UGANDA: JOBS STRATEGY FOR INCLUSIVE GROWTH

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ABBREVIATIONS

AGOA ............... African Growth Opportunity Act
BDS ................ Business Development Services
COMESA ........ Common Market for Eastern and Southern Africa
COMSHIP .......... Common Market for Seed Harmonization Implementation Plan
EAC ............... East African Common Market Protocol (CMP)
EBRD ............... European Bank for Reconstruction and Development
FDI ................ Foreign Direct Investment
GDP ................ Gross Domestic Product
GIZ ................ German Society for International Cooperation
ICT ................ Information and Communications Technologies
LICs ............... Low-Income Countries
MAAIF ............ The Ministry of Agriculture MAAIF
MLHUD .......... Ministry of Lands, Housing and Urban Development
MMSME ........... Micro, Medium, and Small Enterprises
MOF ............... Ministry of Finance
MoLHUD ........ The Ministry of Lands, Housing and Urban Development
NDP ............... National Development Plan
SACCO ............ Savings and Credit Cooperatives
SLAAC ............ Systematic Land Adjudication and Certification
SME ............... Small and Medium Enterprises
SSA ............... Sub-Saharan Africa
TFP ............... Total Factor Productivity
UNHS ............ Uganda National Household Survey
WB ............... World Bank
WBG ............... World Bank Group
WINGS ............ The Women’s Income Generating Support
WRS ............... Warehouse Receipt System
YouWIN? ........ Youth Enterprise with Innovation in Nigeria
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ABSTRACT

Trend growth in Uganda’s economy has not been fast enough to create enough jobs with higher earnings for one of the world’s fastest growing workforces. With almost three quarters of young people still joining the workforce on farms, Uganda’s economic transformation into off-farm waged jobs in urban areas must be hastened for faster economic growth. This report identifies ten key facts from a Jobs Diagnostic analysis which describe the main jobs challenges Uganda faces. It then sets out policy recommendations for a strategy for jobs and economic transformation which focuses on creating more waged jobs in Uganda, encouraging mobility into better jobs in urban areas, accelerating transformation of Uganda’s agriculture, and fostering inclusion into better jobs.
1. SUMMARY, INTRODUCTION, AND BACKGROUND

MEETING UGANDA’S JOBS CHALLENGES

Young Ugandans need faster economic growth combined with a faster pace of economic transformation to create higher productivity jobs for the future economy. With a median age of just 15.9, Uganda is the world's second youngest country; it also has one of the world's highest fertility rates at 5.91 per woman (2010–2015). Youthfulness means the working-age population grew at a very fast 3.92 percent per annum between 2011–2017. This will continue, with the number of job seekers increasing in the coming generation. We estimate that the working-age population will increase by 13 million people between 2017 to 2030. With one dependent per person of working age, and 1.42 dependents per employed person in 2017, dependency in Uganda is unusually high. High dependency combined with very high workforce growth mean that to reach the same per capita income growth as countries with lower dependency, Uganda must increase average labor productivity faster, in addition to creating more jobs for new workers. With most workers in agriculture, raising agricultural productivity must be the cornerstone of a strategy for jobs and economic transformation. This must be coupled with faster movement of young workers from agriculture employment into higher productivity industry and service jobs.

This report sets out World Bank (WB) recommendations for a jobs and economic transformation strategy for Uganda, which, though challenging and urgent, is achievable with coordinated effort and strong leadership. The stakes are rising as more and better educated Ugandan youth enter the labor force with higher expectations. Creating more and continually “better” jobs for a fast-growing, youthful workforce is the crucial challenge for policy makers in Uganda for the next two generations. Success or failure could determine Uganda’s development fate and future social stability. The Great Lakes region is prone to fragility and violence when youth aspirations are thwarted, so meeting the challenge requires clear strategic priorities and persistence, consistent, and coordinated policies.

The World Bank Group (WBG) attaches high importance and urgency to meeting the Jobs challenge for Uganda’s youth. There are two reasons for the urgency: first, Uganda’s “demographic window” is opening as fertility is slowly falling. This means for about the next 30 years, if Uganda can create enough jobs at progressively higher labor productivity for young workers, the country can enjoy a “demographic dividend for economic growth.” Uganda invested strongly in human capital since the 1990s, and as a result the average years of schooling of the workforce have improved markedly (Figure 1.1). The quality of schooling still needs to improve, but so too do the returns to these investments in human capital. Instead we find in wage earnings regressions that although education still pays a premium, the relative returns to completing primary, secondary, and even some tertiary schooling have declined quickly between 2005 and 2016. A second reason for the urgency is that Uganda has a much shorter window to kickstart a labor-intensive, tradeable goods and services-based economic transformation before oil production.

