are Kampala, Gulu, Mbale, Mbarara and Arua. The five strategic cities have been chosen for their specific economic potential—Hoima (oil), Nakasongola (industrial), Fort Portal (tourism), Moroto (mining) and Jinja (industrial)—although the vision does not elaborate on this potential.

The public discussion on the declaration of new cities has intensified more recently,⁵¹ and government stakeholders with whom JustJobs Network met expected a formal legal framework for granting the new status to be approved by July 2019. The Cabinet indeed approved plans for the creation of nine new cities, which consist of Arua, Gulu, Jinja, Fort Portal, Mbarara, Hoima, Mbale, Lira and Entebbe. Though the new status will be granted gradually with the first batch of five cities to be declared in 2020, another two are to follow in 2021 and the last two in 2022.

However, beyond gazetting of the new cities, no clear plan has emerged for the institutional and financial arrangements for governing them. Nevertheless, many government officials at the central and local government (LG) level expressed great optimism on the benefits of the new city status for secondary urban areas in terms of additional funding, foreign investment and overall heightened profile within Uganda. In contrast, stakeholders outside government are skeptical about the prospects of the declaration of new cities to jumpstart growth or job creation.

Without a clear plan, it is hard to make any assessment on the likely impact of this initiative. On the one hand, the lack of detailed planning and risk of creation of duplicate government structures should be a cause of concern. On the other, the political support for the declaration of new cities provides a window of opportunity to strengthen the capacity of LGs in secondary and tertiary urban areas. As discussed in later chapters, Uganda’s political appetite for decentralization has been waning in recent years, and the declaration of new cities could be a chance to partially reverse this trend. Increasing funding for these local governments and providing more policy autonomy on job creation initiatives could help improve their ability to foster job creation and local economic development.

Sub-national urbanization trends

To understand sub-national urbanization and demographic trends, the report utilizes a typology of Ugandan districts based on the size of the largest city in the district (**Table 1, Figure 3**).ⁱ

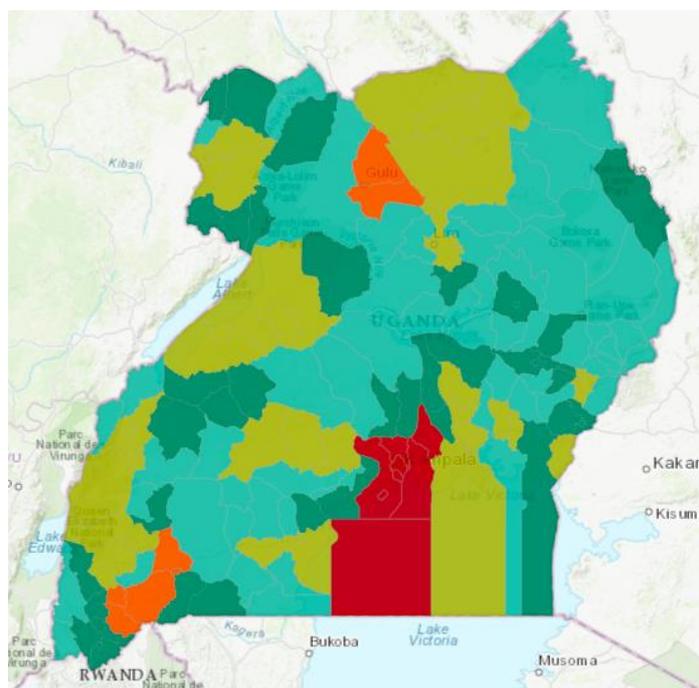
Table 1: Urban Structure of Uganda: Typology of Districts

Type	Description	Definition	Examples	Number of Districts in 2014	Population Share 2014	Share of National Urban Population	Urban population share in district type
1	Primary Urban Area	The main economic and demographic centre (Kampala) and satellite municipalities with physical and economic linkages to the main metropolitan area		4	12.0%	39%	68%
2	Secondary Urban Area District	Presence of a municipality of 150,000-200,000 residents as of 2014	Gulu, Mbarara	3	4.0%	6%	29%
3	Tertiary Urban Area District	Presence of a municipality or town council of 50,000-150,000 residents as of 2014	Lugazi, Masaka, Mbale, Jinja	26	26.3%	26%	20%
4	Small Town and Hinterland District	Presence of any municipality, or town council containing 20,000-50,000 residents as of 2014	Soroti, Kabale, Tororo	26	25.2%	16%	13%
5	Rural	No urban settlement of at least 20,000 residents as of 2014		53	32.5%	13%	8.4%

Figure 3 – Typology of Districts

- Primary Urban Area
- Secondary Urban Area District
- Tertiary Urban Area District
- Small Town District
- Rural District

Districts were categorized based on the size of the largest city in the district in 2014.



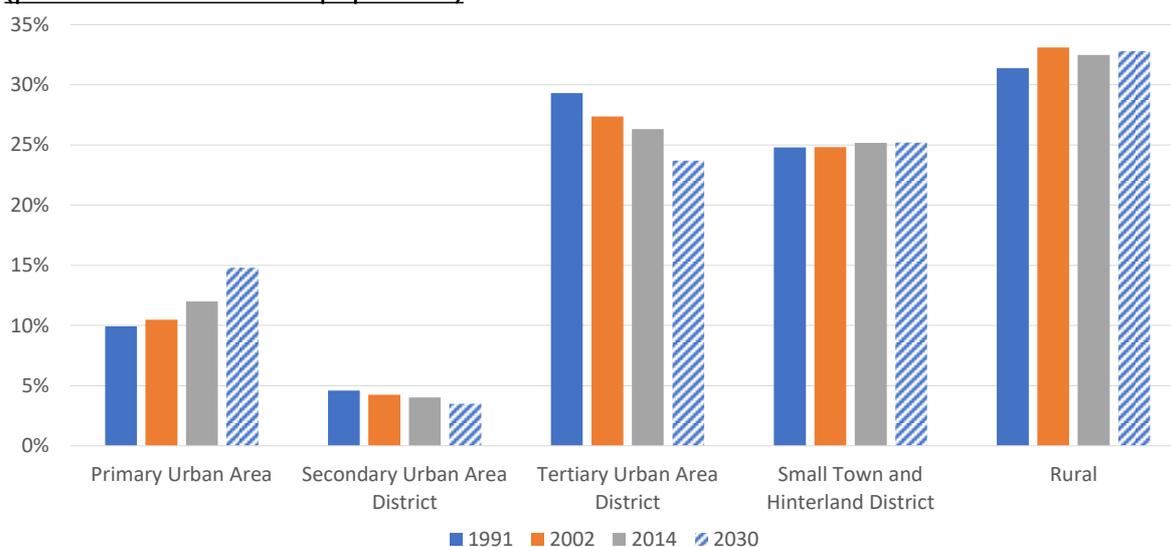
As in many other African countries, the capital city of Kampala dominates the urban hierarchy (**Figure 4**). Within the official boundaries of Kampala Capital City Authority (KCCA), the city hosts a population of 1.5 million. However, this figure does not reflect the true size of the metropolitan

ⁱ District rather than city level-data were used due to the ambiguity in official urban boundaries discussed above, and to avoid problems of inconsistent definitions due to changes in administrative boundaries. Another advantage of this approach is that it considers urban centers in conjunction with their rural hinterland, reflecting the important role of cities as regional centers for the surrounding rural communities.

area, since it is growing through urban sprawl beyond its current boundaries.ⁱ The greater Kampala region, including nearby municipalities and town councils (Nansana, Kira, Makindye and Mukono), houses a total urban population of 2.8 million, or approximately 39 percent of the total urban population in the country.

There are increasing efforts to improve coordination of planning across the Greater Kampala Metropolitan Area, which includes KCCA, Wakiso, Mukono and Mpigi. The GKMA is broadly equivalent to the definition of the primary urban area in the district typology being applied here, and hosts a total population of 4.2 million people.ⁱⁱ

Figure 4 – Population Distribution Across District Types 1991 – 2014
(percent of total national population)



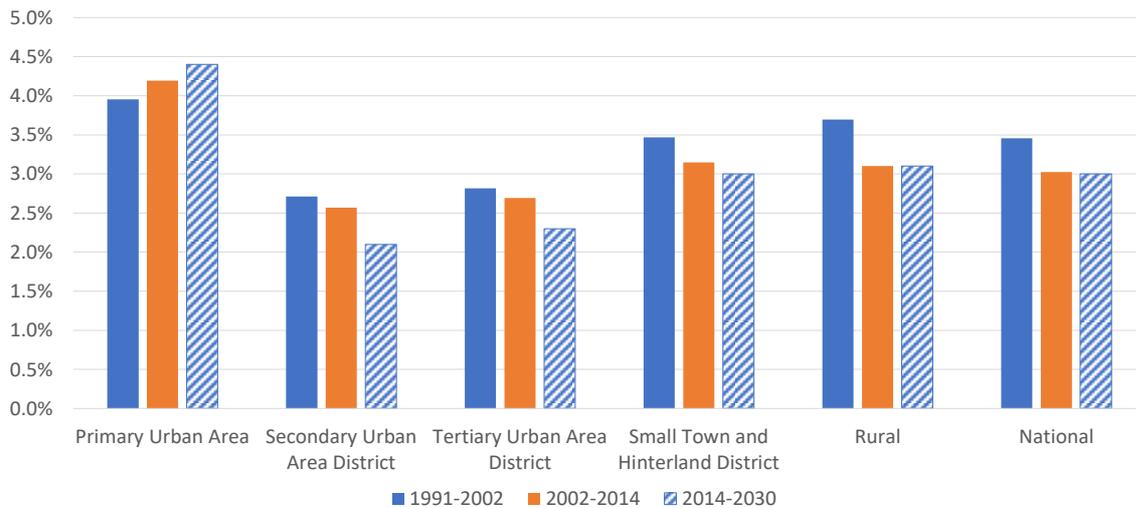
Source: National Population and Housing Census Data 1991, 2002, 2014, UBOS Population Forecast 2018

Kampala has recorded the fastest population growth of any district type in our typology (**Figure 5**). Greater Kampala’s population share of the country had increased to 12 percent by 2014 and is projected to reach 15 percent by 2030, with a population of approximately 8.25 million. Most of this growth is occurring outside the official boundaries of Kampala city, in the neighboring districts Wakiso and Mukono.

ⁱ In the period 1902-2010 the geographical area of Kampala is estimated to have expanded by an average annual rate of approximately 6 percent. World Bank. 2015. Uganda fifth economic update: the growth challenge - can Ugandan cities get to work? (English). Uganda economic update. Washington, DC: World Bank Group.

ⁱⁱ The primary urban area as defined here includes neighboring districts Wakiso, Mukono and Kalangala and is therefore not entirely aligned to the Greater Kampala Metropolitan Area, as it includes Kalangala district instead of Mpigi district. Though this is a minor discrepancy as the populations in Kalangala and Mpigi make up 1% and 5% of the populations of the combined populations of Kampala, Wakiso and Mukono.

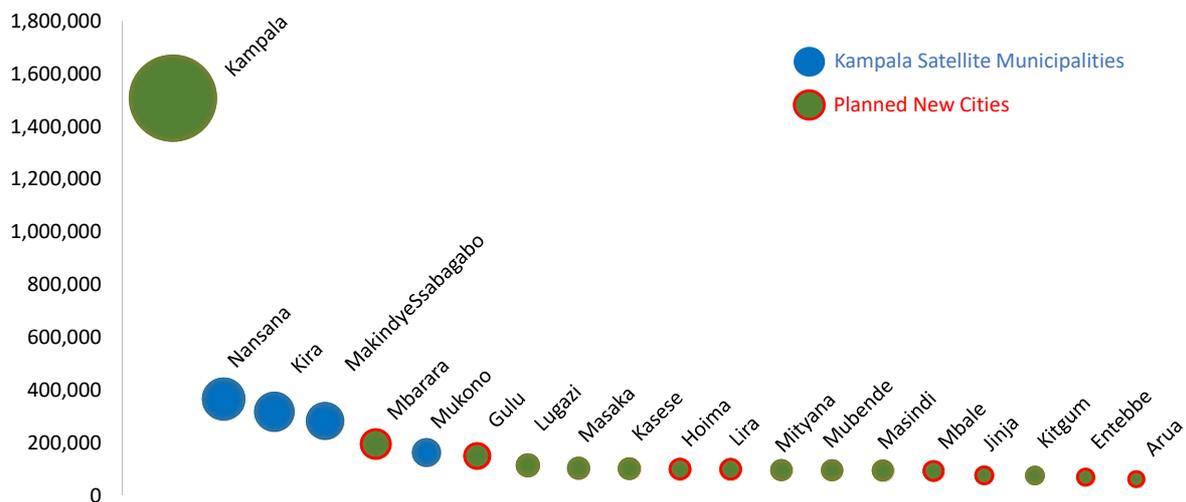
**Figure 5 – Population Growth Across District Types 1991 – 2014
(cumulative annual percentage growth)**



Source: National Population and Housing Census Data 1991, 2002, 2014, UBOS Population Forecast 2018

Beyond Kampala and its satellite municipalities and town councils (Nansana, Kira, Makindye Ssabagabo), Uganda has a very flat urban hierarchy, with no urban areas above 200,000 inhabitants (**Figure 6**). Secondary and tertiary urban areas are very small compared to Kampala; the next biggest urban area, Mbarara, only hosts 13 percent of the population of the capital city.

**Figure 6 – Top 20 urban settlements with the largest populations
(population in 2014)**



Note: Entebbe is missing from the list of planned new cities since it is not among the 20 largest settlements
Source: National Population and Housing Census 2014

Gulu and Mbarara are the only two non-primary urban areas with a population at or above 150,000. The urban areas are the main urban centers for a combined population of 1.4 million across their

two districts, or 4 percent of the national population. Over the past two census periods, population growth in the secondary urban area districts has been slower than in any other type of district.ⁱ

Further down the urban hierarchy, the category of tertiary urban area districts consists of municipalities that have populations between 50,000 and 150,000. Approximately 9 million Ugandans, or 26 percent of the country's population, lives in a district where the largest urban center is a tertiary urban area. Population growth in these districts has been sluggish as well, with a decline in population shares over both inter-census periods.ⁱⁱ

Migration patterns

Migration patterns across different geographies reveal a high degree of mobility and substantial movement across geographies as reflected in net-migration figures (**Figure 7**; a more detailed migration table is shown in **Appendix 2**).ⁱⁱⁱ

One pattern of migration that stands out is the movement of the population to Kampala (**Figure 10**). The growing population concentration in the capital city area can be attributed to net immigration from the rest of the country (**Figure 7**), which contributed 38 percent of its total population growth in the inter-census period. About 43 percent of these migrants came from secondary and tertiary districts, 49 percent originated in type IV and V districts, and seven percent outside Uganda (**Figure 8**). During the same period, secondary and tertiary urban area districts experienced net emigration equivalent to 7 and 2 percent, respectively, of their total 2014 population—meaning more people were leaving than arriving in the district.^{iv, v}

ⁱ Despite this, the main urban centers within the districts, Gulu and Mbarara Municipalities, have grown at rates above the national population growth rate (**Appendix 9**), suggesting some in-migration from the rural parts of the district. These population dynamics are in part the result of the conflict in Northern Uganda, which drove an influx of rural migrants into Gulu and other urban areas in the 1990s and early 2000s. Urbanization dynamics in Uganda have been affected by conflict, especially the Northern region of the country where the Lords Resistance Army (LRA) was operational until 2006. The Ugandan army, realizing the LRA drew strength from the civilian population, also forced over 1.7 million Ugandans into makeshift camps between 1996 and 2006. Some cities, such as Gulu and Lira, experienced a large influx of population due to insecurity in the countryside. Between 1992 and 2002, the population of Gulu grew at an average rate of 11 percent per annum, tripling its population over the 11-year inter-census period. The LRA has been out of Uganda since 2006 and the improved security situation has slowed the population influx in more recent years with population growth in Gulu dropping to 2 percent during the last inter-census period.

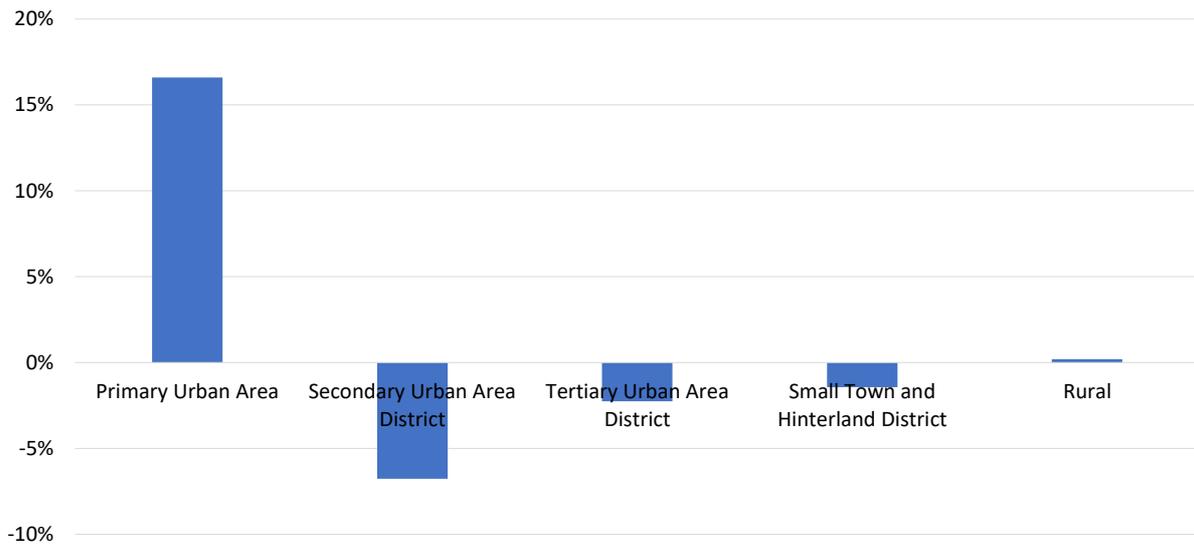
ⁱⁱ Similar to secondary urban area districts, the growth of the largest urban centers has been higher than the predominantly rural hinterland, with rates above the natural population growth rate (**Appendix 10**). The aggregate figures mask substantial variation across municipalities as well, with population growth ranging from 2-18 percent per year. Notably, older established municipalities such as Jinja, Entebbe, Mbale, Fort Portal and Lira show the lowest growth rates, while emerging towns such as Lugazi, Mubende, Masindi, Mityana and Kamuli are expanding rapidly.

ⁱⁱⁱ Net migration figures indicate the movement of population from one geography to another, adjusted for movement in the other direction.

^{iv} In secondary urban area districts, the largest share (40 percent) of emigrants relocated to rural districts, and 22 percent moved to the capital city region. The migration to rural areas is linked to the improved security situation in the north of the country after 2006, enabling the return of formerly displaced individuals to their rural places of origin. This is reflected in the positive although small net immigration observed in predominantly rural (type V) districts. Another factor behind the positive migration flows could be that many type V districts were newly established in the inter-census period (37 of the 53). The establishment of government administrations may have had an impact on the migration flows towards these areas. Kampala was the main destination for emigrants from tertiary (type III) and small-town (type IV) districts, while migrants from rural (type V) districts were more inclined to relocate to smaller urban area districts. This is presumably because these cities are more accessible for rural residents, as discussed above.

^v The aggregate figures across typologies presented here broadly reflect the district level trends. For instance, all capital city districts experienced positive net migration in the inter-census period. In contrast, all type II districts and approximately two-thirds of tertiary urban area and small-town districts experienced net out-migration.

