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Transforming secondary cities for job creation

A study of Uganda



- In brief:**
- The Government of Uganda is taking steps to strengthen secondary city economies, in part through plans to establish nine new cities.
 - Kampala currently dominates the country's economic and urban system, but there are signs that the city's labour market is becoming saturated. As such, there is a need to stimulate growth and job creation in smaller urban settlements.
 - To transform secondary cities for job creation, there is a need to support the growth of small and medium sized enterprises (SMEs) through a systematic value chain approach to vocational training and by bolstering initiatives to promote local content. Country-wide plans to construct industrial parks may require changes in approach to strengthen linkages to local supply chains and achieve the intended impact on job creation.
 - In the long-term, the focus should be on strengthening existing infrastructure, business clusters, and local government capacities to promote local economic development through increased policy autonomy and funding.
 - These strategies should be adapted to the locational advantages of specific settlements. For several secondary cities, these opportunities could be found in tourism and food system value chains.

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Overview of the research

In recognition that building employment opportunities in small towns and cities will be critical to inclusive development and to meeting the objectives set forth in Uganda Vision 2040, the Ugandan Government is taking steps to strengthen secondary city economies. As part of this process, the government has plans to grant city status to nine urban settlements.

To gain insight into challenges, opportunities and policy options for developing and implementing job creation strategies in secondary cities, JustJobs Network studied the following issues:

1. According to international experience, what is the role of secondary cities in job creation and economic development, and what are contributing factors to their potential for job creation?
2. What are key demographic trends across different categories of urban settlements in Uganda?
3. What are the characteristics of local economies and labour 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 cities, 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 cities; analyzed secondary data on demographic, economic and employment trends in Uganda; and conducted a case study in Mbale, a secondary city 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.¹

1. According to international experience, what is the role of secondary cities in job creation and economic development, and what are contributing factors to their potential for job creation?

Across developing countries, and most especially in Sub-Saharan Africa, the combined forces of rapid population growth, a burgeoning youth workforce and urbanisation have created a policy imperative to generate jobs at enormous 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. For instance, from 2002 to 2014, 3 million youth joined the labour market in Uganda – far exceeding the 500,000 new wage jobs created in Kampala during the same time period.

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 economic and service centers for their rural hinterlands, secondary cities represent more accessible destinations for rural migrants compared to primary cities. They also have the potential to expand rural households' access to non-farm employment. This can enable income diversification and growth with a larger aggregate impact on poverty reduction compared to primary cities. In addition, smaller urban settlements have specific locational advantages for firms as compared to primary cities, in the form of lower land and labour costs, proximity to agricultural and natural resource endowments, and in some cases proximity to tourist sites and shorter distances to international borders.

¹ A separate policy brief provides greater detail about the Mbale case study.

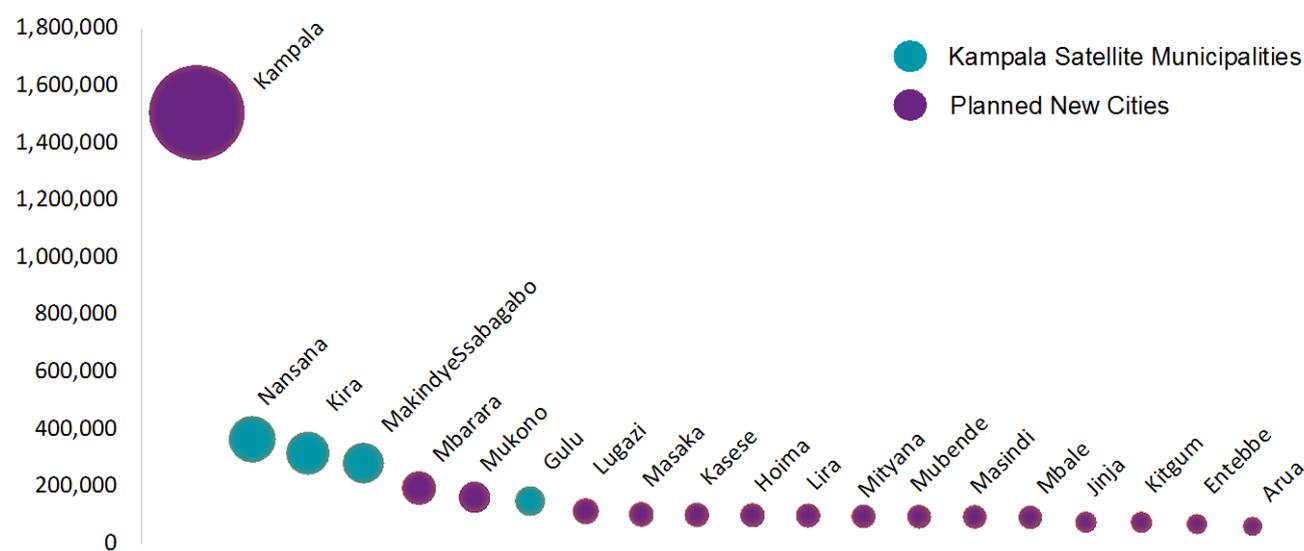
However, the growth of non-primary cities is not inevitable. International experience shows that leveraging their potential requires more deliberate government interventions aimed at building on these settlements' roles as market and service centers to transform them into productive hubs of job creation.