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1 The median for LICs in 2015 was 18.3 years, and for Africa it was 19.4 and East Africa 18 years. At 14.9 years, only Niger is lower than Uganda’s median. Only Niger, Somalia, Chad, Burundi and Angola had higher statistics for children per woman for 2010–2015 [UN Population Division / DESA: https://population.un.org/wpp/DataQuery/).
2 Author’s calculations using UNPOP projections.
starts to bring Dutch Disease effects. The investment and policy priorities to remain competitive under Dutch disease will remain largely the same, but the challenges will be steeper.

To meet its jobs challenges, Ugandan policy and investments should focus on creating jobs through economic transformation for youth. The structure of real value added in Uganda has changed much more rapidly than have the jobs in the economy. Whereas agriculture now accounts for 24 percent of Uganda’s GDP, it employs 64 percent of Ugandans, and 72 percent of young Ugandans. The fastest growing countries in the world are those that have created new jobs in new economic activities with economic transformation, typically in well-organized urban settings where agglomeration effects attract capital deepening in larger job creating firms. Cities and towns become the locus of industrialization and modern services and create demand for higher-value foods from rural areas. Expanding markets abroad provides growth opportunities for firms that can expand employment (Growth Commission Report, 2008, Merotto et al. 2018).

Increased job creation is not enough as the quality of jobs created in Uganda is also going to matter. Most Ugandans work because they cannot afford not to. Access to employment is high, with 77 percent of the population aged 15–64 at work, compared to the 70 percent average in low-income countries (Figure 1.2). Unemployment is negligible at 3.2 percent for the adult population and 5.3 percent for youth (ages 15–24). The quality of jobs is low, however. Only one in four employed Ugandan (24 percent) is in some form of wage employment, and a majority work for themselves or for their families. Among youth, three out of five (60 percent) work in unpaid occupations, contributing to household enterprises. Working hours are irregular with nearly half (48 percent) of all workers working fewer than 35 hours per week. Much of this reflects the fact that a significant majority of the population remains dependent on rain-fed subsistence agriculture, where underemployment is persistent (mean hours of work in agriculture is below 30 hours per week) and earnings are low (below 35 USD per month). The poor quality of jobs is holding back poverty reduction: the poorest households are significantly more likely to report farming as their primary occupation: 53 percent of the bottom 40 percent depend mainly on agriculture compared with 39 percent of those in the top 60.

We suggest a policy realignment around jobs priorities, not a new economic policy paradigm. Most of our recommendations can be found in many Ugandan strategy documents. The recipe of macroeconomic

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4 This statistic should not continue to be misinterpreted as meaning that most workers employed outside agriculture are self-employed. They are not. Half of off-farm work in Uganda is not “subsistence entrepreneurship” but waged-work, mostly in low productivity, informal micro enterprises, and there is not enough of it.

stability and liberal, outward-looking, private sector-friendly policies that has allowed Ugandan markets to work and Ugandan entrepreneurs to pursue profits since the early 1990s, must be maintained. But given Uganda’s stage of demographic transition, and the limited economic transformation Uganda has experienced even since reforms started in the early 1990s, we think laissez-faire policies will take too long to shift workers from traditional farming to the modern sector and towns. The strategy set out here is therefore not agnostic about which products, locations, workers, and what types of jobs Uganda should target in the realigned strategy (or action plan). We cannot shirk from choosing investments nor from suggesting policy and regulatory modifications in pursuit of jobs and economic transformation. Given global experience, nor should we ignore the jobs Ugandans currently do as we think about pathways to better jobs.6

**A JOBS STRATEGY FOR UGANDA—SUMMARY**

Economic transformation in Uganda requires faster and orderly urbanization with industrialization, which starts with the development of commercial agriculture. Faster agricultural productivity, commercialization in farming and improved net trade in agro-based products will kick-start the process of economic transformation in Uganda, releasing young workers for waged employment in towns. Faster and orderly urbanization with industrialization will maintain a double demand for rural produce, as food and as raw material. Off-farm waged jobs in services, both public and private, will be induced from these growth drivers of commercial farming and agro-processing. Changing consumption patterns from higher and more stable waged incomes in towns can generate new product demand, new markets, providing the profit motive for new firms to invest in new production, and for existing firms to invest to expand.