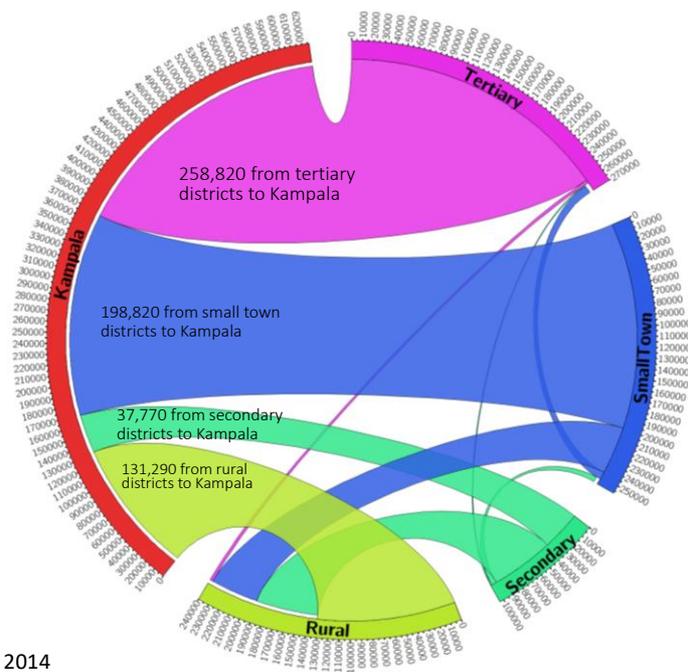
**Figure 7 – Net migration share of total population in district type, 2002-2014
(inter-census net-migration as percentage share of total population)**



Source: National Population and Housing Census 2002, 2014

Figure 8 – Net Migration* flows between typologies 2002-2014

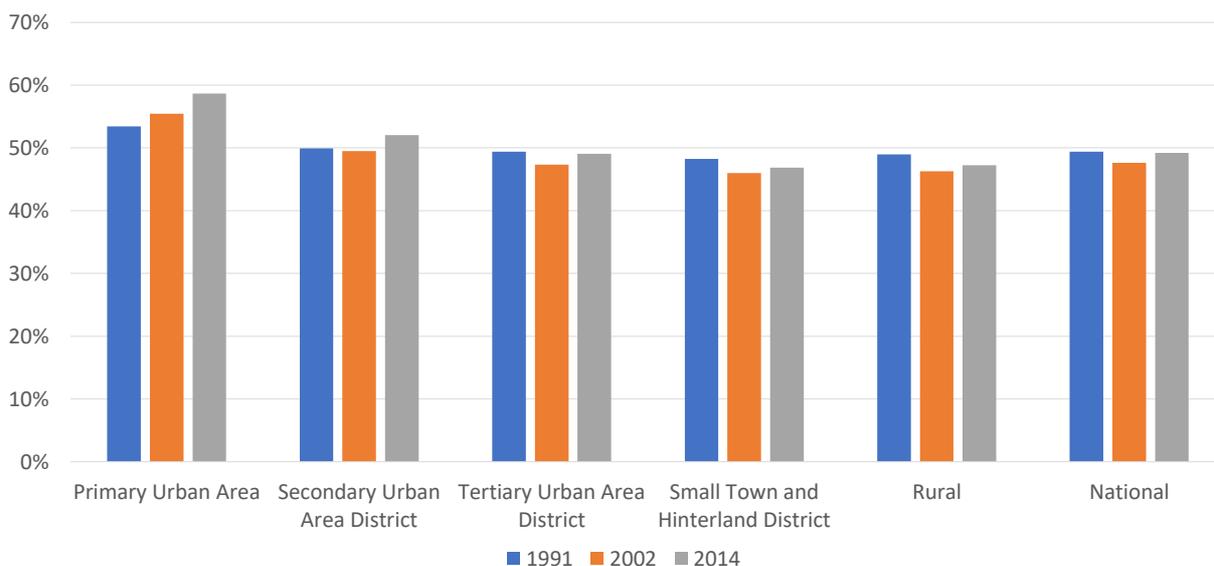
*Net migration figures indicate the movement of population from one geography to another, adjusted for movement in the other direction.



Source: National Population and Housing Census 2002, 2014

The distribution of the economically active population across different geographies suggests that primarily younger, working-age migrants are moving to larger urban centers. The capital city region hosts an especially disproportionate share of the working-age population whose share increased by 5 percentage points from 1991 to 2014 (**Figure 9**). The youth share (ages 15-30) of the working age population also increased in Kampala, unlike all other geographies where it declined (Appendix 10).

Figure 9 – Working-age population (15-64) as share of total population, 1991-2014



Source: National Population and Housing Census Data 1991, 2002, 2014

These differences in the age structure across geographies have major implications for their development trajectories, with the benefits of the demographic dividend unequally distributed across different geographies. Theoretically speaking, a 1 percent increase in the share of the working age population leads to a 1 percent increase in GDP per capita, assuming fixed labor productivity. In practice, of course, the right set of policies is required to harness the economic benefits of a larger workforce in urban areas.

Economic and Employment Trends Across Districts

Overview

Urbanization tends to be linked to economic growth, structural transformation and labor market trends. The following sections delve into the economic and labor market factors shaping Uganda's urban landscape.

The demographic trends identified in the previous section are reflected in the labor market analysis. What makes Kampala such a popular migration destination is its disproportionate share of economic activity and a diversified economy. This also attracts the best qualified labor force with the highest educational attainment. Labor market outcomes and the quality of employment in Kampala are also far better than in other geographies, with more wage jobs and higher paying jobs compared to secondary and tertiary urban area districts.

The economic primacy of Kampala is not necessarily surprising. As the capital city, it has a regional and global reach and has to compete with other metropolises in the region, especially with Uganda's continued integration into the East African Community. Nevertheless, Uganda must create more growth centers beyond Kampala to provide pathways to opportunity for its growing youth population. A declining real wage and increasing unemployment in Kampala may be the first signs that the city's labor market is becoming saturated.

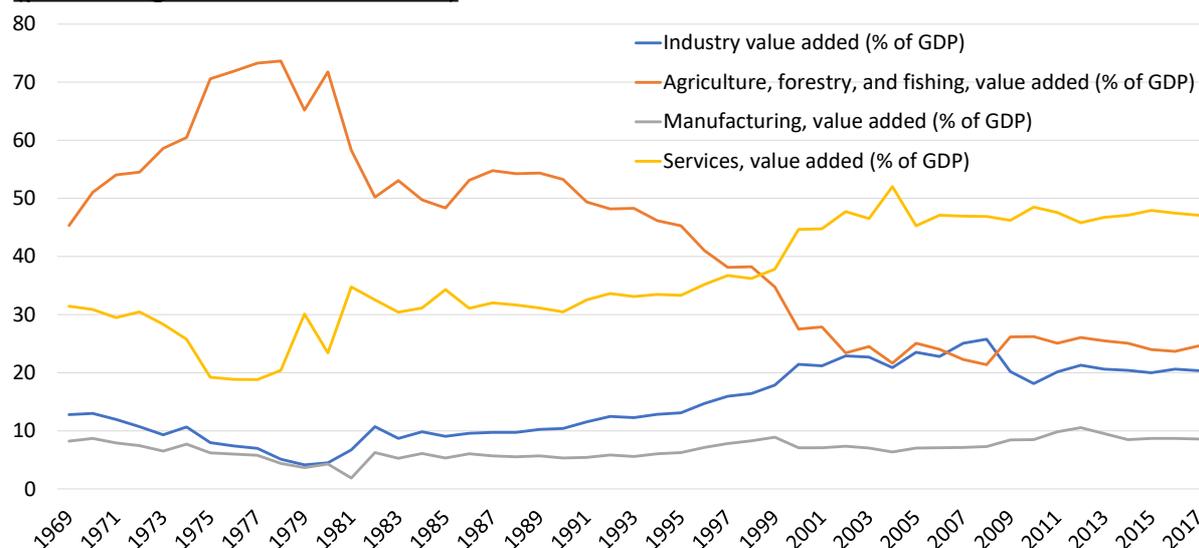
Currently, Uganda's secondary and tertiary urban area districts do not provide viable alternatives for the large migrant youth populations searching for better economic opportunities. Structural transformation in secondary and tertiary urban areas has been proceeding slowly, failing to expand the range of non-farm employment opportunities. Most employment continues to be in the form of unproductive self-employment instead of wage work, as well as in agriculture. Nevertheless, there have been some improvements over time: one, wage employment is increasingly being created outside of Kampala, even though a large gap remains; and two, the share of qualified labor found in non-primary urban areas has increased in the last inter-census period. Greater focus on job creation and economic development in these geographies can accelerate the momentum.

Macroeconomic context

The demographic shifts presented above occurred during a period in which Uganda's economy maintained positive growth in GDP (see **Appendix 8**). Growth occurred with a shift in the structure of GDP towards services and industry and away from agriculture (**Figure 10**)—although 70 percent of the working population remains employed in agriculture.

There was a substantial drop in the share of the population living in poverty (56.4 percent in 1992 to 21.4 percent in 2016), which suggests that the economic boom benefited a wide segment of the population.

Figure 10 – Sector Shares of GDP, 1991-2014
(percentage share of total GDP)



Source: World Bank World Development Indicators

Major policy and institutional reforms implemented since the late 1980s have contributed to Uganda’s impressive economic growth trajectory. These occurred in three phases:⁵²

- **Stabilization:** Beginning in the late 1980s, after decades of turmoil and conflict, the country underwent a period of “stabilization” of the security situation and the economy through market liberalization reforms.ⁱ
- **Education and other social policies:** From the mid-1990s to 2010, government policy emphasized poverty reduction, with increasing investment in education and health coupled with policies to promote entrepreneurship and self-employment.¹⁵
- **Industry development:** From about 2010, structural transformation of the economy has increasingly become the policy focus, with a shift from spending in social sectors to infrastructure investment and emphasis on industrialization initiatives, including a renewed drive to establish industrial parks countrywide.⁵³

Existing studies suggest these policies achieved some successes. Non-agricultural wage employment grew rapidly, labor productivity doubled from 1990 to 2010, and real wages have also grown considerably, while the share of working poor has declined.⁵⁴ Analyzing demographic and labor market trends over this period of time allows us to uncover the spatial consequences of the changing policy regimes - in particular, differences in labor market trends and outcomes across urban areas of different sizes.

Primacy of Kampala in economic opportunity

The concentration of economic activity in Kampala is consistent with a primate urban system—a system where a single city dominates an urban and economic system. Data on district GDP suggest that Kampala accounted for almost 50 percent of national GDP in 2014. GDP per capita was more than three times higher in Kampala than in secondary urban area districts, and almost five times the figure for tertiary urban area districts (**Table 2**).ⁱⁱ

ⁱ Market liberalization reforms followed, with privatization, tariff reductions, retrenchment of 210,000 public sector and military employees, tightening fiscal controls and promotion of foreign direct investment. This was accompanied by a program of public enterprise reforms and divestitures.¹

ⁱⁱ On a more granular level, seven out of the ten districts with the highest GDP per capita are located in the Central Region close to Kampala. The three districts outside the central region are

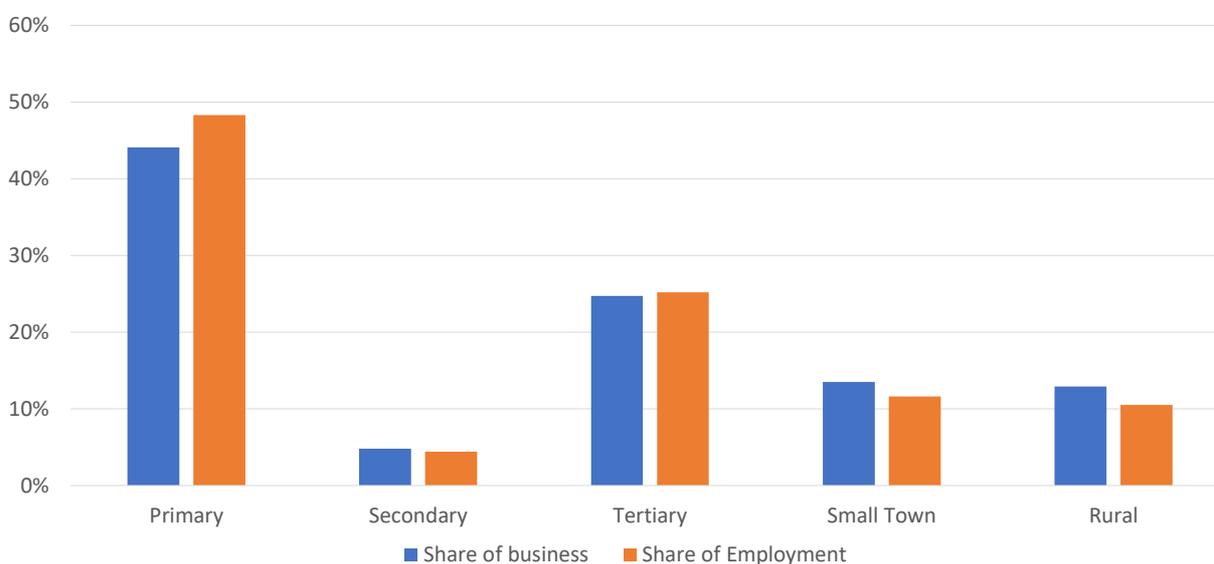
Table 2 – GDP, GDP per capita and Population Shares Across District Types (2014)

Type	GDP Share	Population Share	GDP per capita USD
Primary City Districts	50.0%	12.0%	2,440
Secondary Districts	4.8%	4.0%	719
Tertiary Districts	23.9%	26.3%	546
Small Towns	12.0%	25.2%	286
Rural Districts	10.7%	32.5%	199

Source: Jonathan D. Moyer, Mickey Rafa, Paul Sutton, Xuantong Wang. 2017. "Estimating District GDP in Uganda" Invited Research Paper for USAID. The Frederick S. Pardee Center for International Futures, University of Denver, Denver, CO. National Population and Housing Census Data 2014

These findings are reflected in the 2010 Census of Business Establishments.ⁱ Unsurprisingly, most firms and firm jobs are in Kampala (**Figure 11**), which hosts almost 50 percent of all non-farm enterprise-level jobs and 44 percent of all business establishments countrywide. Secondary and tertiary urban area districts together generate approximately 30 percent of all firm-level jobs.

Figure 11 – Distribution of businesses and employment across district types 2010 (percentage share of total number of businesses and employment)



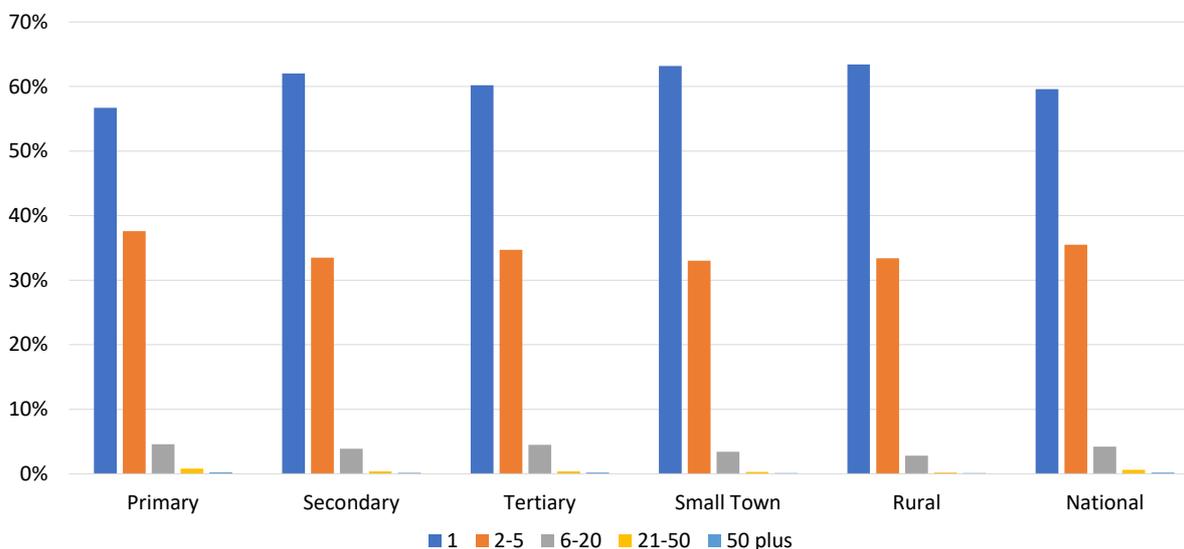
Source: Census of Business Establishments 2010

Mbale, Mbarara and Kasese. The GDP per capita in Mbarara is almost double the figure for Gulu.

ⁱ Data from the 2010 Census of Business Establishments gives a snapshot of employment by firms. The census includes formal and informal firms, but subsistence agriculture is excluded, hence the data largely sheds light on non-farm occupations. Commercial agriculture is only a small share of agricultural activity.

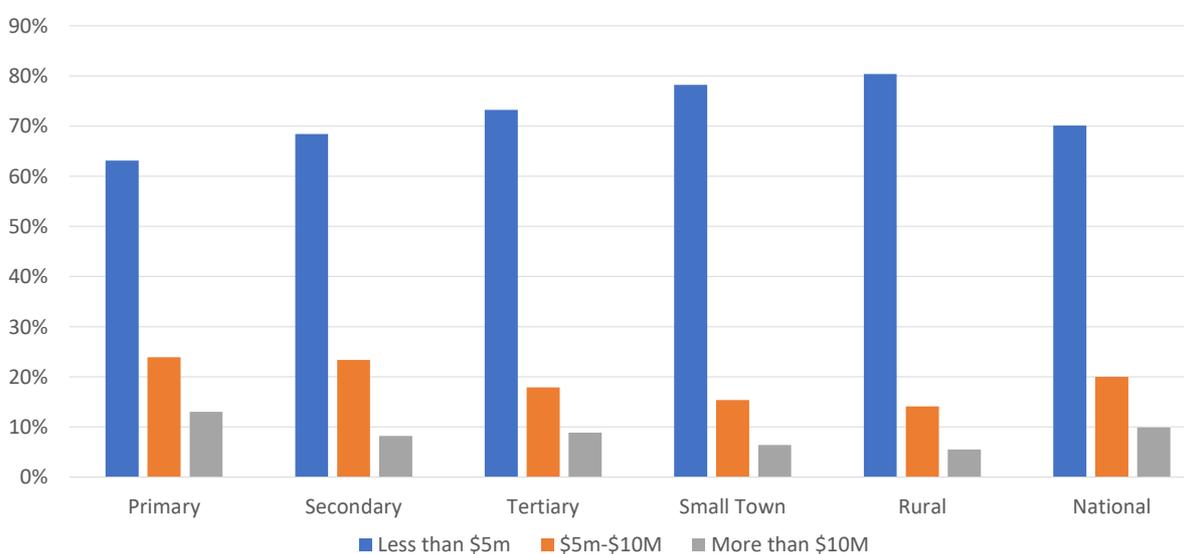
In terms of employment, average establishment size is largest in Kampala, but only by a relatively small margin. This is because 95 percent of establishments country-wide employ fewer than 5 employees (**Figure 12**), and 55 percent are operated as sole proprietorships. Sales figures reflect this, with 70 percent of businesses reporting annual sales below 5 million UGX (approximately US\$ 2300) (**Figure 13**).