Nascent research suggests that effective policy initiatives to promote a vibrant business sector and the creation of jobs in secondary cities build on place-specific advantages and vary by context.² However, investing in infrastructure such as transport, improving local institutions such as taxation and regulatory systems, and supporting the growth of small and medium sized enterprises (SMEs) are all critical steps in this process. For example, public and private stakeholders can work together to identify competitive markets and sectors, target workforce training to these needs, and facilitate market research, exports, and technology upgradation.³

2. What are key demographic trends across different categories of urban settlements in Uganda?

Uganda has one of the highest population growth rates in the world at around 3 percent per year. Youth (ages 15-30) form 60 percent of the working-age population. The capital city of Kampala—currently the only settlement with city status—dominates the country's urban system, with over 4.3 million inhabitants in the metropolitan area. Beyond Kampala and its satellite municipalities, Uganda has a very flat urban hierarchy, with no cities above 200,000 inhabitants (**Figure 1**).

Figure 1: Population of urban settlements (population in 2014)



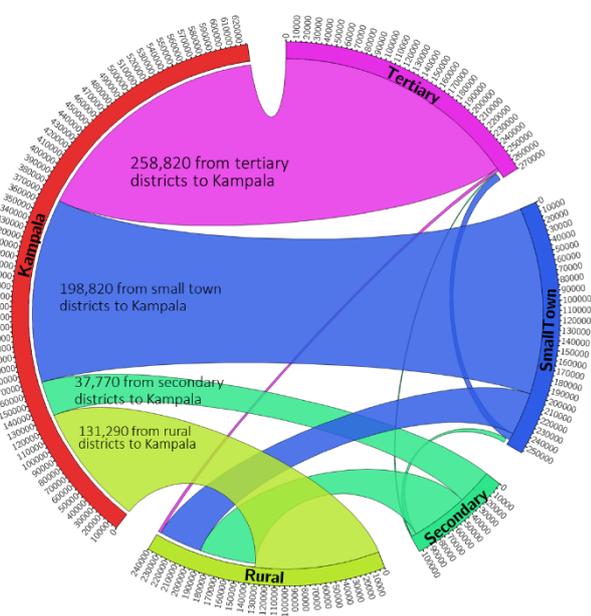
Note: Entebbe is missing from the list of planned new cities since it is not among the 20 largest settlements
 Source: National Population and Housing Census 2014

² See, for example, Kilroy, A., Francis, L., Mukim, M., & Negri, S. (2015). *Competitive cities for jobs and growth: What, who, and how*. World Bank.

³ Kulenovic, Z. Joe, Alexandra Cech, Dilon Gashi, Luke Jordan, Austin Kilroy, Megha Mukim, and Juni Tingting Zhu. (2015). *Six Case Studies of Economically Successful Cities: What Have We Learned?* Washington, DC: World Bank.

About 38 percent of the population growth in the capital city region is due to migration from other parts of the country, including smaller urban settlements.⁴ Due to out-migration (**Figure 2**), population growth in secondary and tertiary cities lags far behind Kampala, with these urban settlements growing more slowly than small towns and more rural settlements.