To facilitate the private investment needed for faster jobs-rich growth, a more precise and targeted set of reforms is needed, applying a “jobs-lens”. Uganda must implement policies that facilitate regional trade, encourage private investment, promote urban development and productive alliances in agriculture, and Government should gradually realign youth employment programs towards preparing young graduates for semi-skilled waged work. Regulatory and policy reforms are needed to expand net exports and encourage trade integration, to attract and nurture larger domestic firms, and to attract more Foreign Direct Investment. This should be accompanied with a decentralized investment strategy for land titling and local economic development.

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in Greater Kampala and those secondary cities with high potential for job creation in agro-processing, other manufacturing, and tourism. To foster vertical integration arrangements in agriculture, the Government of Uganda should reduce information constraints, clarify legal status, and provide institutional oversight to the sector. Policies limiting the development of farmer cooperatives and producer associations as economic actors should be reviewed and revised. To benefit from value chain opportunities, whether as entrepreneurs or as employees, rural youth need access to finance, technology, skills, and assets. Youth employment policies and programs are heavily tilted towards self-employment and solving supply-side constraints, such as “skills gaps.” Instead they should increasingly equip young workers for entry into urban waged jobs and should target the opportunities offered through regional developments and industrial policies. A full set of policy recommendations is set out in section 3.

Increased net agribusiness exports\(^7\), the development of agro-processing industries and markets, and fast growth in higher-value food markets from orderly urbanization are important first steps in Uganda’s economic transformation. Our analysis points to a decline in the demand for off-farm labor in Uganda relative to its supply. As the supply of new workers has continued to rise, and as trend growth in GDP has dipped, median real earnings per hour are falling for both men and women (Figure 1.3). Increased demand for agro-based and agro-processed products would ensure gradual farmgate price declines as production increases. The development of export value chains for rural produce will also stimulate labor demand in off-farm manufacturing and agri-support services, smoothening food prices declines while adding value to food production.

**Faster, orderly development of secondary towns and Greater Kampala are essential.** The sheer number of people in farming means that, if achieved, the shift out of farming will be the most profound demographic shift in Uganda’s history. It will necessitate more rapid and orderly urbanization, which will in turn require higher productivity off-farm jobs to be created in secondary towns and Greater Kampala. Already 50 percent of non-farm jobs in Uganda are waged, but a large share of these are in micro and informal firms. To create enough good jobs in towns and cities for the next generation of young Ugandans, the economy requires new firms, better market integration between rural and urban centers, and a higher volume of processing of additional agro-based products for export.

\(^7\) Increased net exports also mean increasing the domestic share of supply in fast growing Ugandan markets. In Uganda and the rest of Africa, per capita GDP is growing, population growth is rapid, and a large share of consumption is food. The demand for income-elastic food products like meat, dairy, bakery products and processed foods is therefore growing rapidly.
Public investment and policy reform must aggressively prioritize job creation as part of economic transformation. Decisions on infrastructure priorities need to be made with higher productivity, labor-intensive business entry and expansion in mind. Decisions include choosing secondary towns for development, zoning of land for productive economic areas, locating irrigation, storage, and transportation investments, and selecting value chains for export facilitation.

The foundation of a Ugandan strategy for jobs and economic transformation is to increase agricultural productivity and commercial farming in the most fertile areas of the country and stimulate off-farm jobs in secondary towns. In Uganda, as elsewhere in Sub-Saharan Africa, labor is the main source of income for the poor. Because two-thirds of all Ugandan employment, and nearly three-quarters of Ugandan youth, are still employed in agriculture, poverty reduction in Uganda is closely connected with farm earnings.8 Since the late 1980s, Uganda has made significant strides in reducing poverty thanks to good macroeconomic management and structural policy reforms that freed markets, and thanks to largely favorable conditions for agriculture. But agricultural productivity gains have been modest, as we show in the background paper “Uganda: A Reform Agenda for More and Better Jobs through Agriculture.”

Economic transformation in low-income rural economies relies on increasing productivity in agriculture to reduce the relative price of food compared to non-food items. This creates income effects which boost demand for higher value income elastic food and non-food items, encouraging in turn a transformation in production to supply these higher value non-food items and a shift in the demand for labor into production of these new products. In Uganda, neither effect seems evident in recent years; agricultural productivity in Uganda does not seem to be rising, while food prices have been rising faster than non-food prices (Figure 1.4), and structural change has been slow.