Figure 12 – Distribution of businesses across employment categories and district types 2010, (percentage share of total number of businesses and employment)



Source: Census of Business Establishments 2010

Figure 13 – Distribution of businesses across turnover categories and district types 2010, (percentage share of total number of businesses and employment)

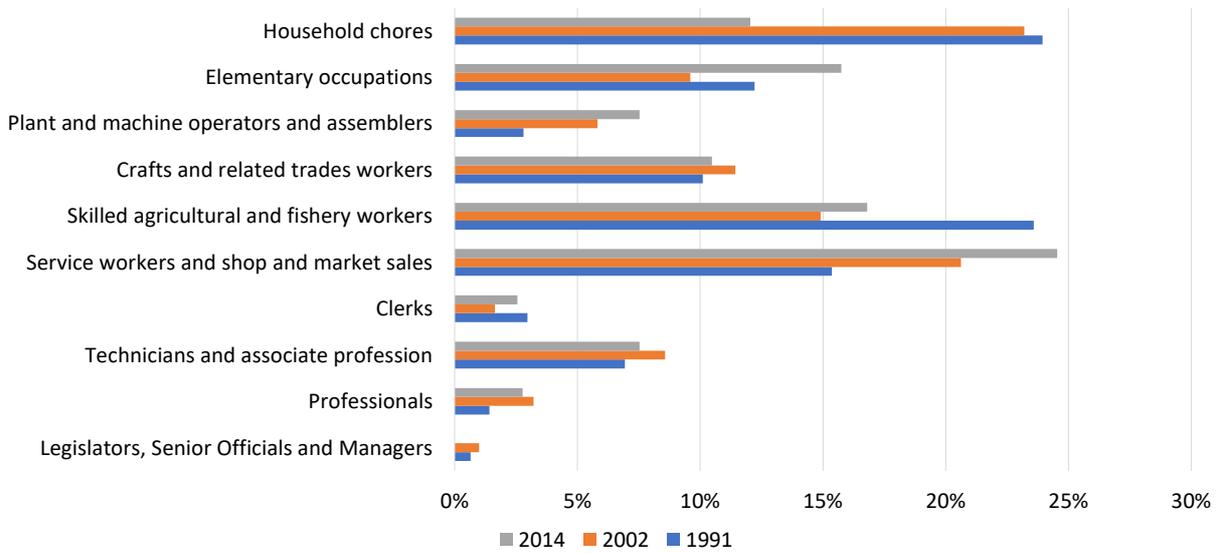


Source: Census of Business Establishments 2010

Outside Kampala, Uganda remains a predominantly agrarian economy

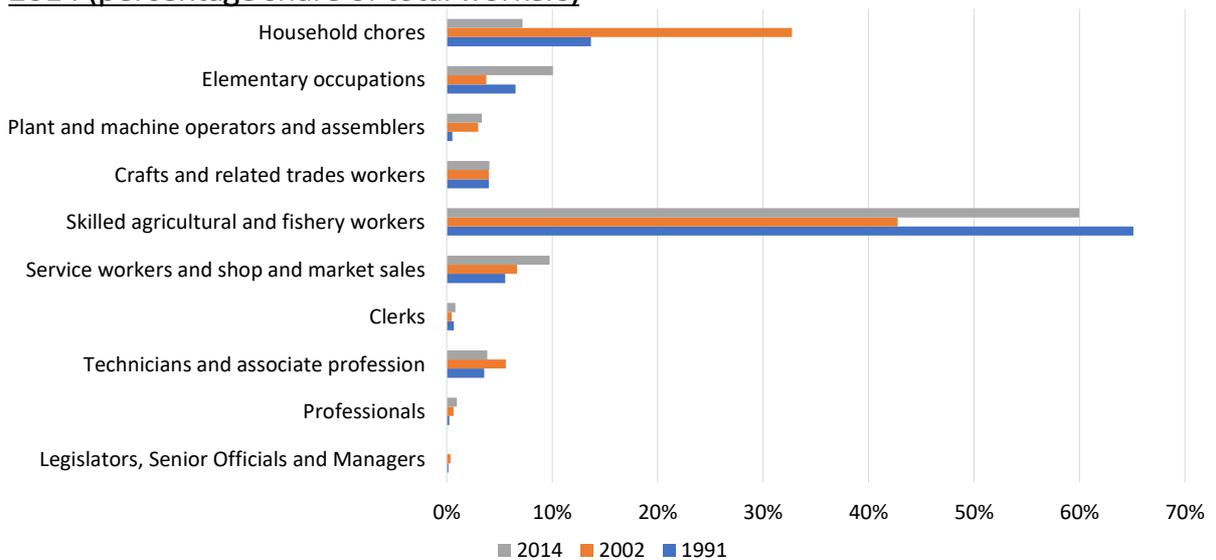
The distribution of employment across economic sectors further underlines the stark difference between the capital city area and other geographies in Uganda (**Figures 14-16**). (The discussion is focused on Primary, Secondary and Tertiary District, but charts for Small Town and Rural districts are shown in **Appendices 3 and 4**).

Figure 14 – Primary Urban Area Workers by Occupation Category 1991-2014 (percentage share of total workers)



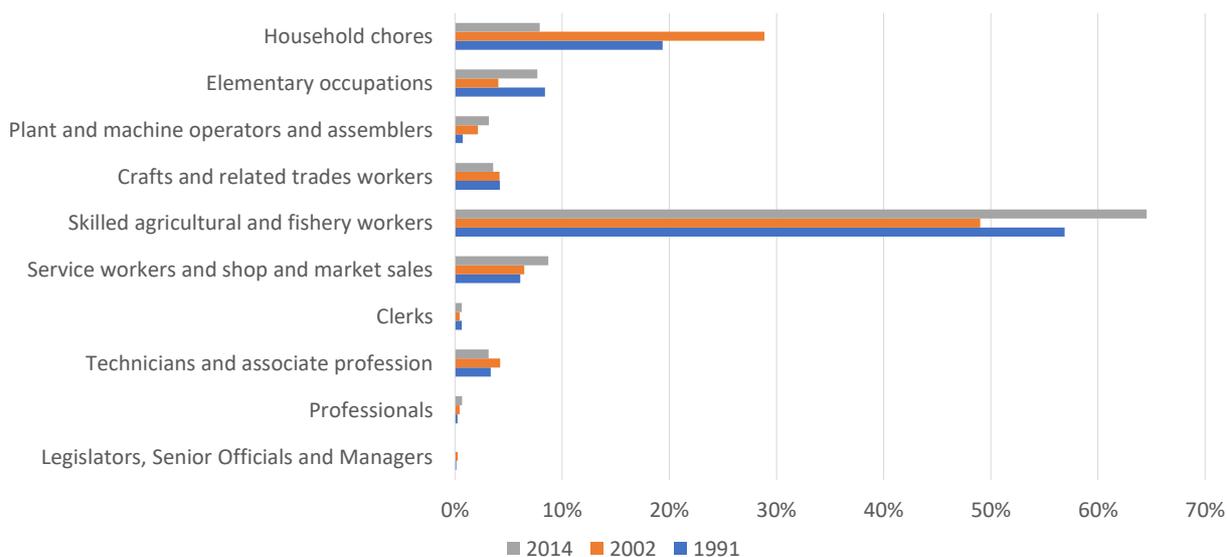
Source: National Population and Housing Census Data 1991, 2002, 2014

Figure 15 – Secondary Urban Area District Workers by Occupation Category 1991-2014 (percentage share of total workers)



Source: National Population and Housing Census Data 1991, 2002, 2014

Figure 16 – Tertiary Urban Area District Workers by Occupation Category 1991-2014 (percentage share of total workers)



Source: National Population and Housing Census Data 1991, 2002, 2014

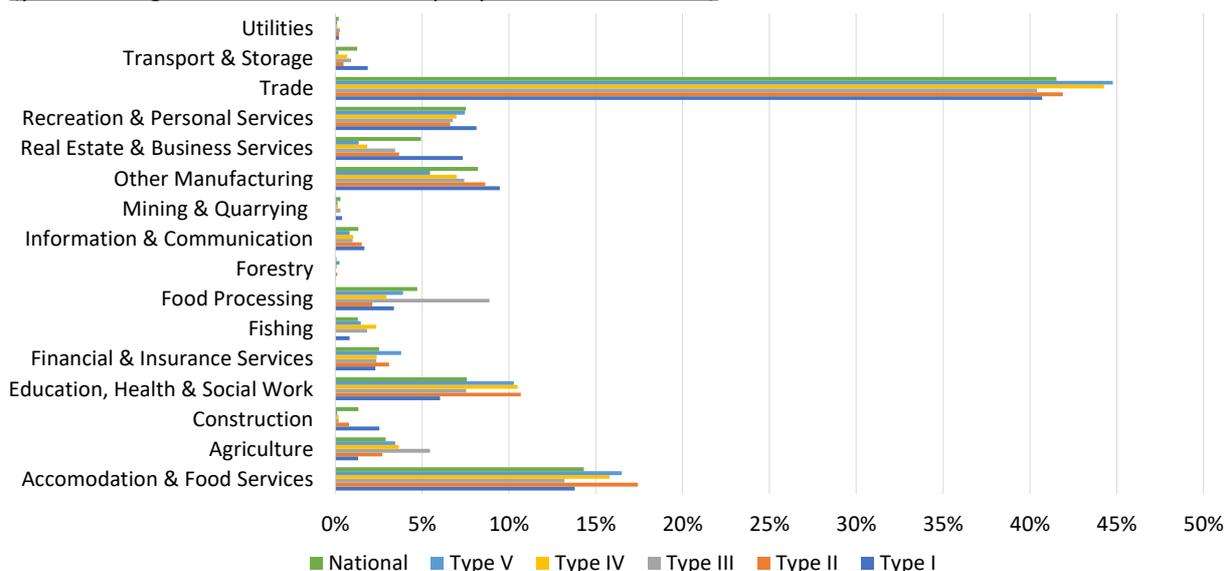
Greater Kampala is the only place in the country with a diversified economy, where a large share of workers is employed in the service sector, and non-agricultural occupations such as plant operators and technicians are on the rise. The shift in the structure of employment from agrarian activities was particularly rapid in the 1990s and continued into the 2000s at a slower pace. Even in Kampala, however, the growth in employment is predominantly outside industry and in non-tradable sectors.⁵⁵ Urban labor markets that are heavily dependent on such forms of employment generally have higher poverty rates and lower welfare levels as compared to those with large numbers of industrial and tradable service sector jobs.⁵⁶

Outside of Kampala, Uganda remains a predominantly agrarian economy, with at least 60 percent of workers employed in agriculture across all districts.ⁱ Some workers in secondary and tertiary urban area districts have shifted to non-farm occupations, such as service workers and plant and machine operators. Nevertheless, the share of agricultural work has only declined marginally in secondary urban area districts, and in tertiary urban area districts it has actually increased.

Firm-level sectoral employment figures from the 2010 Census of Business Establishments provide further insight on the capabilities and competitiveness of different sectors across geographies (**Figure 17**). Across all typologies, most firms outside agriculture operate in services. This includes wholesale and retail trade, recreation and personal services, with a significant share of firms in food and accommodation services. Together, these enterprises account for approximately 85 percent of businesses in the census.

ⁱ All district types recorded a substantial temporary decline in the share of agricultural workers in the 1990s but a recovery in the 2000s. This shift occurred in parallel with an equivalent but opposite shifts in the share of household work. We interpret these shifts as a statistical anomaly caused by the lack of detailed screening questions in the survey that would make it difficult to distinguish between individuals who were employed in a household enterprise and those performing household chores

Figure 17 – Sectoral Distribution of Firm Employment Across Districts 1991-2014 (percentage share of total employment in district)



Source: Census of Business Establishments 2010

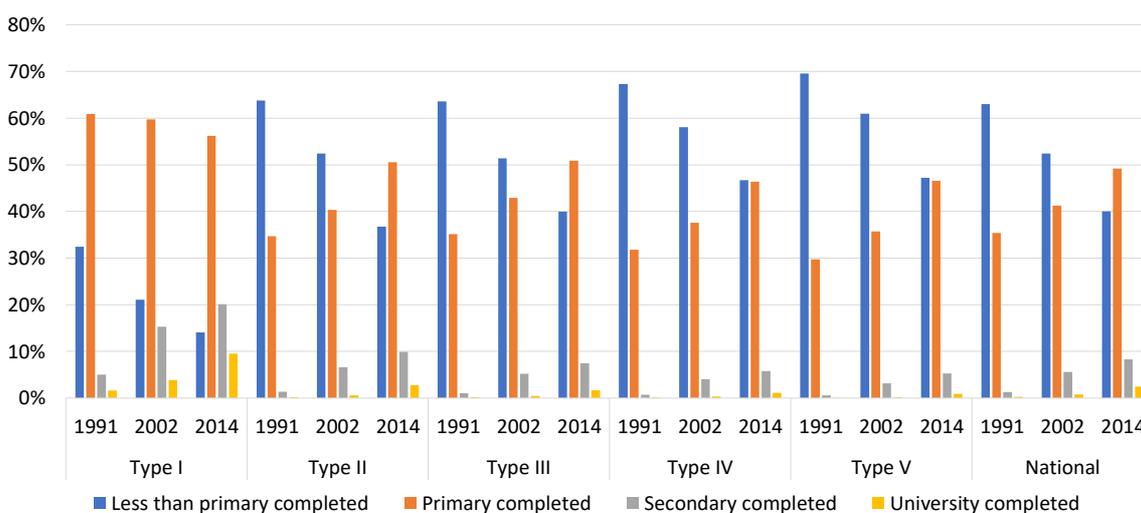
Comparing sector employment share in Kampala to national employment reveals that the capital city region has a relatively higher share of employment in construction, ICT, manufacturing, real-estate, recreation and personal services, and transport and storage. Some of these sectors are also present in secondary and tertiary urban area districts, although these smaller towns tend to rely more on employment in agriculture and agro-processing, education and health work.

The lack of any significant movement of workers out of agricultural occupations outside Kampala suggests that the rapid urban expansion observed in official statistics has not been associated with the same degree of functional and economic transformation of the emerging urban settlements. Nevertheless, areas outside of Kampala may be witnessing a subtler form of economic transformation. Existing studies find evidence of a transformation within the agricultural sector through diversification into higher value-added crops and growth of non-agricultural household enterprises.⁵⁷

The spatial distribution of qualified labor mirrors economic opportunities

While Kampala continues to host a disproportionate share of the most qualified workers, educational attainment in the labor force has improved across the board over the last two inter-census periods (**Figure 18**).

Figure 18 – Educational Attainment Across District Types (2014)
(percentage share of working age population)



Source: National Population and Housing Census Data 1991, 2002, 2014

Secondary and tertiary urban areas have levels of primary school completion similar to Kampala’s, but the gap widens for post-primary education: approximately 55 percent of all the country’s university graduates and 35 percent of secondary school graduates reside in Kampala.ⁱ Education levels are an important determinant of labor market outcomes in Uganda, as in most countries. Kavuma (2014) estimates lifetime returns to primary education at 4-5 percent, and secondary at 8-9 percent in the country.^{58,ii}

Labor market outcomes in Kampala are fundamentally different from smaller urban settlements

The share of the working population^{iii,iv} as a percentage of the total population is generally lower in more urban districts (Figure 19), though with a large divergence between Kampala and the rest of the country. This gap is mirrored in the unemployment rate (calculated as a share of the economically total population) (Figure 20) and the share of inactive individuals (Appendix 5), both of which are higher in geographies with larger urban centers.

ⁱ Completion rates may overestimate the quality of education.

ⁱⁱ Kavuma also finds that if one is employed in the informal sector, the marginal returns to technical education are higher than the marginal returns for an extra year in university.

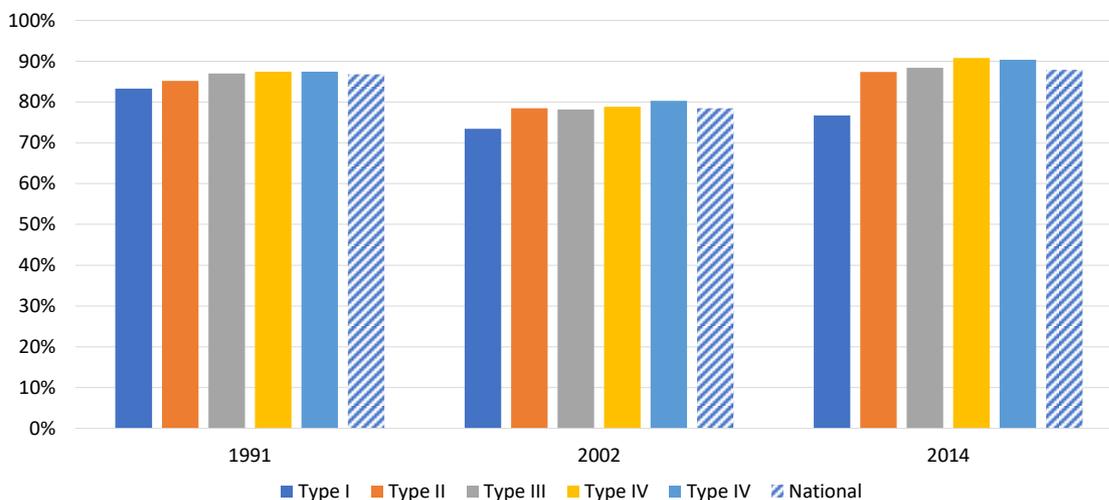
ⁱⁱⁱ Although we are not aware of any methodological changes in the collection of employment data in the population and housing census, the limited reference period and lack of information on primary versus secondary economic activities can lead to variation over time, which do not reflect changes in employment outcomes. For a more detailed discussion see: Fox, Louise; Pimhidzai, Obert. 2013. *Different dreams, same bed: collecting, using, and interpreting employment statistics in Sub-Saharan Africa -- the case of Uganda (English)*. Policy Research working paper; no. WPS 6436. Washington, DC: World Bank.

Fox, Louise; Pimhidzai, Obert. 2011. *Is informality welfare-enhancing structural transformation? evidence from Uganda (English)*. Policy Research working paper; no. WPS 5866. Washington, DC: World Bank.

^{iv} To assess labor market outcomes across different geographies, traditional indicators have been adapted to the population census data. The census data include few screening questions, and is therefore unable to consistently distinguish between active and inactive workers and identify secondary employment activities. Instead of traditional indicators such as labor force participation (employed and unemployed) and inactive, working, unemployed and inactive population are considered. Unemployment is calculated as the share of the active population (working and unemployed). The working population differs from the employed population in that it includes “household chores and work” that is normally not characterized as employment and normally categorized under the inactive part of the labor force.

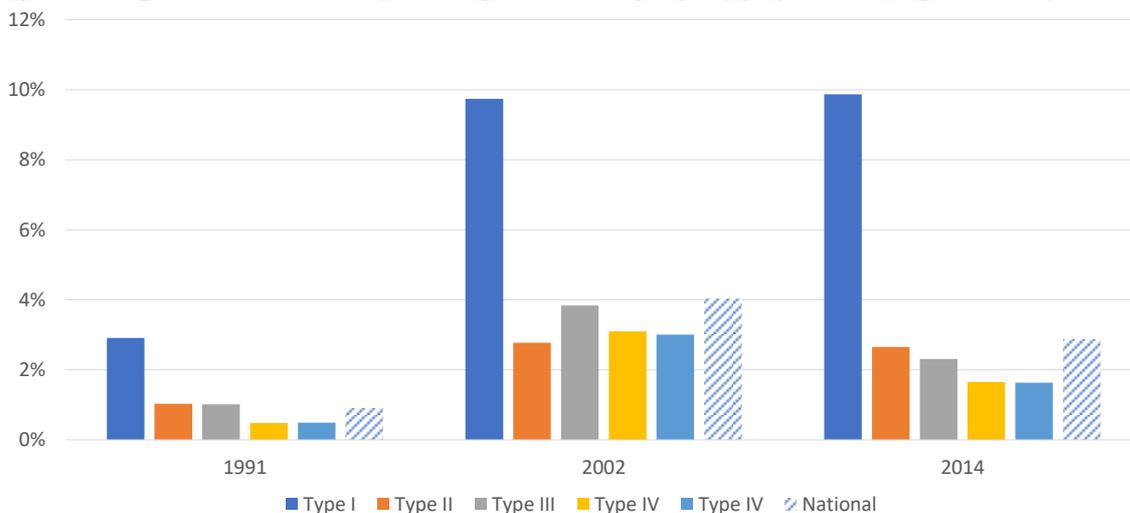
During the 1990s, the government’s liberalization policies, combined with increased investment in education and the effects of the HIV epidemic caused the share of the working population to decline countrywide, and unemployment and inactivity (due to schooling) to increase.

Figure 19 – Working population as a share of total working age population (ages 15-64) across districts (%), 1991-2014



Source: National Population and Housing Census Data 1991, 2002, 2014

Figure 20 – Unemployment rate across districts 1991-2014 (percentage share of active (working and unemployed) population, ages 15-64)



Source: National Population and Housing Census Data 1991, 2002, 2014

The higher levels of unemployment and inactivity found in Kampala do not necessarily indicate worse labor market outcomes. Contrary to usual interpretations, in a developing country setting with high poverty levels and lack of a social safety net individuals may not be able to afford to not participate in the labor market. Instead, unemployment and inactivity may reflect higher savings and a diverse job market, motivating individuals to wait for more desirable employment or stay in school longer.