Figure 2. Net migration Flows across district types, 2002-2014



District Type	Description
Primary	Kampala and surrounding districts
Secondary	Gulu and Mbarara
Tertiary	Districts with municipalities with population of 50,000-150,000
Small Town	Districts with municipalities with population of 20,000-50,000
Rural	Districts with no urban settlements of at least 20,000

Note: Net migration flows are calculated by taking the number of people that have migrated from one typology to another and deducting the number that have migrated in the opposite direction. Source: National Population and Housing Census 2014.

3. What are the characteristics of local economies and labour markets of different types of settlements in Uganda, and how have they changed over time?

Higher-value economic activity is concentrated in Kampala, as evidenced by GDP shares by district (**Table 1**). This is also reflected in the fact that Kampala hosts 44 percent of all business establishments and almost 50 percent of all non-farm enterprise-level jobs in Uganda. Compared to other cities, Kampala has higher wages (real wages are 50 percent higher than in any other geography), a diversified economy, and more job opportunities and wage employment per capita. However, as the city continues to grow rapidly with migration from other parts of the country, a declining real wage (wages have fallen by 5 percent during 2013—2016) and increasing unemployment demonstrate that its labour market may be growing saturated.

Table 1: 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

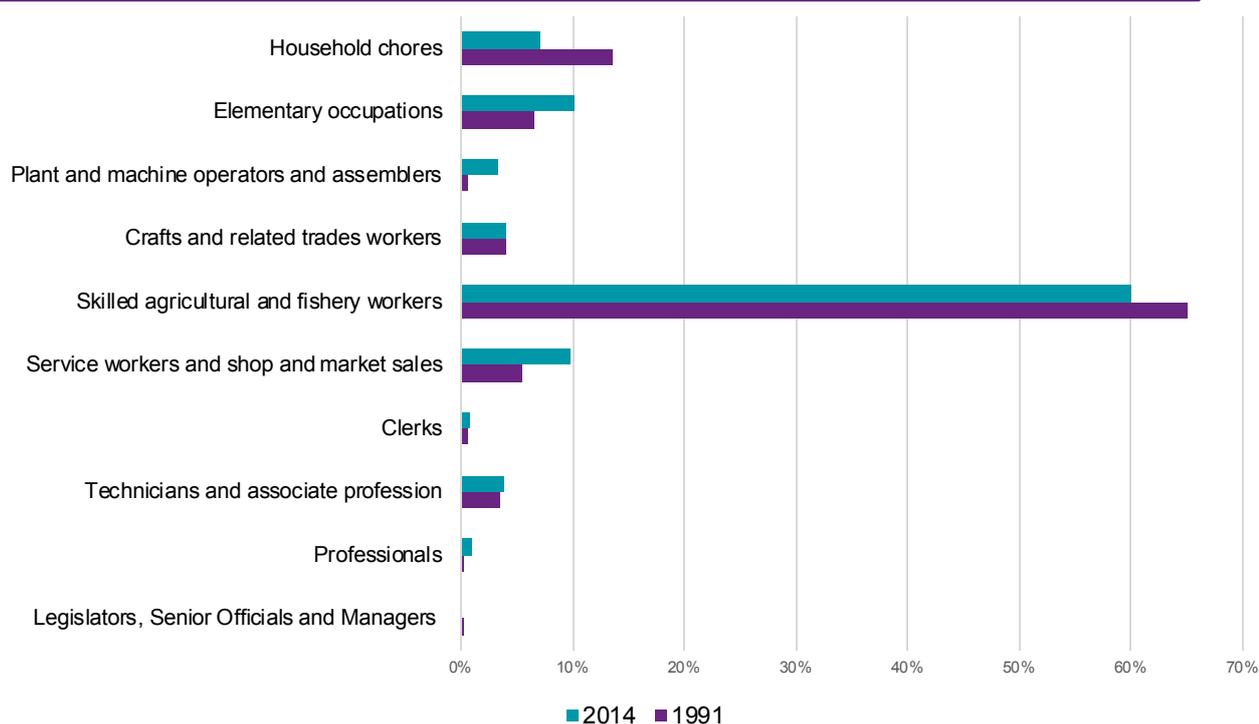
Source: National Population and Housing Census Data 2014.

⁴ The demographic analysis in the paper uses a typology of districts in Uganda based on the size of the largest city in the district which are grouped into five categories: primary urban area, secondary city, tertiary city, small town and rural district.