Regardless of the cause, if food prices rise faster than the average CPI (all other things remaining equal), workers would have stronger incentive to locate closer to food.9 Faster agricultural productivity, if combined with better storage, load consolidation, more efficient transport, and access to increased market demand, can transform jobs in agriculture. A transformed agriculture sector demands fewer on-farm and more off-farm workers. Agricultural transformation can therefore stimulate more waged jobs with higher labor

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productivity and earnings on commercial farms, in industry, and in support services. Because demand for labor derives from demand for products, it will be important to tap into fast growth in the demand for goods and services in Uganda’s towns and cities and abroad.

**Uganda can build on its past strong record to accelerate jobs-rich economic transformation for current and future young workers, but the country must act fast.** Again, we emphasize that this agenda, while urgent and challenging, is achievable with the right focus. Good, well timed policies have worked for Uganda before. Emerging from prolonged civil conflict in the late 1980s the Government implemented a strong economic reform program, including growth-inducing investments in health, education, and infrastructure. Macroeconomic and political stability, significant increases in agricultural income, and favorable climate and price conditions—as well as large inflows of aid—contributed to impressive poverty reduction. The proportion of Ugandans living below the national poverty line declined from 31 percent in 2005 to 20 percent in 2012, and the proportion living on $1.90 purchasing power parity (PPP) per day or less fell from 53 percent in 2005 to 35 percent in 2012 (Figure 1.5). Economic growth has been trending lower since 2008, however, and recent poverty rates have stagnated, meaning that the absolute number of poor actually increased in Uganda for the first time since 2002. Higher, more equitable, and transformative growth will be needed to return to the path of positive poverty reduction. It starts with agriculture and requires the creation of more good jobs off-farm.

**The remainder of the report is organized as follows.** The second section of this report presents a diagnostic of Uganda’s jobs challenges synthesized into ten key findings. These findings center on the problems of low growth, low productivity growth, and low demand for labor. Evidence is presented across workers, sectors, firms and employment types of the slow structural transformation of the Ugandan economy.

Based on the evidence, the third section; (a) notes that Uganda has a labor demand problem, not a supply problem; (b) discusses how labor demand can be increased with a jobs-rich trade strategy; (c) presents a three-pronged strategy to foster more good jobs in Uganda to:

(i) Create more waged jobs;
(ii) Improve mobility into better jobs through managed urbanization and prioritized regional investments;
(iii) Accelerate transformation of Uganda’s agricultural sector—developing commercial farming and value chain linkages

**Figure 1.5**

Poverty fell rapidly after 2002 but is now stagnating

![Poverty Rate](source: World Development Indicators)
2. UGANDA’S JOBS CHALLENGES IN TEN FACTS

We start this report by presenting ten facts derived from a Jobs Diagnostic that outlines Uganda’s jobs challenges (Box 2.2). The first five facts relate to the worsening labor situation in Uganda. The second five relate to the slow pace of job transition to better, more productive jobs. Much of the analysis is based on data drawn from Uganda’s household survey, UNHS, between 1992 and 2016, and on data from Business Census data from Uganda Business Register (UBR) 2001 and Census of Business Establishments (COBE) 2010, and the Population Censuses of 2002 and 2014. The aggregate analysis uses GDP and demographic data from the World Bank’s World Development Indicators (WDI).

We structure the diagnostic inquiry in line with World Bank Guidelines for Jobs Diagnostics and interpret the results against international benchmarks. The jobs-related transitions and pathways people follow to better jobs in a growing economy provide an analytic framework for a diagnostic of jobs and economic transformation (Box 2.1). By following this framework, policy makers see whether, and how, the economy is generating more and better jobs for young people as it grows. The channels provide a useful focus for policies and investments to raise labor-intensive private investments and facilitate labor mobility.

BOX 2.1: PATHWAYS TO BETTER JOBS

1. More people join the labor force and find work.
   - Self-employment, start-ups, firm entry and growth.
   - Transitions: into employment, school to work, from care-giving to labor force.

2. Workers get better at doing their existing job.
   - Returns to labor assets improve (including through farming, self-employment).
   - Labor productivity rises within occupations.

3. People move from less to more productive jobs.
   - Structural change: from agriculture to industry and services.
   - Migration / Urbanization: economies of scale, network effects, climate advantages, innovation.
   - Formalization: people move from capital-thin self-employment, to capital deep wage employment in firms.
   - Selection between businesses: from uncompetitive, inefficient firms to more competitive, efficient ones.