There are signs that Kampala’s labor market is becoming saturated

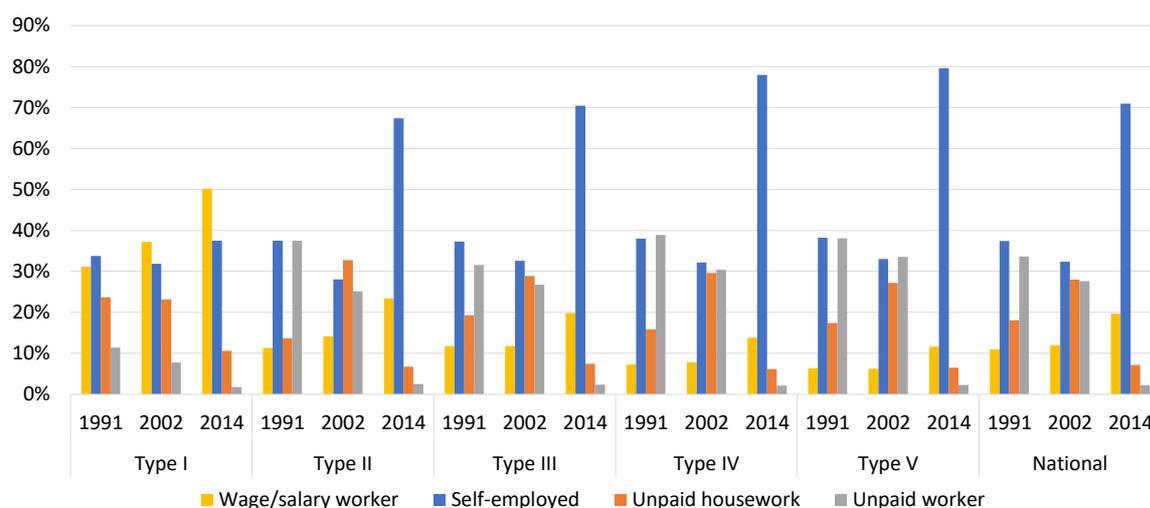
The divergence in unemployment and labor force participation and between Kampala and the rest of the country became more pronounced in the 1990s. The difference grew further in the 2000s, as working-age population shares recovered everywhere except Kampala.

While Kampala may be expected to have higher levels of unemployment than the rest of the country, the continued increase in the unemployment level in Kampala at faster rates than elsewhere in the country may signal that the labor market is becoming saturated. Indeed, according to data from the Uganda National Household Survey, the real wage in Kampala and surrounding districts declined by 1-5 percent between 2012/13 and 2016/17. This may partly reflect a general slowdown in the national economy, although other regions saw rising real wages during the same period. Despite the decline, real wages in Kampala were at least 50 percent higher than in any of the 14 regions for which data are available.⁵⁹

Most good jobs are in Kampala, but employment conditions are improving in smaller settlements

To assess the type of employment outcomes across geographies, four types of employment were considered: wage employment, self-employment, unpaid employment and unpaid housework (Figure 21). Wage employment can be considered superior to self-employment, since many self-employed individuals are so-called “unwilling” or subsistence entrepreneurs. For this group, self-employment may be a last resort and less desirable than wage employment.ⁱ

Figure 21 – Work status across districts 1991-2014
(percentage share of total workers in district)



Source: National Population and Housing Census Data 1991, 2002, 2014

On a national level, employment outcomes have seen a shift towards paid employment, with a higher share of wage/salary employment and self-employment, and declining shares of unpaid employment and unpaid household work.

The availability of better jobs is especially evident in Kampala, where wage/salary employment has become the dominant form of employment. Almost 50 percent of new wage jobs created in the 1990s were located in Kampala. After 2002, however, the distribution of new jobs became more balanced across different geographies. Labor markets in secondary and tertiary urban areas and

ⁱ The Uganda Bureau of Statistics defines vulnerable employment as own-account workers and unpaid family workers Employers. These categories make up the bulk of self-employment. According to the Labour Force Survey from 2016/17 41 percent of self-employed individuals indicated they were self-employed because they could not find a wage of salary job, 13% were required to be self-employed by their family. (National Labour Force Survey 2016/17)

beyond have experienced positive change in the availability of wage work. Nevertheless, they continue to lag far behind Kampala, with most jobs categorized as self-employment or unpaid work.

In terms of growth in self-employment, the most drastic shifts took place outside Kampala. Most of the labor force that was previously engaged in unpaid work or household work shifted into self-employment. This is likely a result of the multitude of government policies to promote entrepreneurship, along with growing possibilities for income-generating activities, given increasing population and purchasing power in rural and smaller urban areas.ⁱ These findings are consistent with existing studies that point to increasing diversification and transformation of household income sources through entrepreneurship, especially among agricultural households.⁶⁰

Uganda's Future Urban and Economic Trajectory

Looking ahead, the urbanization of Uganda is expected to accelerate. While structural transformation of the economy, growth of new sectors and increasing incomes may serve to fast-track this process, they are not necessary preconditions. In fact, in much of Sub-Saharan Africa the link between urbanization and growth in GDP per capita is weaker than in other parts of the world.⁶¹ Given recent trends, the largest share of urban population growth will likely come from the emergence of new urban settlements and natural population growth within existing urban areas. These trends may or may not be linked to positive economic transformation. Some part of the urbanization process will also occur through increased rural-urban migration, but the relationship between migration and economic growth is also ambiguous; it can be motivated by urban pull factors like higher-paying jobs in urban areas, but also by rural push factors like the scarcity of cultivable land and environmental stresses, which could occur without an expanding economy.^{ii,62}

Uganda's urbanization trajectory is also likely to be fast-tracked by the development of recently discovered oil reserves. Studies have shown that resource rents tend to be associated with higher levels of urbanization by increasing incomes, which leads to higher demand for urban goods and therefore a shift in labor from rural to urban areas. Much of the resource-led growth is likely to occur in Kampala, where most of the resource rents will be spent. Although the country is also likely to experience growth of secondary and tertiary urban areas in the oil-producing regions, the direct employment impact of oil production is generally small. Instead, indirect employment in a range of services will result.⁶³ Policymakers should be aware that resource-led urbanization can crowd out growth of the manufacturing sector and lead to the emergence of so-called consumption cities, where most of the population works in informal, non-tradable services.⁶⁴ Strong industrial policy is needed to counteract this influence and to boost job-rich sectors that enable broad-based economic development.

While Uganda remains a predominantly agrarian economy, this is likely to change as the urbanization process will occur alongside a shift from agriculture to non-farm employment. What kinds of jobs people shift into—high- or low-productivity, high-quality or precarious—will determine the welfare impacts of Uganda's urbanization process.

To create productive jobs on a scale that would match demand from the large and growing youth population, Uganda needs more than one prosperous urban center. Secondary and tertiary urban areas must become stronger anchors of economic development. This will require the right set of

ⁱ Although part of this change may be due to methodological changes between the two censuses.

ⁱⁱ According to the census data, international migration is a relatively minor share of overall migration and makes up one percent of the overall population with an increase of 5000 individuals from 2002 and 2014. (National Population Census 2014, Analytical Report) However, it is unclear whether the analysis includes the refugees currently hosted by Uganda. According to UNHRC, Uganda hosted 1.2 million refugees and asylum seekers as of March 2019.

policies to stimulate job creation in smaller urban settlements outside Kampala and the oil-producing regions.

Institutional Framework and Policies for Job Creation in Secondary and Tertiary Urban areas

Overview

This section examines current policies for job creation in Uganda through the lens of secondary and tertiary urban areas.

Most relevant and effective job creation initiatives in Uganda are controlled by the central government, suggesting limited scope for local governments to adapt policies to local needs. This problem persists despite previous efforts and policies to promote locally driven economic development and create a conducive institutional structure. Moreover, the current institutional structure for job creation is characterized by fragmentation, lack of coordination and inter-ministerial competition.

Current efforts to support job creation on a national level focus on promoting entrepreneurship by facilitating access to finance. These initiatives need to be supplemented by support for the growth of employment within existing, growth-oriented SMEs, which are more likely to create productive jobs. Moreover, job creation initiatives must prioritize sectors that are most likely to locate in secondary and tertiary urban areas—such as agro-processing and tourism.

Institutional framework for local economic development

Uganda is often lauded as a successful example of decentralization in Africa. The country has established a five-tier structure of local government and pursued substantial devolution of powers and functions. The first initiative to decentralize started in the 1990s and was mostly focused on devolution of service functions. Despite the relatively successful transfer of responsibilities to LGs, decentralization did not bring significant economic development and structural transformation of the economy.⁶⁵

This realization motivated a shift in policy focus, which expanded the role of LGs from service delivery alone to wealth creation and economic development. Local economic development was added as an explicit objective of the decentralization process,⁶⁶ followed by the launch of a Local Economic Development Policy in 2014. The policy emphasized stakeholder coordination and mobilization and set forth an institutional framework for implementation on the central and local government levels.

Box 3: Local Economic Development Policy 2014

The overall goal of the Uganda Local Economic Development Policy 2014 is: “A transformed local government system linked to stakeholders at local and national levels that facilitates effective business-oriented locality development with a focus on poverty reduction and sustainable wealth creation.”

This policy outlined a number of strategic interventions across 8 broad policy objectives:

1. Promote partnership (between government and private sector) for LED implementation.
2. Expand economic infrastructure for LED to thrive
3. Strengthen National and Local Government capacities to implement LED
4. Develop clear guidelines for LED implementation at all levels
5. Increase the level of public awareness and participation in LED interventions
6. Create an enabling business environment for LED
7. Mobilize adequate financing for LED
8. Mainstream cross cutting issues in LED—e.g. gender, HIV/AIDS, environment and vulnerable segments of the population.

Assessments of the policy's implementation have produced disappointing findings. Implementation has been constrained by lack of funding and poor coordination among various actors. LGs had low capacity to engage in partnerships with the private sector and develop practical steps and roles.⁶⁷ Interviews with local government stakeholders confirmed that the institutional frameworks outlined in the policy such as the national steering committee and local government resource teamsⁱ were never put in place at the national and local levels.

Despite this, ongoing reform initiatives are aligned to the direction of the LED policy. The Ministry of Trade, Industry and Commerce (MTIC) has suggested the reorganization of part of the current commercial and production office in LGs into an 'Industry, Trade and LED Office,' with increased staff levels, a director, and a mandate to coordinate LED efforts in LGs. MTIC is also developing a proposal for a grant to fund the operation of these offices. However, the grant is likely to be very small—for instance, the Mbale district commercial office receives only UGX 19 million (US\$ 6,000) per year for all activities, with a small expected increase to UGX 21 million (US\$ 6,600).ⁱⁱ

If these efforts are to help improve the capacity of LGs to promote local economic development, they must also overcome other structural hurdles as well. LGs lack autonomy over policy and spending decisions and have low capacity to generate local revenue. The latter problem stems from:

- declining transfers from central government;
- central government grants being tied to specific activities;
- political interventions that undercut LG revenue sources;
- the creation of new districts that spread limited resources across more LGs;
- and frequent rotation of LG staff, which amplifies human resource constraints.

As a result, central government ministries continue to make all significant policy and regulatory decisions regarding job creation in Uganda.

Existing policy initiatives for job creation in secondary urban areas

Uganda's enterprise support and job-creation ecosystem has been growing, with government programs being supplemented by an increasing number of NGO and donor initiatives.⁶⁸ The current analysis focuses on job creation initiatives in secondary urban areas. In our conversations with key stakeholders, the following were cited as the principal job creation initiatives in Uganda's secondary urban areas:

- **Youth Livelihood Programme (YLP)** under Ministry of Gender, Labor and Social Development (MGLS) provides funding to revolving group funds that are composed of 10-15 youth entrepreneurs. The loans are usually coupled with guidance on financial management, procurement, general business development services (BDS), and support in opening bank accounts.
- **Uganda Women Entrepreneurship Programme (UWEP)** under MGLS also provides funding to revolving group funds, composed of 10-15 women entrepreneurs. The loans are usually coupled with guidance on financial management, procurement and BDS.
- **Operation Wealth Creation (OWC)** managed by the Uganda's People Defense Forces (UPDF) provides agricultural inputs to farmers—usually cows, pigs, chickens, and other livestock.

ⁱ These include a National Steering Committee, Propagation Team, Secretariat and LED Technical Committee. On the Local Government level the policy prescribed the establishment of a LED Resource Team.

ⁱⁱ Representing another important initiative, the National Planning Guidelines are now being revised to include local economic development (LED) – this will mean that LED will become a formal part of the municipal/district 5-year plans and the 2040 strategies.

- The **Industrial Park Initiative** under Uganda Investment Authority (UIA) aims to create 22 industrial parks across the country. The parks are intended to provide an enabling environment to facilitate foreign direct investment, including infrastructure and key government services. This East Asian model has become increasingly popular in Africa in recent decades, especially as part of growing Chinese engagement with Africa.ⁱ
- In addition, a number of high-profile, donor-supported projects are being managed through the Private Sector Foundation Uganda (PSFU), within the Ministry of Finance. These projects include:
 - **Competitiveness and Enterprise Development Program**, which aims to support a variety of regulatory reforms to improve the business climate.
 - **Skills Development Fund**, which aims to promote employer-led, short-term training to address prevailing skills shortages in Uganda, and facilitate collaboration between employers and training providers.
 - **Business Agenda Development Scheme – Energy for Rural Transformation III**, which aims to improve access to electricity in rural areas.
 - **Higher Education Science and Technology Project**, which is aimed at skills enhancement and development of Business Incubation Centers in the country’s six public universities and two degree-awarding institutions.

The Uganda Revenue Authority (URA) also provides for lower taxation of *small businesses* (defined as those with turnover below UGX 50 million/US\$ 13,000) in smaller urban settlements, although few government or private sector respondents in this study seemed to be aware of this policy.⁶⁹ This may be because URA is unable to reach small businesses across the country. In addition, many businesses perceive the municipal license fee as their only tax obligation, and therefore would not pay URA taxes.

Generally, the government’s primary policy focus for job creation has been to promote self-employment by providing finance. The government has continued to use this model since the 1990s, despite mixed performance of past programs and the general perception that these initiatives are associated with a high degree of nepotism.^{70,71}

Moreover, few if any government initiatives have had an explicit focus on the quality of employment.⁷² There is weak compliance with labor regulations in Uganda, and the rules are lax in important areas. This is reflected in the lack of specific regulations regarding hiring of expatriate workers and the outdated legal minimum wage, which has not been revised since 1984. Only in March 2019 was a bill passed in parliament to create a working group that will propose sector-specific minimum wages.ⁱⁱ

The YLP, UWEP, and OWC are implemented through relevant departments at the local government level. This includes the Community Development Office, Production Office and Commercial Office, which are found in both districts and municipalities. These offices operate under the direct guidance of the central ministries, and LGs have limited scope to influence the nature or direction of these programs or tailor them to local needs and assets. The Local Government Finance Commission has been lobbying on behalf of LGs to change this practice, but without much success.⁷³ When it comes to the industrial park initiative and PSFU initiatives, LGs have even less influence: these are centralized programs with a centralized implementation framework that includes very little interaction with LGs.

ⁱ Beyond the 22 industrial parks being planned by UIA. There are a number of similar initiatives in the country including border export market zones under MTIC, and Free Zone Areas managed by Uganda Free Zones Authority under MoFPE.

ⁱⁱ The bill has been delayed for a number of years – in part because the president has opposed this bill out of fear that it would scare away foreign investors.

With various government entities playing a role in implementation, coordination is also a challenge, both at central and local government levels. Interviews with key informants suggested there is fragmentation of efforts, overlapping mandates and much scope to improve coordination across ministries. As a result, it is unclear whether the synergies between the job-creation programs mentioned above are being leveraged.

Case Study: Mbale

Overview

This research utilizes a case study, the town of Mbale, in order to gain more granular insight into the context of economic development in smaller Ugandan urban areas, and to examine how central government initiatives translate at the local level. The case study begins with an analysis of the town's labor market outcomes and current initiatives related to economic development and job creation. It then discusses challenges and opportunities for boosting job creation in Mbale.

Mbale District and Municipality have seen relatively low population growth rates compared to the rest of the country since 1991, with substantial migration out of the district that may be linked to its relatively high population density, which is putting increasing pressure on land. Shrinking land holdings highlight the need to promote less land-intensive forms of agriculture.

In the municipality, unpaid household work is the most common type of economic activity, but services and trade also provide a large share of employment. Employment in firms primarily spans general trade, accommodation and food services. Most residents are employed in the informal economy, and while some have access to contracts or benefits, these are subject to the discretion of employers. Indicators suggest, however, that the quality of employment in the municipality and the district is improving. Wage employment as a share of total employment is increasing. Sector employment trends reveal a shift towards non-farm work, unlike most other secondary and tertiary urban area districts.

While the municipality and district have an institutional structure for local economic development, they lack policy autonomy and funding to truly influence central government programs or develop their own initiatives. Engagement and coordination with the private sector and civil society is also limited.

The key constraints to growth and job creation reported by business owners include the following: access to finance, underdeveloped transport, insufficient access to land, high operating expenses, low labor force skills, and lack of opportunity to influence government decisions.

Mbale has substantial economic potential stemming from natural resources, including a fertile coffee-growing region, scenic attractions and rich cultural events. Conditional on appropriate support, there is potential for growth and job creation in the food system value chain and tourism. While the ongoing construction of an industrial park could also provide a boost to the local economy, a lack of linkages to local firms or awareness by local stakeholders suggest its reach could be limited without changes in the policy approach.

The context for job creation

Mbale Municipality and District

Mbale Municipality is the capital of Mbale District and the main administrative and commercial center in the district and the eastern region of Uganda. A local government headed by an elected mayor administers the urban area, supported by a council and a team of civil servants under the

leadership of the Town Clerk. Its jurisdiction covers only the urban municipality, while the district council governs the rest of the district.ⁱ

Mbale Municipality and District make for an appropriate case study as the demographic, economic and labor market outcomes and trends observed in this geography are generally representative of those identified in secondary and tertiary urban areas across Uganda in previous chapters.

Box 4: A Brief History of Mbale Town

The name Mbale means ‘stone’ in the local Bugisu language. The town was originally established as a commercial outpost by Arab slave traders. Around 1900, during British colonial rule, Indian laborers working on the Uganda railway moved to the town and set up businesses. Mbale was declared a township in 1906, and the town grew to become a regional commercial hub. After independence in 1962, it was the first town granted urban status.⁷⁴ In the early post-independence period, the local economy boasted a well-developed coffee industry, cotton production and some basic food processing. However, fortunes turned after the coup d'état in 1971, and most of the economy's industrial base collapsed.

Mbale Municipality is one of nine regional or strategic cities identified in Uganda's Vision 2040 to serve as a focal point in Uganda's social and economic development. While there are plans to upgrade its designation from a municipality to a city, no clear plan has been established regarding the benefits and responsibilities the new status will confer.