The out-migration observed in smaller urban settlements can be attributed to a lack of economic opportunities. Structural transformation in secondary and tertiary cities is proceeding slowly, and productive non-farm employment opportunities remain limited. For example, from 1991-2014, the share of workers employed in agriculture in secondary districts has fallen only slightly (from 65 to 60 percent) (**Figure 3**), while the same share has gone up in tertiary districts (from 57 to 64 percent).

Moreover, outside Kampala, wage employment is limited. In 2014, most workers (at least 75 percent) across urban settlements, small towns and rural areas remain in more vulnerable forms of employment, such as self-employment or unpaid labour.

Figure 3: Secondary city district workers by occupation category, 1991-2014



Note: Figures represent percentage share of total workers in secondary city districts, by year.
 Source: National Population and Housing Census, 1991, 2014

Some bright spots, however, signal the potential in secondary urban centers. First, wage jobs are increasingly being created outside of Kampala. Second, the share of workers who have completed primary and secondary education in secondary and tertiary cities compared to Kampala has grown since 2002. Greater focus on job creation and economic development in these geographies can accelerate the momentum. Third, existing studies⁵ do find evidence of a subtler form of transformation within the agricultural sector through diversification into higher value-added crops and growth of non-agricultural household enterprises.

As more young people join the working-age population, and those in proximity of smaller urban settlements look for non-farm work opportunities, secondary cities can play an increasingly important role as centers of economic opportunity. Uganda must stimulate growth and job creation in towns and cities beyond Kampala to achieve inclusive development and realise the potential of a young workforce.

⁵ Fox, L.; Pimhidzai, O. (2011) *Is informality welfare-enhancing structural transformation? Evidence from Uganda (English)*. Policy Research working paper; no. WPS 5866. Washington, DC: World Bank.

4. How effective is the current policy framework in promoting job creation and local economic development in secondary cities, and to what extent do national and local stakeholders coordinate effectively in policy implementation?

Coordination of initiatives to promote vibrant urban economies beyond Kampala remains a challenge.

- The institutional architecture for job creation initiatives is characterised by fragmentation, lack of coordination and inter-ministerial competition.
- The most relevant and effective job creation initiatives (Youth Livelihood Programme, Uganda Women Entrepreneurship Programme, activities under Private Sector Foundation Uganda) are controlled by the central government, with local governments having limited ability to adapt these programs to local needs and locational advantages. 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 SMEs that are positioned to grow and become job creators. A focus on the latter could go further in generating wage employment and fostering a strong local business climate in secondary cities.

The Government of Uganda has also established a number of industrial parks to encourage foreign investment in local economies. While more information is needed about their impact, existing trends suggest that the initiative may be widening the gap between Kampala and the rest of the country, with industrial parks creating few new jobs outside of the capital. Without deliberate government policies to support linkages to local firms, foreign investment in industrial parks is unlikely to have long-term, sustainable impact on job creation. Moreover, without more deliberate attempts to target sectors in which secondary and tertiary cities can compete, industrial parks are unlikely to foster a more regionally balanced urbanisation and development process.

Policy options

The following short-term and long-term policy options can potentially support economic opportunity for more Ugandans, including Uganda's growing youth population. Due to capacity constraints of local governments, most initiatives will require central government initiative and support at the outset.

In the short-term, **adopt an integrated strategy for supporting the growth of existing SMEs in strategic sectors for non-primary urban centers.**

- A. Support industries in which secondary and tertiary cities have a locational advantage, such as tourism and agribusiness.
- B. Bolster existing initiatives under the Buy Uganda, Build Uganda Policy by establishing a local content unit⁶ to identify existing capacity and constraints across industries, and deepen linkages between local firms and foreign investors in industrial parks.
- C. Establish regional and sector-specific public entities to coordinate regional/cross-district and sector-specific approaches to economic development. These entities would include representatives from relevant local governments and could enable the pooling of resources and exchange of ideas to leverage cross-district synergies.

For the long-term, **strengthen 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 city or district.
- B. Reinvigorate the push towards decentralisation, 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.

⁶ A local content unit is a small agency that would be tasked with promoting local content in international firms. For example, it would address quality constraints for local suppliers and information asymmetries that arise because multinational firms lack local networks.