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Transforming secondary cities for job creation

A case study of Mbale, Uganda



- In brief:**
- The Government of Uganda is taking steps to strengthen secondary city economies, as demonstrated by plans to declare nine new cities, including the municipality of Mbale.
 - Primary constraints to growth and job creation include limited access to finance, underdeveloped transport, insufficient access to land, low labour force skills, and little scope for the private sector and civil society to participate in policymaking.
 - Mbale government and private sector stakeholders can leverage the district's agricultural and scenic resources through initiatives such as marketing Mbale as an agro-tourism destination, and promote higher-value-added and less land-intensive agriculture, such as poultry farming. With more funding, the newly established Commercial Office can also be leveraged to enhance enterprise support.
 - Achieving the objective of productive job creation requires a collaborative, regional approach to economic development. Officials in Mbale could, for example, establish multi-stakeholder regional development agencies to support growth in particular sectors.

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Overview of the research

Our analysis suggests that demographic, economic and labour market trends in Mbale are broadly representative of those in secondary and tertiary city districts across Uganda. To gain insight into challenges, opportunities and policy options for developing and implementing job creation strategies in Mbale and secondary cities across Uganda, JustJobs Network examined the following issues:

1. What are the current demographic, economic and labour market trends in the district and municipality of Mbale? How do they compare to historic trends?
2. To what extent do national and local stakeholders coordinate effectively to promote local economic development and job creation in Mbale?
3. What are key challenges and opportunities for job creation in Mbale?

To address these objectives, JustJobs Network compiled relevant literature on secondary cities; analysed secondary data on demographic, economic and employment trends in Mbale and Uganda; and conducted a case study in Mbale. 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.¹

1. What are the current demographic, economic and labour market trends in the district and municipality of Mbale? How do they compare to historic trends?

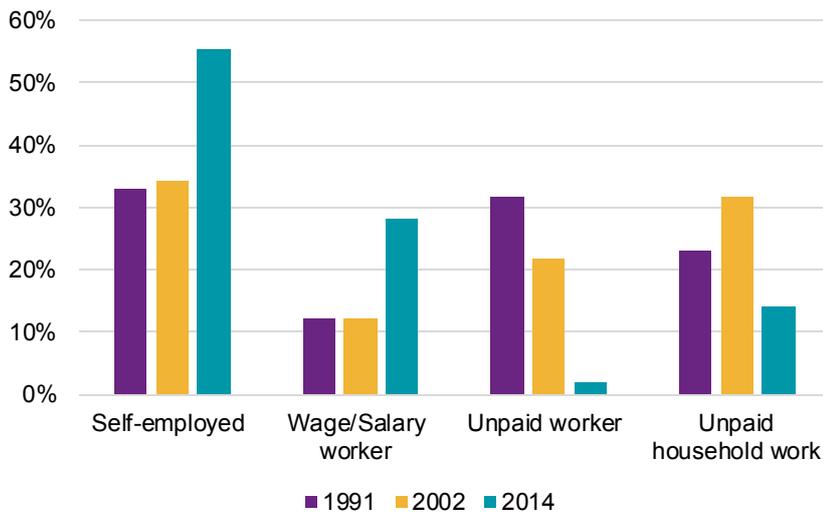
Mbale Municipality and District have seen relatively low population growth rates compared to the rest of the country since 1991, with substantial migration out of the district. Mbale Municipality grew by less than 2.5 percent between 1991 and 2014 – compared to the national population growth rate of 3 percent. Outward migration trends may be linked to Mbale’s relatively high population density, which makes land scarce in the district.

The quality of employment in Mbale has been improving, with increasing shares of wage employment (**Figure 1**). Sector employment trends also reveal a shift away from farm employment, unlike most other secondary and tertiary districts in Uganda. This may also be linked to the increasing land scarcity in the district. While the agriculture sector continues to employ the most workers, employment in several non-farm sectors has steadily gone up in Mbale District. For example, from 1991-2014, employment in services and shop and market sales has grown the most (from 8 percent of total employment to 13 percent), followed by plant and machine operators and assemblers (from 1 percent of total employment to 5 percent).

In Mbale 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. While most residents are employed in the informal economy, some have access to contracts or benefits, but at the discretion of employers.

¹ A separate policy brief provides greater detail about Uganda-wide trends.

Figure 1. Work Status in Mbale District, 1991-2014



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

2. To what extent do national and local stakeholders coordinate effectively to promote local economic development and job creation in Mbale?

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. Most of the current efforts by the central government to support job creation focus on promoting self-employment through entrepreneurship. The Government has also established several industrial parks to encourage foreign investment in local economies.

While the municipality and district have an institutional structure for local economic development, they lack policy autonomy, human resource capacity and funding to meaningfully influence existing programs or develop their own initiatives. Local offices, including Production Offices, Commercial Offices, and Community Development Offices, generally operate as extensions of central government ministries. Local stakeholders report that existing job creation initiatives may have limited impact as they are not targeted to existing firms or based on firms' growth potential and sectoral competitive advantage in Mbale.

Engagement and coordination with the private sector are also limited, and businesses report that collaboration is complicated by fragmentation of government ministries. Private sector stakeholders perceive that local governments are relatively more focused on collecting taxes rather than providing support to businesses. As such, the government's approach to formalising businesses does not provide a clear sense of the benefits to business owners.