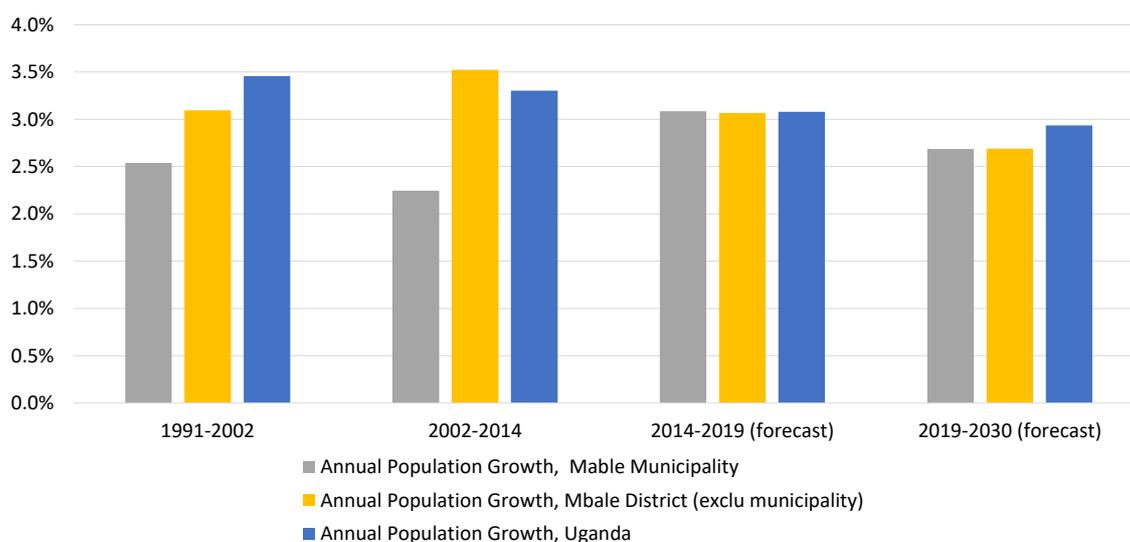
Demographic trends

Mbale Municipality has 93,000 inhabitants, making up 19 percent of the total district population of 489,000. Population growth in both the municipality and the rest of the district has been below the national growth rate and among the lowest in the country. However, Mbale District is already one of the most densely populated districts in Uganda, with 943 people/km², compared to 173 people/km² in the country as a whole.⁷⁵ Mbale Municipality has been growing more slowly than even the rural parts of Mbale District (**Figure 22**).ⁱⁱ However, nearby Nakaloke (home to 25,000 inhabitants) has recently been granted urban status, suggesting increasing population concentration in the rural-urban fringe around Mbale.

ⁱ The municipality is a tier four local government (LC4) within Uganda's five-tier local governance system; it relies on the district council (LC5) for some functions and also comprises three self-governing but inter-dependent tier tree councils: Industrial, Northern and Wanale Division Councils.

ⁱⁱ There have been reports of increased rural-urban migration to Mbale in the post 2014 census period. This is primarily due to lawlessness, violence and cattle rustling in the nearby Teso region as well as loss of livelihoods in hilly areas surrounding Mbale due to landslides. (Cities Alliance (2016) Draft Equitable economic growth in cities City Economic Report Mbale, Uganda).

Figure 22 – Mbale District and Municipality Population Growth (%) 1991-2014



Source: National Population and Housing Census Data 1991, 2002, 2014

The low population growth rates in the district are due to negative net migration flows. During the period 2002-2014, the district lost the equivalent of 4 percent of its 2014 population to out-migration.ⁱ

The majority of migrants to Mbale (76 percent) came from predominantly rural districts (type IV and V), while Kampala was the main destination for emigrants leaving Mbale (36 percent). Only 1 percent moved to secondary urban area districts; 21 percent relocated to another tertiary urban area district; and 43 percent moved to a more rural geography (type IV and V)—mostly surrounding districts.

Mbale's role in the regional economy

The Eastern Region, together with the Northern Region of Uganda, generally lag behind the Central and Western regions in terms of economic development. This is in part due to civil strife and land degradation.

Despite its location in a relatively poor regionⁱⁱ, Mbale is one of Uganda's more prosperous districts. Mbale District GDP was estimated to be US\$ 351.8 million in 2014, with GDP per capita of US\$ 712. Out of 116 districts, Mbale is ranked 9th by GDP per capita and total GDP. It makes up about 24.4 percent of the Eastern Region's GDP, and 1.7 percent of national GDP.⁷⁶

As a district and regional center, Mbale's primary economic function is to serve as a market for distribution of agricultural products from and to the surrounding rural communities, most of which are sold at the central market in Mbale. The urban population has also created a consumer base for agricultural products.⁷⁷ The town also serves as a gateway to these same communities for the distribution of products from other regions or countries. Mbale's role as a regional urban hub is

ⁱ The net figures mask a high population turnover: inter-census in-migrants account for 8 percent of the total 2014 population, while the equivalent of 12 percent of the 2014 population left the district.

ⁱⁱ No estimates of poverty levels are available for Mbale District. However, the Elgon region, which includes Mbale and seven other districts, has the 4th highest headcount poverty level out of 16 sub-regions in Uganda, with 40.9 percent of the population living below the poverty line, compared to 5.9 percent in Kampala.

further strengthened by its proximity to the border and the main trade route between Uganda and Kenya.

Beyond its role as a service and distribution center, the town is located in a world-renowned Arabica coffee-growing region. It is also the largest urban center in the vicinity of Mount Elgon National Park—the main tourist attraction in the Eastern Region.

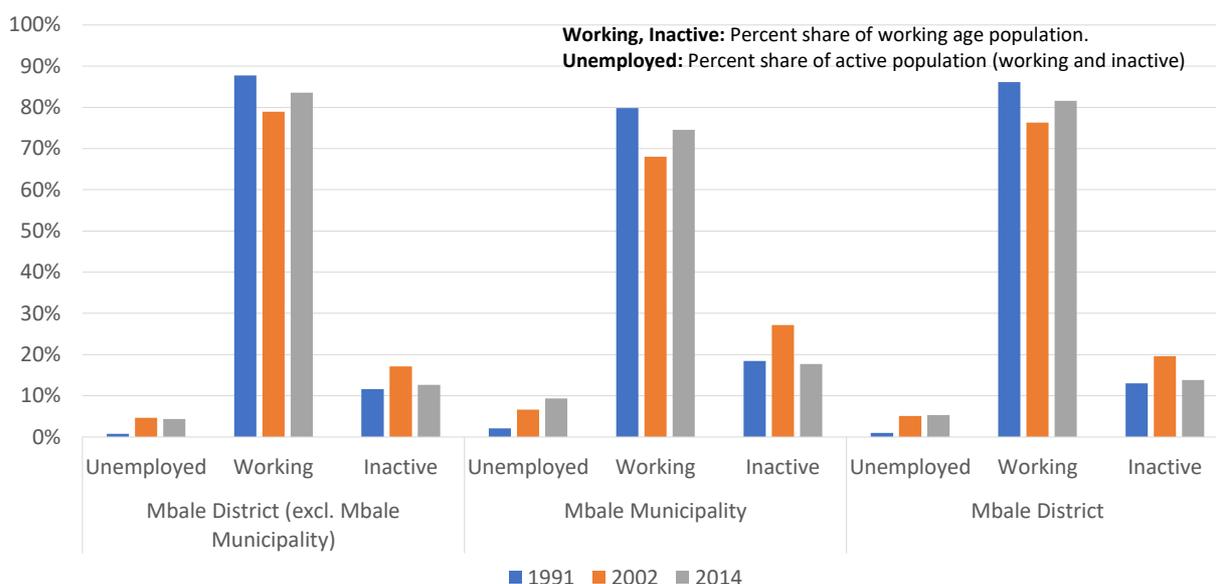
Mbale Labor Market

The labor market outcomes in Mbale generally reflect the trends observed across secondary and tertiary urban area districts and have been shaped by the same policy shifts that were discussed in the national-level analysis. The main characteristics of the labor market in Mbale are briefly summarized below.

The workforce in the municipality relative to the rest of the district is generally younger and better educated. However, as in other secondary and tertiary urban areas, the youth share of the working-age population has been declining due to negative net migration of predominantly younger individuals.

The share of the population that is working is higher in the rural areas of the district—84 percent, compared to 75 percent in the municipality, as of 2014. Unemployment is slightly higher than the average for tertiary urban area districts—4.6 percent in the whole district and 7.7 percent in the municipality—and has been increasing over both census periods (**Figure 23**).

Figure 23 – Mbale District and Municipality Labor Market Outcomes 1991-2014



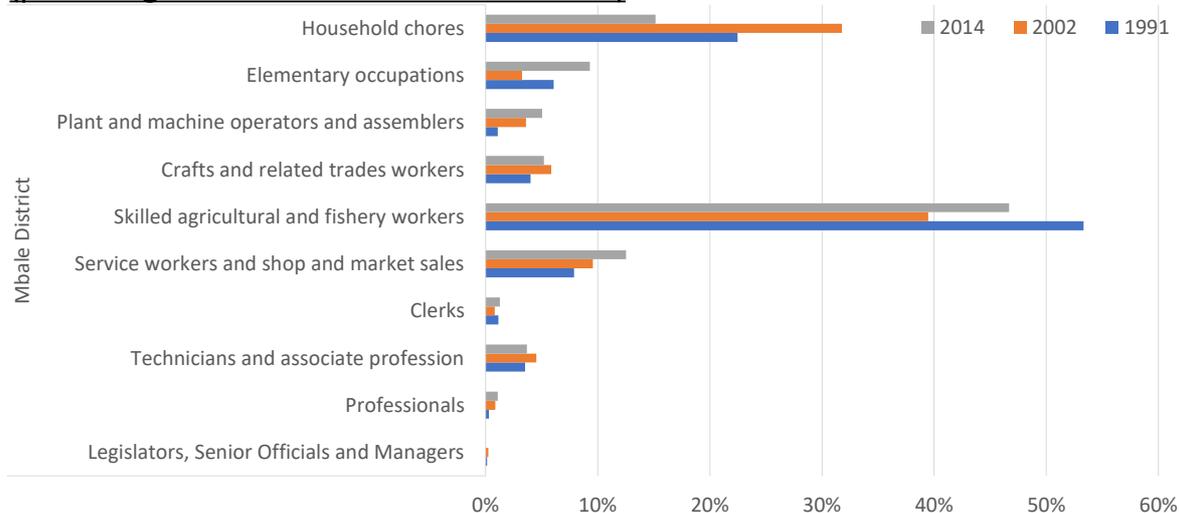
Source: National Population and Housing Census Data 1991, 2002, 2014

The expected occupational divide between the municipality and rural parts of Mbale District is reflected in the employment shares of service workers and agricultural workers (see **Appendix 6 and 7**). In the municipality, the share of service workers has been increasing since 1991. Most service workers are in the hospitality and food industry. Elementary occupations are another rapidly growing category, which includes general laborers, domestic workers, construction laborers and street vendors.

These trends are also reflected on a district level (**Figure 24**). Compared to other tertiary urban area districts, the economy of Mbale exhibits clearer signs of structural transformation, with a gradual

shift in employment away from agriculture and towards other occupations, especially in the service industry.

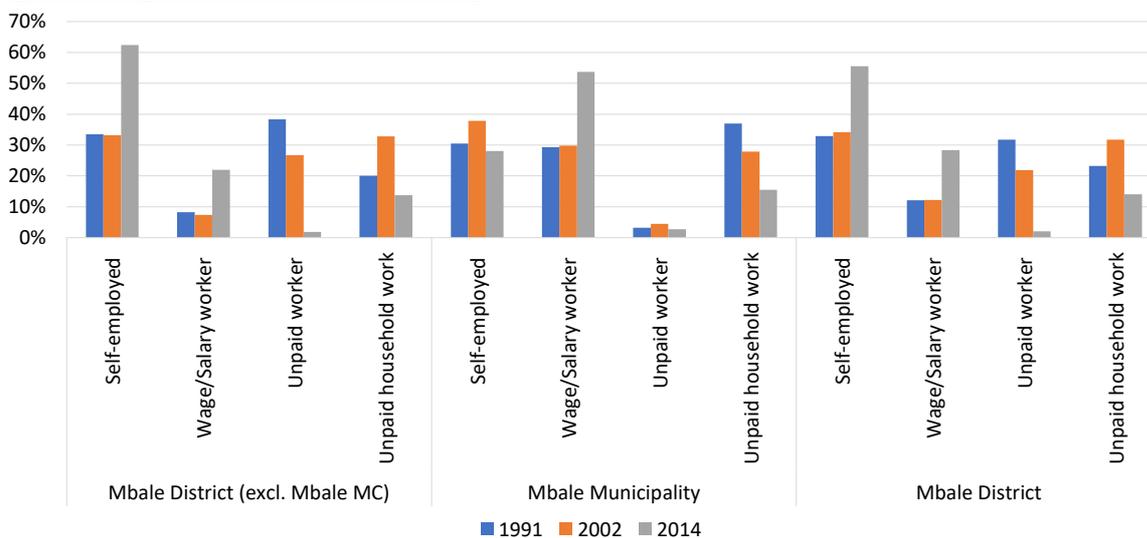
Figure 24 – Mbale District Occupation Categories 1991-2014
(percentage share of total workers in district)



Source: National Population and Housing Census Data 1991, 2002, 2014

This shift may reflect the high population density in the district, which is likely constricting the supply of cultivable land and compelling workers to take up non-farm work. Nevertheless, paid employment is also on the rise, signaling the positive impact of a rise in non-agricultural sectors (Figure 25).

Figure 25 – Mbale District Work Status 1991-2014
(percentage share of total workers)



Source: National Population and Housing Census Data 1991, 2002, 2014

Box 5: Characteristics of Informal Jobs in Mbale

According to the 2016/17 Labor Force Survey, 85 percent of Ugandan workers outside of agriculture were informally employed. While the informal economy has been high on the policy agenda, there is generally little understanding of current work practices in the informal sector. Most policy initiatives simply aim to formalize the informal sector. A study by Ballon Ventures and Citi Foundation shed some light on work practices in the informal sector in the Mbale region.⁷⁸ The key findings are summarized below.

Job Security

Most employers do not use contracts, and instead rely on verbal agreements based on common practice. Job security was subject to industry type and the predictability of demand.

Remuneration

Salaries are agreed through negotiation with employees and can be paid monthly, weekly or daily. Non-skilled labor and starting salaries were broadly low. Monthly salaries ranged from 50,000 UGX per month (\$13) for non-skilled labor to 500,000 UGX per month (\$133) for manager roles. In addition to salary, most employers offered other benefits such as meal provision.

Leave

Annual leave was not usually provided, though most employers offered paid sick leave and leave for specific purposes such as visiting family.

Health and Safety

The approach was mainly reactionary as opposed to preventive, with employers generally taking responsibility for paying medical bills when an employee was injured at work.

Personal Development

Employers generally felt a sense of obligation to the community and offered job opportunities, especially to those from disadvantaged backgrounds. Training and skill development were usually based on the employer's ability to impart any skills, rather than the needs of the employee.

Equal Opportunities

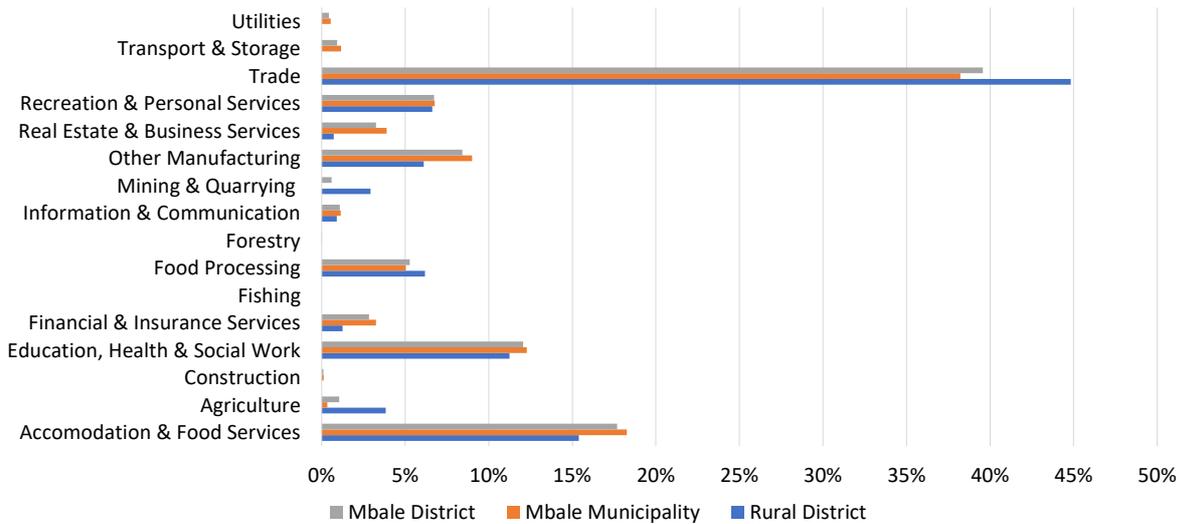
Generally, employers claimed to be unbiased, but expressed some stereotypes regarding what roles women can perform relative to men.

The main constraints to employers offering better jobs were low profitability, emphasis on cost reduction, lack of understanding of how improved employment conditions can lead to better business outcomes, and lack of trust in employees.

From a firm perspective, the characteristics of the typical Mbale firm are similar to the typical Ugandan firm in terms of employment and turnover. Larger and more productive firms are located in the urban parts of the district. The data reveal that firms operating in trade and services provide most of the firm-level jobs in Mbale Municipality. After general trade, accommodation and food services is the second biggest sector in terms of firm-level employment.

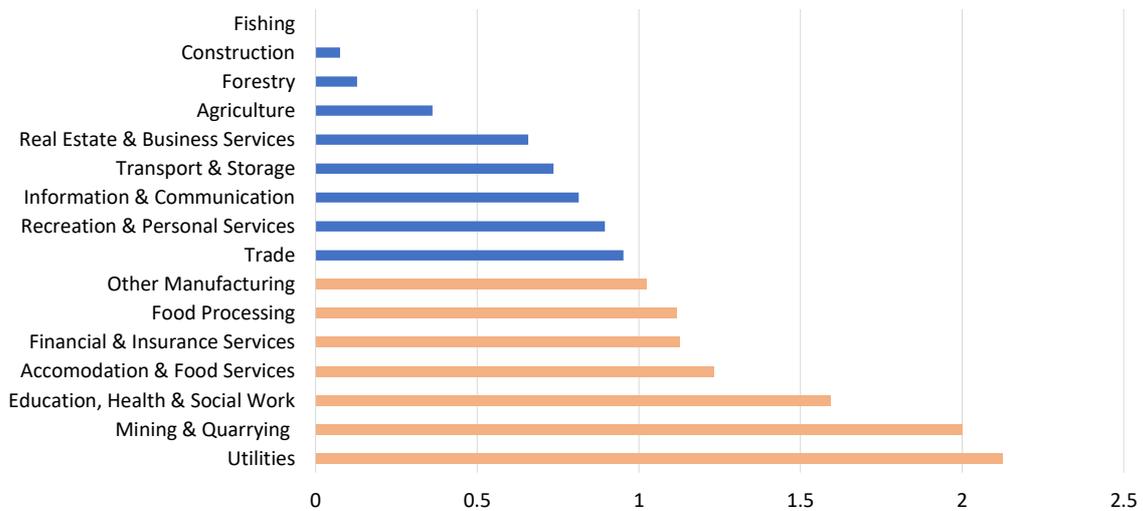
Compared to the sector-wise employment distribution in the country as a whole, Mbale is somewhat specialized in the hospitality industry, financial and insurance services, food processing and other manufacturing (**Figures 26 and 27**). For instance, workers are 25 percent more likely to be employed in accommodation and food services compared to the rest of the country. This suggests that opportunities for further growth and job creation may be found in these sectors, as discussed in subsequent sections.

Figure 26 – Mbale District and Municipality percentage share of total firm jobs, 2010



Source: Census of Business Establishments 2010

Figure 27 – Mbale District Specialization Factor, 2010



Note: The specialization factor is calculated as the share of sector employment in Mbale, relative to employment share at the national level.

Source: Census of Business Establishments 2010

The role of the local government in promoting local economic development

Service provision has traditionally been the primary focus of local governments in Uganda, and recent initiatives to encourage greater focus on local economic development have been largely unsuccessful, as noted above. However, the case of Mbale illustrates that local governments do in fact have institutional structures and staff with mandates related to local economic development and job creation. The key challenge is that LGs lack policy autonomy in these areas due to financial and human capacity constraints. Instead, these offices mostly operate as extensions of relevant central government ministries.

Three relevant departments operate at both the municipal and district level:

- Production Offices, operating under Ministry of Agriculture:
 - These offices are in charge of implementing the Operation Wealth Creation (OWC) program described above, and providing various extension services, often in collaboration with external partners. For example, they support provision of veterinary services and information on agricultural practices and help organize demonstration centers and field visits for local farmers.
- Commercial Offices, operating under Ministry of Trade, Industry and Commerce:
 - These offices are in charge of implementing the mandate of the ministry related to skills training, establishing cooperatives, registering businesses, forming Savings and Credit Cooperative Organizations (SACCOs) and general business legislation.
 - The municipal commercial office was only established as a separate entity from the production office in April 2019. This office is meant to serve as a one-stop shop for taxation, Uganda Registration Services Bureau and municipal licenses.
- Community Development Offices, operates under Ministry of Gender, Labour and Social Development:
 - These offices are in charge of implementing the YLP and UWEP. They also host a labor officer responsible for labour inspection activities and arbitration between employees and employers.

As previously mentioned, YLP, UWEP and OPW were often identified as the most important job creation initiatives by local governments. The lack of available information on the scale and impact of these programs precluded a detailed evaluation of these initiatives in Mbale. However, discussions with local stakeholders suggest the impact of these initiatives is limited because of several factors:

- Grants are small and not targeted at existing firms that are viable or growth-oriented.
- Some stakeholders perceived that nepotism, as opposed to a firm's growth potential, largely drives the allocation of support.
- These programs are not particularly targeted towards the competitive advantages of Mbale. The grants are not sector-specific, and anecdotal evidence suggests most of the activities funded are in agriculture, petty trading or tailoring.

These issues highlight the fact that these initiatives are implemented under the direction of central government ministries rather than in accordance with any district/municipal-level strategy. The LG has limited scope to influence policy direction. Ministries tend to work directly with the relevant departments at the LG level with little consultation of LG senior management. On the other hand, there seems to be little strategic thinking at the LG level regarding these initiatives, and the LG also lacks the capacity to develop and implement its own policies due to funding and human resource constraints. Most of the funding provided by central government is conditional and tied to specific activities, and local revenue sources are limited.

Private sector representatives confirmed these constraints. They indicated that the LGs have done little to support the private sector and are primarily focused on collecting taxes from businesses. The approach to formalization lacks any "carrot"—i.e. a clear indication of what firms stand to gain by registering, paying taxes and following regulations.

Public and private capital investment projects are also very limited due to financial constraints. However, one important initiative related to local economic development is the Uganda Support to Municipal Infrastructure Development (USMID) project financed by the U.S. Agency for International

Development (USAID), which supports provision of infrastructure in the form of roads, drainages and sewerage networks. The program is being implemented in collaboration with the local government but involves a wider group of stakeholders through the Municipal Development Forum (MDF)—a multi-stakeholder forum on urban development.¹

Challenges and Opportunities for Job Creation in Mbale

Improving the capacity of the local government to support local economic development and job creation will require comprehensive reforms both at the central and local government levels. As discussed above, these initiatives should be adapted to the locational advantages and disadvantages of specific settlements. The next sections examine challenges that Mbale businesses encounter and opportunities for growth and job creation in Mbale.

General challenges for enterprises in Mbale

In qualitative interviews, local business owners indicated that they face a multitude of challenges to growing their operations. The most frequently reported constraints are outlined in **Table 3**.

Table 3 – Business Constraints in Mbale	
Constraint	Description
<i>Access to finance</i>	Many agro-processing businesses are unable to finance the purchase of machinery. Small businesses, in particular, have difficulty accessing finance.
<i>An underdeveloped transport network</i>	Despite recent investments in the regional road networks, with newly built roads connecting Mbale to Mount Elgon Industrial Park and ongoing upgrading of the road to Kampala, the connectivity of Mbale to the rest of the country remains poor. Improving the connectivity of Mbale with the rest of the country could support the development of the tourism industry, while investment in road access in rural areas could improve access to markets for farmers.
<i>Access to Land</i>	Complying with formal land regulations is too costly for many businesses.
<i>Enterprise support</i>	The licensing fees charged by the municipality are perceived to be high and a major burden for businesses and don't come with any immediate benefits.
<i>Low skill levels of workforce</i>	Businesses report that the education system is too theoretical and not focused on practical skills.
<i>Ability to influence government policies</i>	Businesses report a lack of opportunities to meaningfully influence central and local government policies, and difficulty in collaborating with government due to competition and fragmentation of government ministries.

¹ The Municipal Development Forum (MDF) was formed by the Ministry of Lands, Housing and Urban Development. A multi-stakeholder forum on urban development. MDF includes a variety of stakeholders, including slum dwellers, youth, academia, professionals, NGOs and the private sector. MDF meets every two months, and at least 6 times per year. The MDF collaborates with the “betterment forums” under the slum dwellers association (a type of community group) and conveys the concerns raised in these forums to the Municipality. MDF members are largely unpaid volunteers who operate from an office at the municipality. It is unclear how involved the other stakeholders are; beyond the slum dwellers, participation has been a challenge.

These findings are aligned with the results of the Uganda Small Business Survey from 2014, which also found tax rates and the lack of marketing opportunities for SME products to be major constraints for businesses. In terms of government interventions, firms ranked access to finance, infrastructure and improving security as the highest priorities.ⁱ However, firms currently receive limited support from government in doing business (training, information or otherwise). Instead, they rely on engagement with customers, friends and suppliers to learn about business opportunities.

Opportunities for Job Creation

Based on discussions with key informants, analysis of employment and firm data, and a review of secondary literature, three immediate opportunities emerge for Mbale to boost job creation. These are agribusiness, tourism and the construction of a new industrial park. Each of these opportunities are discussed in turn below.

Agribusiness potential of Mbale

Mbale can leverage the agricultural potential of its rural hinterland to create productive urban jobs in the food system—spanning agricultural production, storage, processing, distribution and transport, marketing, preparation, and retailing—to meet the rapidly growing urban demand for food in the country.⁷⁹ Taking advantage of this opportunity will entail measures to improve agricultural practices and grow demand for agricultural products by developing appropriate downstream industries.⁸⁰ The coffee value chain is of particular importance for the local and national economy, but there is also substantial potential for job creation in other agricultural value chains.

Coffee value chain

Mbale is surrounded by fertile farmland, part of a world-renowned coffee-growing region that produces most of Uganda's Arabica coffee. Coffee remains the biggest export of the region and the country as a whole. It is mostly grown by small-scale farmers who sell their produce to large cooperatives that also provide extension services to farmers. The coffee undergoes basic processing in Mbale and surrounding areas, including de-pulping, drying and milling. Most of the coffee is then exported as unroasted or green coffee (mostly to the European Union), though some is sold to local roasteries to meet the low but growing demand for coffee in Uganda.⁸¹

As far as employment, the industry mostly generates farm-level jobs related to growing and harvesting coffee. At the processing stage, most employment comes in the form of casual labor involved in de-pulping, drying, milling and transport. Many of these jobs are located in Mbale.

Studies of the coffee value chain have identified growth opportunities through better market positioning and pricing of Ugandan coffee globally and improvements to quality management in the production process.⁸² These efforts are likely to improve the profitability of small-scale coffee growers but are unlikely to create more non-farm employment. Improved quality management at the de-pulping, drying and milling stages will likely require increased mechanization, posing a trade-off: jobs and firms would become more productive, but may require fewer workers, possibly leading to displacement.

Establishing downstream processing of coffee holds potential to boost urban job creation. In particular, investments in roasting could help create more non-farm jobs in the coffee industry, and perhaps better paid jobs than the coffee industry currently provides, since roasted coffee sells for double the price of unroasted coffee. Many government officials and coffee entrepreneurs expressed this ambition in interviews. One stakeholder indicated that “exporting green coffee is

ⁱ The latter is mostly a reflection of the history of conflict in Uganda, and the region.

exporting development.” This perspective is also reflected in development strategies under the Uganda Coffee Development Authority.

Some Ugandan companies are already establishing forward linkages to roasting, blending, packaging and marketing to meet the growing domestic market for coffee.⁸³ This could eventually help them reach the scale of production and build capabilities that would enable them to expand their access in the export market. However, this part of the value chain has received less support from government and donors.⁸⁴

Improving exports of roasted coffee will require overcoming structural constraints in the international coffee market. Most coffee is traded internationally in the form of green, unprocessed beans. Roasted coffee has a limited shelf life and maintaining quality in transit can be a challenge. Moreover, coffee blends vary from country to country and are usually adapted to the tastes of the specific consumer market.⁸⁵ For Ugandan firms to overcome these barriers, they will need to improve their capabilities in downstream activities, including roasting, marketing, branding and transport.

Another strand of coffee processing is the production of instant or soluble coffee (mostly suitable for Robusta instead of Arabica coffee). This type of coffee has a longer shelf life, which is an advantage for exporters. Instant coffee is also popular on the domestic market.⁸⁶ Developing an instant coffee processing industry has the potential to create non-farm jobs and boost the value of coffee exports. International experience with instant coffee development strategies demonstrates that the highly competitive nature of the international market, which is dominated by large multinational companies, limits the success of new entrants.ⁱ Hence, Ugandan firms could target the regional market where large multinational companies hold a smaller market-share and gradually work to improve their competitiveness.

Coffee will remain the most important commodity in Uganda and Mbale, with potential to derive additional income and employment across the value chain. These opportunities are conditional on better practices and improved capabilities, which require more vigorous support from government and the donor community. Substantial gains in non-farm employment may be more likely over the long-term rather than short-term, highlighting the importance of a patient, sustained policy strategy.

Agro-processing

Agro-processing for other goods presents additional opportunities for job creation. Many small-scale farmers have already switched from cash crops to food production to supply the growing urban market in Mbale.⁸⁷ According to the 2014 census, 13 percent of households in Mbale District grew coffee, 57 percent of households cultivated maize, 63 percent grew beans, 57 percent were engaged in livestock farming, and 32 percent cultivated *matokee*, an East African banana.

Activities further down the value chain are currently limited. Only basic agro-processing takes place in Mbale. This includes milling maize and rice and processing honey. There is also dairy processing on a very small scale (one farm), including milk, yogurt and cheese production.

The agricultural potential of the region is well-known and recognized by the government. For instance, Mbale’s Municipal Development Strategy and five-year plan identify opportunities to

ⁱ There is one roastery in Mbale operated by Bugisu Cooperative Union, and 11 other roasteries countrywide that produce shelf-ready products mostly for the local market but with some exports.

Talbot, John M. (1977). “The Struggle for Control of a Commodity Chain: Instant Coffee from Latin America.” *Latin America Research Review*, vol. 32, no. 1, pp. 117-135.

develop the livestock industry and value addition in the form of local processing of hides, meat and milk. However, few concrete and systematic initiatives exist to support activities downstream from the farm.

International experience suggests that developing the agro-processing industry will require a combination of interventions: improving agricultural productivity by strengthening land governance, investing in infrastructure (including roads and cold storage), enhancing the regulatory environment for food safety and marketing, and improving labor force skills.⁸⁸ In addition, interventions should promote investment in retail, processing, packaging and transport.

These best practices would need to be adapted to the Mbale context, accounting for specific locational advantages and disadvantages. For instance, the region surrounding Mbale is very densely populated, with average land holdings of 1-2 acres. To put that into perspective, a dairy cow requires approximately 1 acre for grazing. Government policies do not seem to recognize these constraints, resulting in inappropriate forms of agricultural support. Less land-intensive forms of agricultural production need to be promoted. For example, poultry could also help meet increasing urban demand for meat products but is cheaper and less land-intensive compared to larger livestock .

Discussions with local entrepreneurs suggest that the lack of practical skills in agro-processing in the labor force is a particularly binding constraint. While the Mbale region has a number of vocational training institutes, few offer specific programs related to agro-processing, and there is limited interaction with the private sector to inform curricula. Tackling this challenge will require a more systematic approach to skill development based on an understanding of the agricultural value chain.

A simplified model is outlined in the chart above (**Figure 28**). The chart presents the key steps in the agricultural value chain, potential entry points for firms and entrepreneurs, and required skill sets. As suggested in previous studies, each of these tasks could be linked to a specific certification in the existing vocational training certification system, Business Technical Vocational Education and Training (BTVET). In many instances, revisions could be made to existing programs within the BVET system to provide the required skills.⁸⁹

Figure 28 – Food System Value Chain and Skills

	Inputs	Production	Post-Harvest Processing	Wholesale and Retail	Consumption
Entry Points	Vendors	Farmers and Small Transport	Processing and Storage	Warehouse and Large Transport	Consumption
	<u>Vendors</u>	<u>Farmers</u>	Cleaners	Storing and Warehousing	Vendors
	Seed and Fertilizer	Growers	Dryers		
	Hatcheries and Animals	Harvesters	Threshers	Large Transport	Restaurants
	Animal Feed	<u>Small Transporters</u>	Millers	Tracking	Kiosks
	<u>Farm Advisory</u> Service Providers	Cargo bike and boda boda	Roaster Package/Bottlers Butchers	Government Institutions	
	<u>Livestock Production</u>		Small Transport Supermarkets and Small Vendors		
Fundamental Skills: Literacy, Numeracy					
Skills Needed	Business, book-keeping, administration, farming best practice and technologies	Agriculture, horticulture, animal care, bicycle repairs, small engine repairs, motorcycle maintenance and repair	Technical Skills:	Large Engine repair, preventative maintenance, radiator/transmission repair, engine electronics systems	Business, bookkeeping, administration and agribusiness entrepreneurship
			Electronics and equipment maintenance, cooking, refrigeration and drainage, motor and generator		
			Best practices in storage and handling for specific crops, including processing and handling	Large equipment cooling, refrigeration and drainage, electronics and equipment maintenance	
Cross Cutting Skills: Agri entrepreneurship, work-readiness					

Source: USAID (2014). Youth and Agriculture in Uganda: An Assessment Combining agriculture improvements and youth development shows promise for both. October 2014.

Tourism potential of Mbale

International experience suggests that tourism can be an economic driver to promote investment in local firms, create work opportunities, provide foreign exchange and aid in infrastructure development.⁹⁰ Tourism destinations serve both domestic and international travelers, and the sector offers a relatively stable source of income. For example, the tourism sector has limited price fluctuations compared to primary commodity exports. It is also relatively labor-intensive and offers both low and high-skill employment opportunities.⁹¹ Importantly, since many tourism destinations are in less developed parts of the country, it is a sector where smaller urban settlements have an advantage compared to large urban areas.

On a national level, tourism was the highest foreign exchange earner in Uganda in 2016, ahead of coffee. Uganda’s tourism masterplan from 2014 anticipates the creation of 150,000 jobs country-wide over a 10-year period, with 178,000 currently employed. These figures are likely to be a lower estimate of potential employment given the difficulty of measuring tourism employment and the predominance of informality in the labor market.ⁱ

ⁱ The employment within the tourism sector is difficult to measure since tourism services are provided by a wide range of actors across the country (hotels, restaurants, transportation providers, craft makers), many of whom serve both tourists and non-tourists alike.

While the tourism industry in Uganda is most developed in the western part of the country, where the most well-known national parks are located, and in Jinja, at the source of the Nile, the Eastern Region that includes Mbale has begun to emerge as a tourism destination. The delayed growth of tourism in this region was due in part to poor infrastructure and civil strife in the region—though both of these situations are gradually improving.

In terms of related government initiatives, tourism is one of four priority sectors under the UIA and is broadly recognized as an economic sector with great potential. A national tourism masterplan was developed and launched in Mbale in 2014, although implementation has been a challenge due to limited funding. On a local government level, a new position for a tourist officer has been created under the LG commercial office, although it seems few districts have operationalized this role. It also remains vacant in Mbale. There are few concrete initiatives to promote tourism with a specific focus on Mbale, beyond some sporadic initiatives by Ministry of Tourism to organize events in the city.

Although the full potential of the sector has yet to be realized, tourism is an important source of income for Mbale Municipality. Mbale acts as the base for tourism activities in the region, and hosts the most developed hospitality industry in the area. Mount Elgon National Park is the primary attraction, though it is one of the less-visited national parks in Uganda.⁹² The region also hosts other notable tourist attractions, including the Masaba Cultural Ceremony, Wanale Hill, a bullfighting event, and stone-age cave paintings. Mbale hosts both local and international tourists as well as government, business and NGO conferences.

While tourism in Mbale is generally linked to the surrounding nature, the region also holds great potential for cultural and agro- and food-based tourism, with evident linkages across these segments of the tourism sector. There is a need to build on the synergies between tourism and agriculture, especially coffee production. These could be combined into a holistic tourism plan and marketing strategy for the region.

Discussions with key informants suggest that labor skills, marketing and infrastructure are the main constraints to realizing this potential. In addition, there is a lack of coordination among various stakeholders in the industry.

Many informants indicated that labor skills remained a constraint in the tourism sector. The skills gap is present across a range of occupations, from managers, to chefs, and tour guides. Although Mbale hosts vocational training institutes that support tourism-related programs, business owners described the current training as too theoretical and outdated, and entrepreneurs noted that they have to train workers on the job. Existing studies suggest this is a country-wide problem.⁹³ For example, the main national Hotel and Tourism Training Institute in Jinja requires better equipment, improvement in the qualification of instructors and better alignment of training programs to private sector needs.⁹⁴

There are ongoing initiatives to improve the skill level in the sector—with a national tourism curriculum is being developed by the Tourism Sector Skills Council. However, a key issue regards access for smaller firms. For example, the Skills Development Fund under the Private Sector Foundation Uganda provides some support for skill development in tourism, but the funds for training are provided as a refund and require the firms to pay for part of the total cost, an arrangement that small enterprises struggle to afford. These sorts of obstacles need to be surmounted if places like Mbale are to develop their own thriving local tourism industries.

Another constraint is transport. Access to Mbale for outside visitors is challenging, with a lengthy six-hour road journey from Kampala; the closest airport is located in Soroti, a two-hour drive away. Roads within the region, from Mbale to Mount Elgon National Park, have improved significantly over the last few years, and work is ongoing to upgrade the road to Kampala. Cutting down on the journey time to Kampala is a top priority. This step is critical for tourism and the regional economy. The important tourist hub of Jinja is located within a two-hour drive from Mbale; with better transport links, Mbale may be better able to tap into Jinja's more established tourism industry.

Tourism marketing is a public good, and as such it is best executed or at least coordinated by government. Uganda Tourism Board is the main agency in charge of marketing of tourism destinations. Past efforts in this area have been largely ineffective, although there has been some improvement recently through hiring of overseas agencies.⁹⁵ This function seems to be lacking on a regional and local level, with no visible marketing strategy for Mbale.

Conversations with government officials suggested a more general problem of limited coordination across districts to promote the tourism potential of the region. The tourism master plan from 2014 promotes a regional approach to tourism development, but this has yet to be implemented. Private sector stakeholders also indicated limited collaboration with government, despite the existence of a well-organized and dynamic private sector. For instance, the Eastern Enterprise Tourism Network is a private sector association of businesses in tourism and serves as a platform to promote joint initiatives, such as event organization and marketing. Despite some successful past initiatives, momentum was apparently lost due to waning government support linked to inter-governmental competition and fragmentation. There is a clear role for local government to take on a coordinating role to support the tourism sector and improve collaboration with the private sector.

Mbale Industrial Park

The Sino-Uganda Mbale Industrial Park is one of the 22 industrial and business parks planned by the UIA. Based on the special economic zones of East Asia, the industrial park model has become increasingly popular in Africa in recent decades, especially as part of growing Chinese engagement with the continent.

In the original strategy, government was charged with developing the infrastructure and services in the parks. However, funding constraints have led to the private sector taking responsibility for development and management, and the government's role is limited to land provision. The parks are open to domestic and foreign firms, with the latter subject to a minimum investment threshold of US\$ 100,000. Firms operating in the industrial park are also eligible for the general tax incentives for all firms operating in Uganda, which are quite generous.ⁱ

The government originally envisioned Mbale Industrial Park as an agro-processing hub.⁹⁶ Plans for the Mbale Industrial Park are more than a decade old, but construction did not commence until 2019, after a concession was granted to a Chinese operator to build and manage the 2.51 square kilometer park in 2017.ⁱⁱ It is unclear whether the vision for the park still includes agro-progressing—which could be an effective strategy for the local economy—as there is no updated publicly available master plan for the park. The website set up by the park developer sets out ambitious goals—US\$

ⁱ Tax breaks include sector specific provisions for agriculture, transport, oil and gas, education and sports, energy, hotel and tourism sector, security, health and construction. Important provisions include: exemption of agroprocessing from income tax, 10 year income tax holiday for manufacturing exporters, VAT exemption for commercial farmers, 100% deduction of training expenditures, 100% deduction of research expenditures, unlimited loss carry forward. Firms also benefit from an income tax holiday subject to a minimum investment of \$15 million for a foreign firm and \$5 million for a Ugandan firm. Uganda Revenue Authority (2018). A Guide on Tax Incentives/Exemptions Available to Uganda Investors

ⁱⁱ The delay was partly due to a land dispute.