3. What are key challenges and opportunities for job creation in Mbale?

Business owners in Mbale reported a number of challenges to growth and job creation, including financial, infrastructure and skills constraints (**Table 1**).

Table 1: Key constraints reported by selected business owners in Mbale

Constraint	Description
Access to finance	Small businesses face difficulty accessing finance.
Infrastructure and land	<p><u>Transport</u>: Despite recent investments connecting roads from Mbale to selected hubs, connectivity to the rest of the country remains poor.</p> <p><u>Land</u>: Land scarcity remains a challenge, and complying with formal land regulations is too costly for many businesses.</p>
Workforce skills	The education system and vocational training do not adequately impart practical skills.
Enterprise support	Licensing fees and compliance costs for business regulations are high.

Source: Mbale stakeholder interviews

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 suggests that its reach could be limited without changes in the policy approach.

Agribusiness

Mbale can leverage the agricultural potential of its rural hinterland to create productive jobs in the food system—in agricultural production, storage, processing, distribution and transport, marketing, preparation, and retailing—to meet the rapidly growing urban demand for food in the country.

The coffee value chain is of particular importance for the local and national economy. Mbale is surrounded by fertile farmland, part of a world-renowned coffee-growing region that produces most of Uganda's Arabica coffee. 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. Establishing downstream processing of coffee holds potential to boost urban job creation in Mbale. 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. Developing an instant coffee processing industry also has the potential to create non-farm jobs and boost the value of coffee exports. Ugandan firms could begin by targeting the regional market, where large multinational companies hold a smaller market-share, and then working gradually to improve their global competitiveness.

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. 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. 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 labour force skills.

These best practices would need to be adapted to the Mbale context, accounting for specific locational advantages and disadvantages. For instance, due to high population density, less land-intensive forms of agricultural production need to be promoted. Discussions with local entrepreneurs also suggest that practical labour force skills in agro-processing need to be strengthened. Tackling this challenge will require a more systematic, demand-based approach to skill development based on an understanding of the agricultural value chain.

Tourism

Although the full potential of the sector has yet to be realised, tourism is an important source of income for Mbale Municipality. Mbale hosts both local and international tourists as well as government, business and NGO conferences and acts as the base for tourism activities in the region. Mount Elgon National Park is the primary attraction, and the region also hosts important cultural events and has potential for agro-tourism linked to coffee and other agricultural production. These could be combined into a comprehensive tourism plan and marketing strategy for the region.

Discussions with key informants suggest that labour skills, marketing and infrastructure are the main constraints to realising this potential. In addition, there is a lack of coordination among various stakeholders in the industry. 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 Mbale Industrial Park is one of the 22 industrial and business parks planned country-wide. Construction of the park commenced in 2019, after a concession was granted to a Chinese operator to build and manage the park. The park developer has marketed ambitious goals in terms of total planned investments (US\$ 600M), export volumes (US\$ 400M) and job creation (12,000 jobs). However, most government and non-governmental stakeholders reported that they were generally unaware of the detailed plans for the park. While they expect the construction phase to create demand for casual labour, skepticism pervades regarding any long-term expectations for job creation.

International experience with similar initiatives shows that appropriate government policies and regulation will be crucial to enhance the value of the park for the local and national economy. The difficult task is to establish value chains that tie foreign investment in the park to local firms—increasing the number of jobs generated while also creating incentives for foreign firms to remain in the region beyond the expiry of tax holidays. This progression will not take place automatically with the establishment of industrial parks. Rather, it requires context-appropriate programs that build capacity in businesses and develop skills in the labour force, such as by establishing relationships between foreign firms and potential suppliers and facilitating information exchange and learning.

Policy options

Potential policy options for local government and private sector stakeholders to consider in Mbale include the following:

1. Market Mbale as an agro-tourism destination.
 - A. Leverage the tourism potential of coffee growing through promotion of homestays, coffee plantation tours, gourmet coffee tasting, and related activities.
 - B. Establish a Mount Elgon-brand certification and appropriate standards for agricultural products.
 - C. Host special events and festivals, such as specialty coffee auctions.
2. Promote higher-value-added and less land-intensive agriculture that is more suitable for the high population density of Mbale, such as poultry farming, by adapting existing programs such as Operation Wealth Creation to the local context.
3. Leverage the newly established Commercial Office² in Municipalities and Districts to enhance enterprise support across a range of sectors through the following activities:
 - A. Raise awareness among local businesses of available sources of support from government and development partners - for instance, initiatives under Private Sector Foundation Uganda.
 - B. Develop an investment profile for Mbale, to identify prominent value chains, major businesses and resources available in the region.
 - C. Take on a coordinating and marketing role on behalf of the tourism sector in the district and region.
 - D. Facilitate 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. Incentivise firm compliance with licensing fees and registration through linking service provision with regulatory and tax enforcement.
4. Adopt a 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.
 - 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.

Due to capacity constraints of the local government, these efforts will require central government initiative and support. These efforts include adopting an integrated strategy for supporting the growth of existing small and medium-sized enterprises in sectors that are strategic for secondary urban centers, bolstering local content policies, strengthen existing infrastructure and business clusters, and providing more policy autonomy and funding for local governments.

² Local government office in charge of enterprise support, licensing and taxation.