600M in total planned investments, US\$ 400M in export volumes, and 12,000 jobs⁹⁷—but these may reflect a marketing strategy more than a realistic development plan, given that previous industrial park initiatives in Uganda have met with little success.

Stakeholders expressed a sober view of the prospects for local job creation and general economic benefits from the industrial park. While they expect the construction phase to create demand for casual labor, skepticism pervades regarding any long-term expectations for job creation. Most government and non-governmental stakeholders at all levels of administration—central, district and municipal—reported that they were generally unaware of the detailed plans for the park, the types of industries expected to set up operations, or how the investment might benefit the local economy. There seems to be limited engagement between the LGs and industrial park developer.

From a regulatory perspective, Uganda's liberal approach to the economy is reflected in the industrial park laws. Firms operating in industrial parks are not subject to any specific requirements regarding local content or local employment. Technically, a part of each industrial park is reserved for SMEs, although there is no evidence that this is being enforced. Even if the land was made available, it is doubtful that capital-constrained small businesses would be able to finance the construction of facilities in the industrial parks.

Based on the available information, substantial enterprise and job creation is so far limited to one out of four parks—the Kampala Industrial and Business Park in Namanve . A UIA report from 2016 claims the park supports 20 operational businesses that employed 9,200 workers, and 82 construction projects that employed 17,000 construction workers. Two of the other three parks in operation are in or around Kampala.

These trends highlight that the industrial park initiative is unlikely to address regional disparities in Uganda. In fact, the effect thus far may have been to widen the gap between Kampala and the rest of the country. Not only are three of the most developed industrial parks located in Kampala, some of the firms operating there were previously located in other parts of the country. As a concrete example, a major firm in Mbale indicated that their head office had been relocated from Mbale to Kampala Industrial Park, taking with it a significant number of jobs.

To enhance the value of the parks for the local economies, especially those beyond Kampala, appropriate government policies and regulation will be crucial. There are important lessons to be gained from the experience of other countries; while the industrial park model has seen much success in parts of Asia, the experience in Africa has been mixed.⁹⁸ In the worst cases, companies in industrial parks have brought little benefit to the local and national economy due to extensive tax breaks, little or no linkages to the local economy, and poorly paid jobs. The model has been criticized for providing unfair advantages to foreign firms at the expense of local firms.

Regulations and interventions to enhance benefits for the local economy and promote local content must be appropriate for the local business climate. As discussed above, local businesses face multiple challenges in developing appropriate capacity to link into the industrial park value chains. Overcoming these barriers requires programs to build capacity in businesses and develop skills in the labor force. This progression will not take place automatically with the establishment of industrial parks. It will require a more comprehensive and targeted set of policies.

Policy Recommendations

Based on findings from the analysis presented above and international experience, this section offers a set of policy options for increasing the number of vibrant urban economies in Uganda. These steps would facilitate the creation of the quantity and quality of jobs the country needs to support economic opportunity and mobility for its burgeoning youth population. The report also offers specific recommendations for fostering the creation of more and better jobs in Mbale.

The report offers short-term and long-term policy initiatives for central government to consider. The short-term initiatives are more achievable in the context of current institutional frameworks and capacity, while the long-term proposals would require a greater degree of structural reform. The report then elaborates on policy options for local government. In recognition of the severe capacity constraints that local governments confront, a long-term obstacle to overcome, the report focuses on short-term policy recommendations for local government.

Potential short-term policy priorities for central government

1. Adopt a more comprehensive job creation strategy by boosting support for existing growth-oriented SMEs

While promoting entrepreneurship and micro-enterprises can help move workers from unpaid to remunerated livelihoods, a more comprehensive approach to job creation is required to generate productive jobs that offer Ugandans upward mobility. This entails job creation policies reoriented and adapted towards supporting the growth of viable SMEs.

Support should focus on expanding access to finance so that firms can make critical investments in hiring and training workers, purchasing up-to-date technology and expanding production. These measures can be dovetailed with an incentive-based approach to formalization—where firms receive clear benefits for registering, paying taxes and complying with relevant labor and environmental laws.

2. Support should be channeled to industries in which smaller urban areas have a locational advantage

The case study of Mbale identified opportunities in tourism and the food system value chain, where secondary and tertiary urban areas generally have a competitive advantage relative to Kampala. The tourism sector spans a wide range of actors across the country—hotels, restaurants, transportation providers, craft makers—and serves both tourists and residents while employing low- and high-skill workers.

The food system value chain has the scope to create non-farm employment by promoting downward linkages from farms. Uganda already has programs to expand the availability of agricultural inputs, improve agricultural practices and invest in agricultural research. These need to be coupled with more emphasis on demand-side measures. In the coffee industry, promoting forward linkages in traditional processing and production of soluble coffee can potentially increase the value of coffee exports and create more non-farm employment.

There are also considerable synergies between the tourism and agribusiness sectors that can be exploited through a coordinated development strategy, especially in places like the Eastern Region.

3. Improve labor force skills through a systematic value chain approach to vocational training

Firms require better trained workers to expand employment. Uganda has a substantial number of vocational training institutes, but the quality of training must be improved towards more practical

teaching and better alignment with labor market demands. Many of the stakeholders interviewed emphasized the need for more practical training curricula, especially related to agriculture and tourism. Initiatives to improve skills levels should also support on-the-job training and apprenticeships, an approach that many firms resort to when faced with a general lack of skills in the labor market. Moreover, they must be designed so that SMEs can leverage these initiatives.

These initiatives will be most successful if they adopt a systematic value chain approach to skills development—with stakeholders identifying opportunities and skills gaps in the value chains that can be tackled through adapting programs within the existing vocational training system.

Current initiatives operated by Private Sector Foundation Uganda (PSFU) and funded by the World Bank offer support for skill development in established medium-sized and large firms. These initiatives have provided training to 45,000 individuals, and there have been substantial reductions in the regulatory barriers to doing business.⁹⁹ These programs are a good start; however, they should be made accessible for smaller firms by modifying the financing arrangements. Moreover, these programs must be expanded in urban settlements outside of greater Kampala. Although PSFU reports having programs in over 60 districts across Uganda, conversations with business owners in Mbale suggest PSFU support is difficult to access from outside the capital. PSFU should partner with private sector associations that have a presence in smaller urban areas outside Kampala to promote and provide guidance on the available options to businesses located in these areas.

4. Establish local content unit requirements to deepen supply chains of firms operating in industrial parks.

With Mbale's and several other parks already under construction or operational, the short-term focus should be to maximize the impact of these initiatives for local workers and firms. The impact of the industrial park initiative will hinge on the extent of their linkages to local supply chains. Without deliberate government policies, the benefits of foreign investment in industrial parks will have little sustainable impact on job creation in local communities or Uganda as a whole.

International experience with local content policies has shown that initiatives such as enforcement of strict local purchase rules are easy to circumvent and hard to enforce, while export restrictions and protectionist trade policies risk indefinitely supporting uncompetitive local industries at the expense of taxpayers and consumers. Research shows that establishing Local Content Units that can link foreign firms and domestic suppliers as well as develop policies to target specific weaknesses in local supply chains have shown more success, and Uganda can learn from the experience of other countries in the region such as Rwanda and Ethiopia that have already established Local Content Units.¹⁰⁰ This initiative could be coupled with the establishment of a country-wide supplier database.¹⁰¹ The ongoing work on the Buy Uganda, Build Uganda (BUBU) policy, which has aimed to promote local content through government procurement, could serve as a useful starting point for this work, and many donors operating in the country already have specific policies to promote local procurement. The local content unit could help drive a more systematic and concerted effort in this direction.

Strengthening the current industrial park policy also requires closer collaboration between the Uganda Investment Authority (UIA), the lead agency on the implementation of the industrial park initiative, and the commercial offices in the LGs where industrial parks are located. This would enable the commercial office to facilitate information exchanges between the industrial park and local business community. As a starting point, the UIA industrial park manager attached to each industrial park and responsible for day-to-day services for users of the park should be appointed and managed in collaboration with the commercial office.

Box 6: Establishing a Local Content Unit in Uganda

John Sutton, who has written extensively on local content, describes a Local Content Unit as “a small, highly professional team that can liaise with multinational firms in a cooperative manner, and with a deep understanding of both (a) local capabilities, and (b) the feasible modes of engagement of local firms in supply-chains.”¹⁰²

The small agency would essentially be tasked with addressing information asymmetries that arise because multinationals lack local networks, and quality constraints for local suppliers. Tasks include: establishing relationships with the largest exporters and identifying potential suppliers, understanding constraints faced by businesses, establishing an enterprise development center to provide training, and facilitating learning between multinational and local businesses.

Uganda can draw lessons from neighboring countries that have attempted similar initiatives, including Ethiopia. Common pitfalls to avoid include:

- Relying on legislation alone without any initiatives to promote relationship-building
- Forcing foreign firms to comply without understanding the constraints first
- Focusing on short-term relationships that do not facilitate learning and supply-chain upgrading
- Attempting everything at once before allowing the unit to develop its capacity¹⁰³

Potential long-term policy priorities for central government

1. Reorient industrial growth strategies towards a broader range of place-sensitive policies

In the longer term, Uganda requires an evidence-based debate on whether the industrial park initiative is effective in boosting economic development and job creation in lagging regions of the country. For the reasons discussed in the previous sections, this initiative in its current form is unlikely to address growing regional disparities.

Instead, Uganda could explore a broader range of place-based policies that, while employing many of the same instruments as the industrial park initiative, target a wider geography and utilize and upgrade existing infrastructure. These types of policies offer particular benefits, such as tax benefits, to firms operating in, for instance, a lagging municipality or district. They may or may not be sector-based. Such initiatives are less likely to crowd out local businesses that cannot afford high levels of required investment in a greenfield site. These kinds of place-sensitive policies have recorded some success internationally.¹⁰⁴

Uganda already has similar policies in place: the presumptive turnover tax paid by small businesses has three categories which are linked to the size of the urban settlements, with businesses in smaller urban settlements paying less tax. While this initiative is a step in the right direction, the policy should be better targeted at a narrower set of urban settlements and linked to locational advantages of specific geographies. It should also be expanded to include larger firms. Furthermore, this initiative could be coupled with support for workforce development and emphasis on reducing regulatory and trade barriers through added support to one-stop shops for business registration and services, which are already in place in many smaller settlements.

2. Reinvigorate the push towards decentralization

While Uganda is often lauded as one of the more successful examples of decentralization in Africa, some of the earlier policy reforms have been reversed in recent years. This study demonstrates that there is scope to strengthen local forms of government, especially by expanding their focus and

capacity beyond the service delivery function towards playing a more active role in economic development.

The success of decentralization initiatives is closely tied to the political context and appetite to devolve power from central to local governments. The public and political support for the declaration of new cities could be an opportunity to reverse the current trend and strengthen the capacity of LGs in secondary and tertiary urban areas, but this requires that reclassifying municipalities as cities entails more than a superficial change in designation.

For local governments to play a coordination role at the district or municipal scale, they would require improved capacity to manage local economic development programs. This means increased finance, particularly unconditional funds, and an expanded mandate in terms of policy formulation. Increased unconditional funding for LGs could be performance-based to ensure effective use of additional resources—with clear objectives and transparent targets for implementation and continuous monitoring. Uganda has in the past successfully piloted performance-based grants, and this initiative is currently being revived through a number of donor programs which are also working to increase transparency of grant allocation across districts for health and education.¹⁰⁵ To facilitate policy autonomy of LGs, these types of initiatives need to be scaled up and expanded to include unconditional transfers and funding for local economic development.

3. Strengthen the local economic development function of local governments

One likely reason for the slow implementation of the Local Economic Development Policy is that it failed to recognize the multitude of actors involved and the competition and fragmentation of central government ministries, which can lead to conflicts. The current local economic development landscape in Uganda continues to be characterized by a multitude of actors and fragmentation. Part of the challenge is that local economic development is inherently a cross-cutting endeavor. But lack of coordination across the entities involved compounds that challenge. Local economic development should therefore not be pursued as a single project under a specific ministry in the short term. Rather, as many key informants suggested, it should serve as a general principle for government interventions. Delinking the policy from any specific ministry may help alleviate inter-ministerial competition. Efforts ought to focus on improving the capacity of the commercial office at the LG level to serve as a coordinating entity for local economic development initiatives. Since the office generally operates under the mandate of the Ministry of Trade, Industry and Cooperatives, it would naturally serve as the central government coordinating entity for local economic development.

Potential short-term policy priorities for local government in Mbale

1. Market Mbale as an agro-tourism destination

There are substantial unrealized synergies between the agricultural and tourism sectors in Mbale, especially unexploited potential to leverage coffee tourism. Uganda and Mbale could emulate successful regional and international experiences with coffee tourism, such as efforts in Moshi, Tanzania.

Coffee tours and farm visits can provide an alternative source of income for farmers and promote backward linkages to the wider tourism sector in the region. Some tour operators and hotels in Mbale already offer such activities, but they could be further developed beyond farm visits to include coffee processing and coffee brewing using traditional methods. With low-cost financing, guesthouses and homestays could also be developed on coffee farms.

Another opportunity to exploit synergies between the coffee industry and tourism would be to establish a specialty coffee auction in Mbale. Specialty coffee auctions take place in neighboring countries and have in the past been considered as a policy instrument to raise awareness and international market access for Ugandan coffee. As the main city in the coffee-growing region, Mbale would be well placed to host such an event. The event would attract international buyers and further heighten the profile of Mbale as an agro-tourism destination.

Effective marketing of coffee products originating in the region could also be leveraged to promote other regional products. Mt. Elgon is well recognized as a coffee-growing region, and the name features prominently in the marketing strategies of various coffee brands. This recognition could be harnessed by instituting an official Mt. Elgon certification, with a regional quality assurance board that would set standards and certify products. This initiative could be pursued through the existing structures of the Uganda National Bureau of Standards.

The municipal and district councils will require central government support and finance to pursue these efforts, and the newly established local government role for a tourism office could take the lead in coordinating across the Uganda Tourism Board, Uganda National Bureau of Standards, Uganda Coffee Development Board and other central government agencies.

2. Promote higher-value-added and less land-intensive agriculture

With the high population density in the region surrounding Mbale, average land holdings are small and becoming increasingly fragmented. There is a need to promote higher-value-added agricultural activities that require less land—for instance, poultry farming. Even though the LG production office is resource-constrained, existing initiatives could be reoriented. For instance, Operation Wealth Creation, which provides inputs for farmers, could be better aligned towards less land-intensive forms of agriculture.

3. Explore options to leverage the newly established commercial office for enterprise support

With a new initiative to create a separate commercial office at both the municipal and district level, local governments will have a dedicated office to promote local economic development beyond agriculture. Even recognizing the limited unconditional funds available to these offices, scope remains to explore low-cost initiatives. Potential activities are described in Table 4, below.

Activity	Description
<i>Highlight sources of support</i>	The commercial office could raise awareness among local businesses about available sources of support from government and donors. These tend to be centralized and hard to access for small firms in urban areas outside of Kampala.
<i>Develop an investment profile for Mbale</i>	An investment profile would identify prominent value chains, major businesses and resources available in the region. The office could use this to market Mbale as an investment destination and facilitate linkages between investors and local firms.
<i>Coordinate tourism and marketing</i>	The commercial office in its new format will eventually include a tourism officer who could take on a coordinating and marketing role for tourism in the district. The officer could lead inter-district initiatives that highlight the cultural, natural and culinary bounty in the region.
<i>Make better use of the existing municipality and district website</i>	The Mbale District and Municipality websites are rarely updated and could easily be used to market the region as an investment and tourism destination. The commercial office should be marketed as a first stop for investors in the region.
<i>Rethink regulatory and tax enforcement initiatives</i>	The commercial office is tasked with collecting license fees from local businesses, which tends to discourage firms from engaging with the office. If the function of collecting business license fees were moved to another government department, then the

	commercial office could focus on building productive and supportive relationships with the local private sector. This might also demonstrate to businesses the value in formalizing.
<i>Facilitate linkages between the industrial park and local business community</i>	The commercial office could actively collaborate with the UIA Industrial Park Manager and facilitate linkages between the industrial park and the local business community, vocational training institutes, and other relevant stakeholders.

4. Institute a regional/cross-district approach to economic development

The economic potential of Mbale and many other urban centers across the country is linked to their rural hinterlands. This is most evident in the tourism and agribusiness sectors, where Mbale acts as an access point to most of the regional tourist attractions and as a marketing and processing center for agricultural products. Despite this, there are few, if any, regional initiatives advanced through coordination among different districts. The tourism master plan promotes a regional approach to tourism, but this has yet to be implemented. The central government of Uganda, in collaboration with local officials in Mbale, should explore options to establish regional and sector-specific public entities to coordinate cross-district initiatives. These initiatives could enable the exchange of ideas to leverage cross-district synergies, such as marketing and investment. Given resource constraints and the lack of policy autonomy in districts, this entity could start with tourism, agriculture, and small initiatives that are within the current capacity of districts.¹⁰⁶ The new entity can engage with the vibrant private sector in the region to establish roles and responsibilities for improving the business climate. For instance, the government could commit to specific regulatory reforms or investments, while the private sector could agree to pursue specific investments in capacity expansion, and reforms in employment practices, technological upgrading and local content.

Appendices

Appendix 1- Urban Definitions and rural-urban reclassifications

Urban population growth occurs through a combination of natural population growth in urban areas, rural-urban migration and reclassification of rural settlements into urban settlements. Therefore, the exact criteria that rural settlements must meet to be declared as urban and the administrative process of reclassification have important implications for the official statistics on the urban population share and growth in the urban population.

The manner in which urban areas have been defined in Uganda and seemingly inconsistent application of these criteria warrants a dedicated discussion of this topic.

Uganda has a five-tier administrative and local governance structure consisting of districts, counties, sub-counties, parishes and villages. The first four are divided into urban and rural entities, with the urban areas designated as cities, municipalities, town councils and town boards. According to the Local Government (LG) Act CAP 243, the Ministry of Local Government can gazette an area as urban if it fulfils the following criteria:

- (i) A minimum of 25,000 people for town council; 100,000 people for municipality; and 500,000 people for a city;
- (ii) Has a master plan for land use, has available water sources and is able to meet the cost of providing services.

Besides this, all district headquarters are declared towns.

With a minimum population threshold of 25,000, Uganda's minimum urban population threshold is the 3rd highest out of the 101 countries worldwide who use a minimum population threshold to define urban areas. This implies that rural settlements in Uganda will take longer to meet the urban population threshold and be reclassified as urban settlements, than in other countries with a lower population threshold.¹⁰⁷

Urban settlements in Uganda are defined through a process of "gazetting" urban settlements by the Ministry of Local Government, rather than through applying purely statistical standards. As a result, inconsistent application of the criteria may distort the official urban population share in Uganda.

Indeed, although legal definitions have not changed, the practice of classification of new urban areas has recently become increasingly detached from the official legal definition and seemingly more aligned to international practice, with lower population thresholds. Although this practice is not fully reflected in the overall urbanization figures, many of the existing urban settlements do not meet the official minimum population threshold, and the practice of reclassifying rural settlements below the population threshold as urban seems to have accelerated in the last inter-census period—during which the number of urban settlements in Uganda jumped from 75 to 259.ⁱ

A new definition of urban areas was proposed in the National Urban Policy adopted by the Ugandan Government in 2017. The new criteria seems to be inspired by the current practice and sets a lower population threshold of 10,000 inhabitants for the smallest urban settlement, but has yet to be made into law.

ⁱ The 1969, 1980 and 1991 population censuses defined urban areas to include gazetted urban centres (City, Municipalities and Town Councils) and ungazetted Trading Centres with a population exceeding 1,000 persons. The 2002 and 2014 Censuses defined urban areas to include only the gazetted urban centres (City, Municipalities, Town Councils and Town Boards). Although the 2014 Population and Housing Census included the Town Boards among its urban population, the 2002 Census did not include them. (National Population and Housing Census 2014 Analytical Report)

Appendix 2 - 2002-2014 Intercensus Migration Tables

Place of Enumeration	Place of Previous Residence					Total Immigration	Pct of Population
	Type I	Type II	Type III	Type IV	Type V		
Type I		46,920	339,200	253,710	180,240	882,890	21%
Type II	9,150		35,240	40,270	26,190	120,370	9%
Type III	80,380	36,310		199,840	238,410	603,040	7%
Type IV	54,890	45,340	192,370		185,530	600,770	7%
Type V	48,950	85,970	241,370	231,540		652,050	6%
Total Emigration	193,370	214,540	808,180	725,360	630,370	287,300	
Pct of Population	5%	15%	9%	8%	6%		

Aggregated by Origin of Immigrants

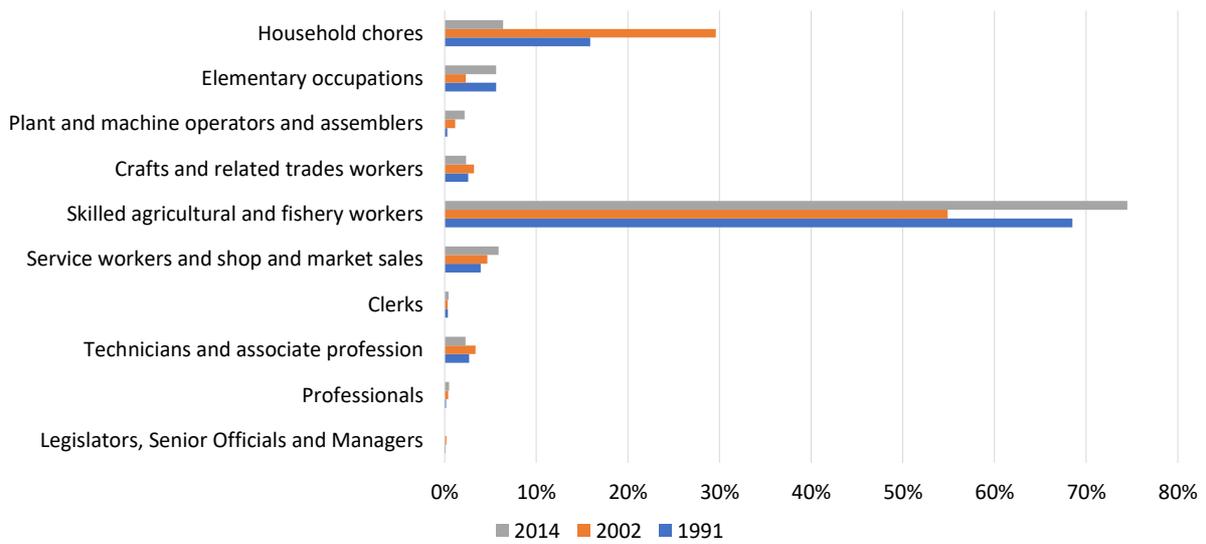
Place of Enumeration	Place of Previous Residence					Total Immigration
	Type I	Type II	Type III	Type IV	Type V	
Type I		5%	38%	29%	20%	100%
Type II	8%		29%	33%	22%	100%
Type III	13%	6%		33%	40%	100%
Type IV	9%	8%	32%		31%	100%
Type V	8%	13%	37%	36%		100%

Aggregated by Destination of Emigrants

Place of Enumeration	Place of Previous Residence					Total Emigration
	Type I	Type II	Type III	Type IV	Type V	
Type I		22%	42%	35%	29%	100%
Type II	5%		4%	6%	4%	100%
Type III	42%	17%		28%	38%	100%
Type IV	28%	21%	24%		29%	100%
Type V	25%	40%	30%	32%		100%
Total Emigration	100%	100%	100%	100%	100%	100%

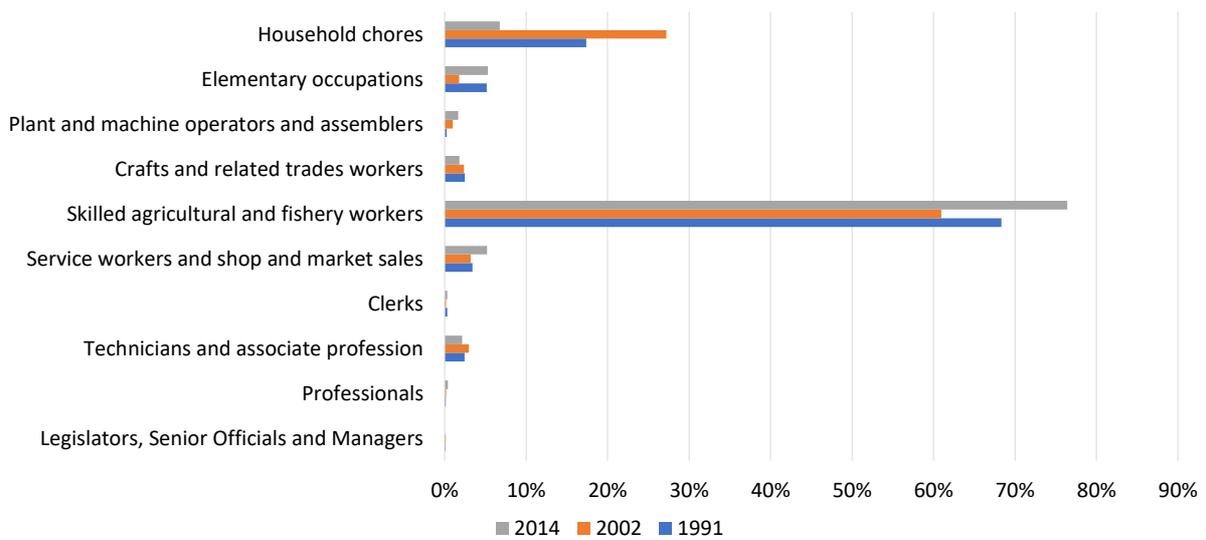
Source: National Population and Housing Census 2002-2014

Appendix 3 – Small Town District Workers by Occupation Category 1991-2014 (percentage share of total workers)



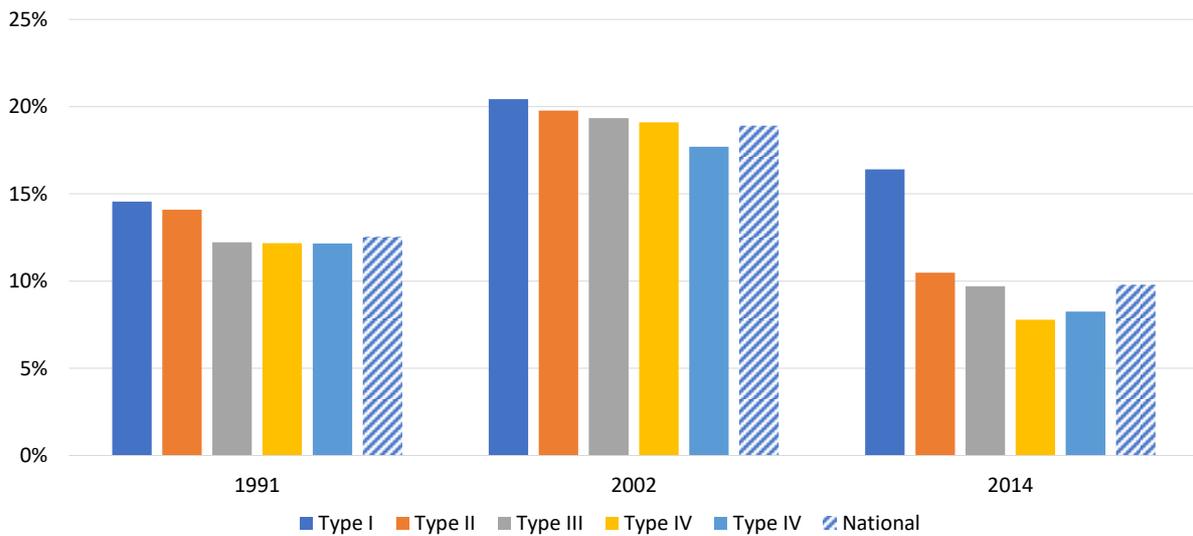
Source: National Population and Housing Census Data 1991, 2002, 2014

Appendix 4 – Rural District Workers by Occupation Category 1991-2014 (percentage share of total workers)



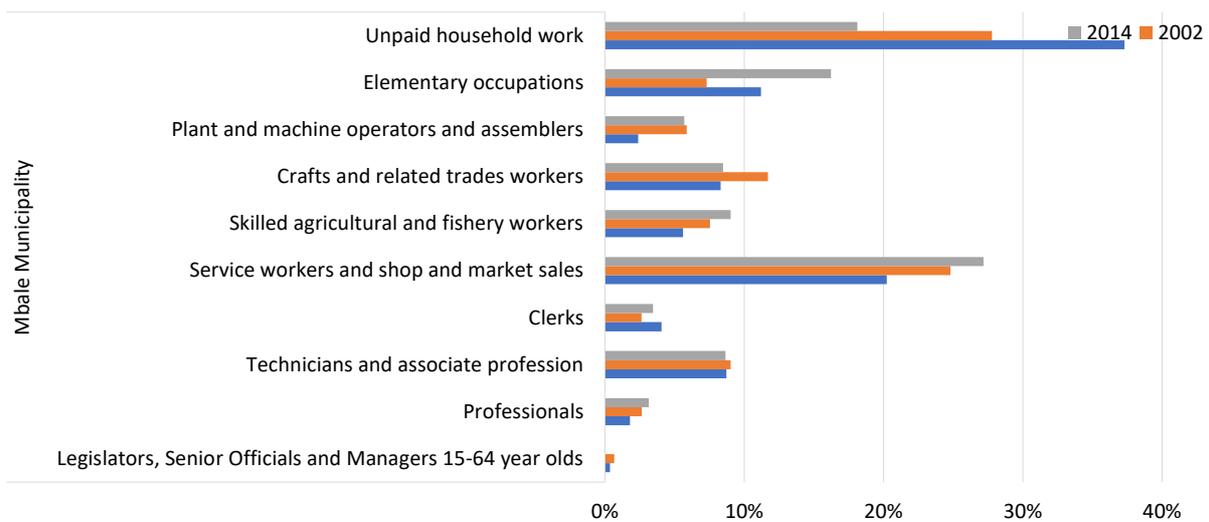
Source: National Population and Housing Census Data 1991, 2002, 2014

**Appendix 5 – Share of inactive population across districts, 1991-2014
(percentage share of working age population, ages 15-64)**



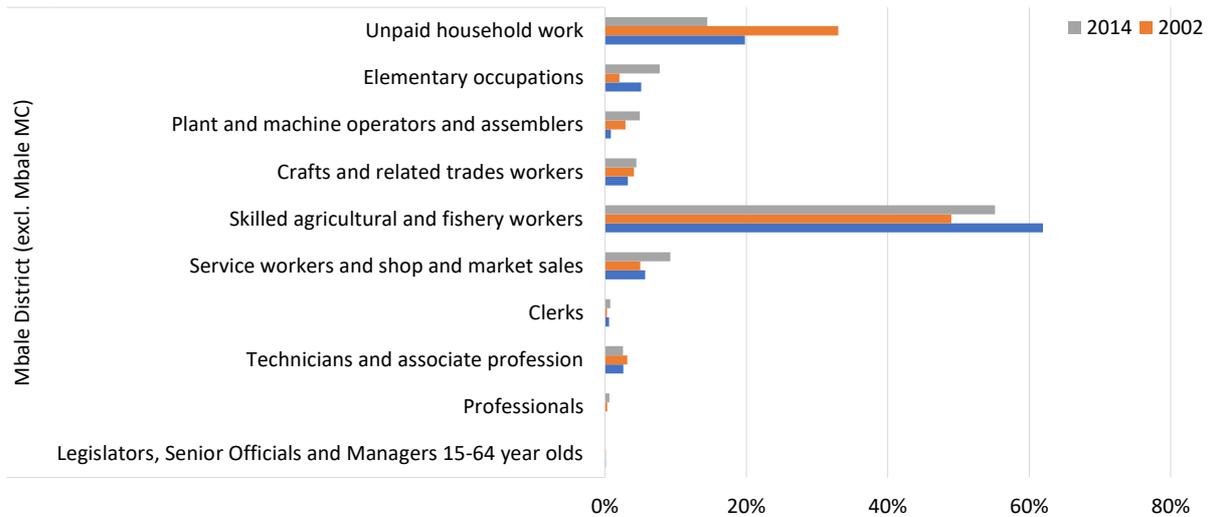
Source: National Population and Housing Census Data 1991, 2002, 2014

**Appendix 6 – Mbale Municipality Occupation Categories, 1991-2014
(percentage share of total workers)**



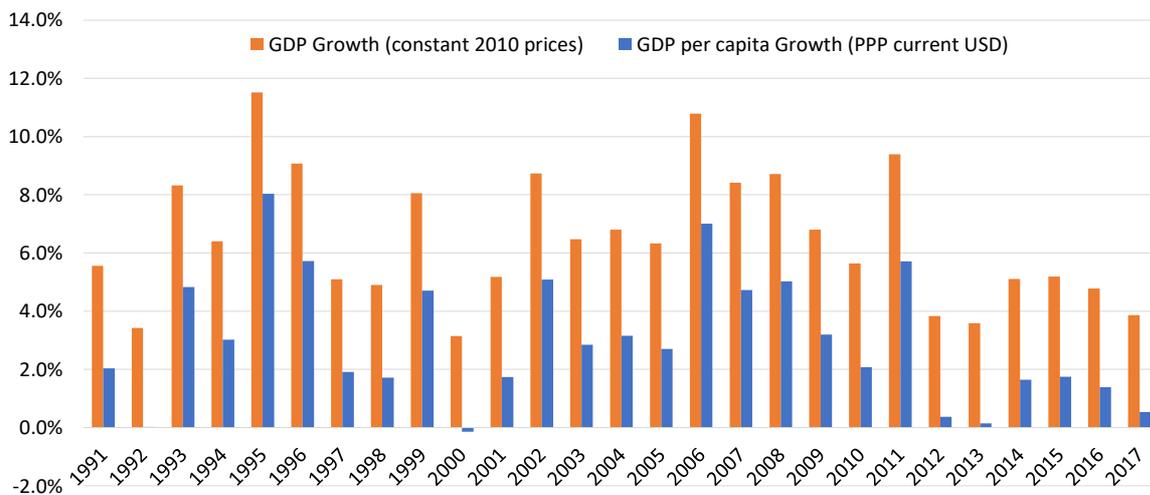
Source: National Population and Housing Census Data 1991, 2002, 2014

Appendix 7 – Mbale District (excl. municipality) Occupation Categories, 1991-2014 (percentage share of total workers)



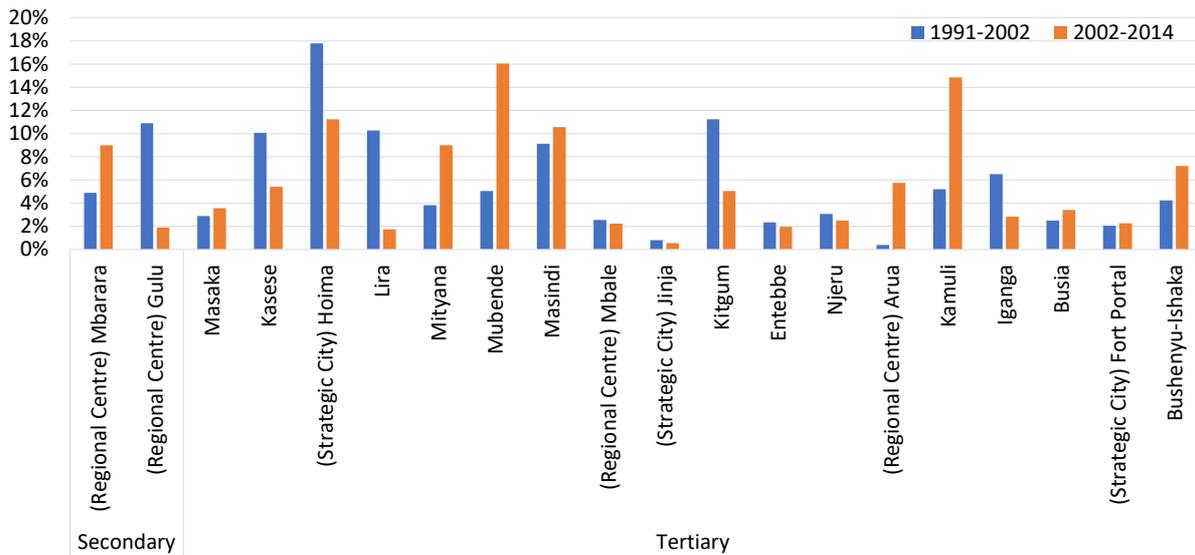
Source: National Population and Housing Census Data 1991, 2002, 2014

Appendix 8 – Uganda GDP and GDP per capita annual growth (%), 1991-2014



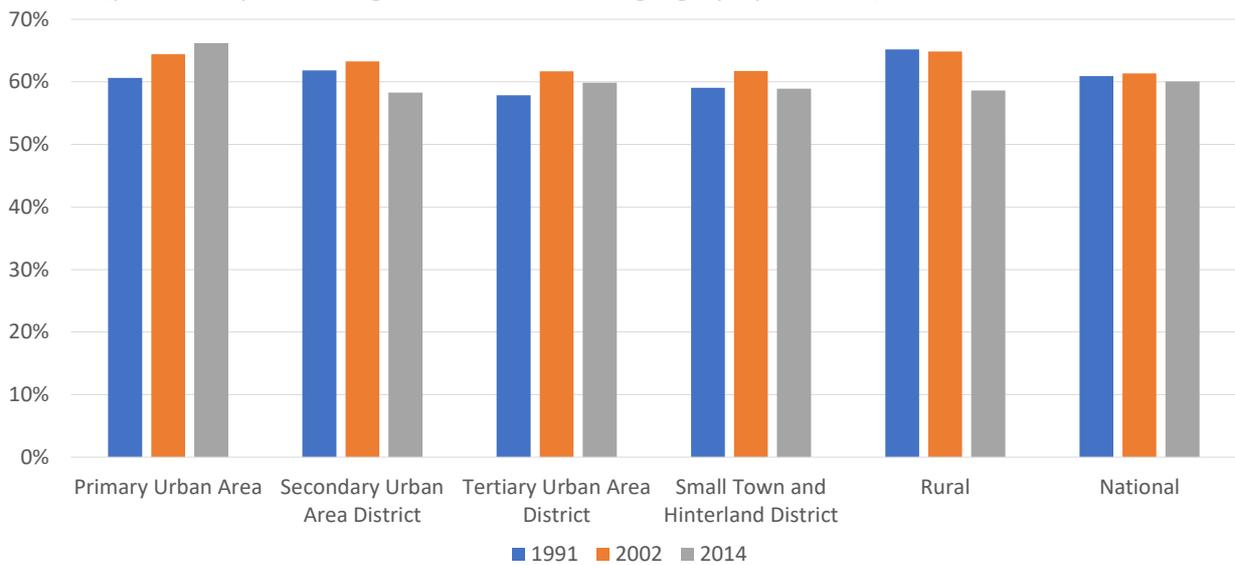
Source: World Bank World Development Indicators

Appendix 9 – Population Growth in the 20 largest Municipalities, 1991-2014, (cumulative annual population growth in percent)



Source: National Population and Housing Census 1991, 2002, 2014

Appendix 10 – Youth (15-30) proportion of working age population (15-64), 1991-2014, (youth as percentage share of working age population)



Source: National Population and Housing Census Data 1991, 2002, 2014

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