4. Externalities from good jobs support development.

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10 A full set of slides and data for the Jobs Diagnostic are available upon request.
13 As background, and to put in perspective how Uganda’s jobs indicators compare with other countries at similar levels of income, readers should also consult the World Bank Jobs Group’s report “Pathways to Better Jobs in IDA Countries.”
Slowing economic growth in Uganda to around the same growth rate as the labor force points to insufficient labor demand for the fast-growing, youthful workforce. After a stellar growth and poverty reduction in the 1990s and early 2000s, slower economic growth since 2008 has coincided with a period of rapid growth in the youthful labor force. Slower economic growth meant slower growth in labor demand, and so little room for productivity and real earnings improvement for most workers. Combined with slower employment growth, slower labor productivity growth in all sectors has meant the economy created insufficient good jobs; that is, jobs with higher productivity, stable earnings, and better working conditions. The labor force participation rate for youth and women was lower in 2016 than in 2012, and median earnings have been falling in all sectors. Job opportunities are also increasingly unequally distributed across Uganda’s regions.

A key reason for this worsening situation—and the most significant policy challenge facing Uganda—is the slow structural transformation of the economy and the jobs it produces. The last five facts underscore the importance and negative impact of the slow and incomplete nature of structural transformation in Uganda across economic sectors, geography, jobs characteristics, and in the formal sector.

**BOX 2.2: TEN FACTS ABOUT JOB CHALLENGES IN UGANDA**

Jobs challenges are increasing in Uganda.

1. Trend economic growth has been slowing.
   - Across all sectors, but especially in agriculture where most people work.
2. Labor force growth is speeding up.
3. Access to jobs, labor force participation, is deteriorating.
   - Especially for young people.
   - And for women.
4. The quality of Jobs is deteriorating.
   - Earnings per hour are falling in manufacturing and services, and stable in agriculture.
   - Value-added per worker has stagnated in agriculture, industry, and services.
5. Spatial inequalities—in terms of economic and job opportunities—are increasing.

The bulk of employment needs to move to more productive sectors and jobs, but the pace of economic transition is insufficient.

6. Labor has been slow to move out of subsistence agriculture.
   - Agriculture’s share of employment is very high in Uganda.
   - Agriculture remains the most likely first job for youth.
7. The urbanization process has been slow, despite high population growth.
8. The transition from non-wage to waged work waged employment is slow, esp. for youth.
   - Waged employment is rising, but it lags the Sub-Saharan Africa (SSA) average.
9. Private sector demand for wage workers is limited.
   - Private formal firms are small and shrinking.
10. Jobs are not shifting into higher productivity firms
    - Most jobs are created in small, low productivity firms.
    - Productivity is declining in large and medium sized firms.
FACT 1: TREND ECONOMIC GROWTH HAS BEEN SLOWING DOWN

Economic growth is no longer high enough to create more and better jobs. Between 2000 and 2012, Uganda’s GDP increased by nearly seven percent per year on average, one of the highest growth rates in Sub-Saharan Africa (SSA). Trend growth (three-year moving average) has been slowing since 2006 however, dipping below five percent in 2016, the last year for which household data allows us to analyze jobs in detail (Figure 2.1).

The slowdown is across main economic sectors and in all former growth drivers. Trend growth in services and industry value added, once stellar, has fallen back to SSA averages, hovering around five to six percent per year (Figure 2.1). Aid-inflows, which contributed strongly to economic growth until the mid-2000s, have declined, and in parallel, public sector consumption has fallen as a share of GDP. Export growth, which had accelerated between the late 1990s and mid-2000s, slowed considerably after 2006. Private investment peaked between 2011 and 2013, but has since declined.

Figure 2.1
Growth is slowing across Uganda’s economy

Figure 2.2
Growth is slowing in Industry and Services

Source: Estimates based on WDI
Trend growth in agriculture—the main source of employment in Uganda, and a major contributor to poverty reduction in the past—has fallen, and since 2003 has been well below average for SSA (Figure 2.1). Estimates suggest that two-thirds of growth in agricultural income between 2006 and 2012 was explained by good weather and favorable prices. Favorable agricultural prices in turn resulted from important reforms, including investments in infrastructure, economic liberalization, and better trade services, as well as peace in northern Uganda, and positive international and regional price developments. Because of the low-technology, rainfed nature of farming, the sector remains vulnerable to price dips and droughts, which have profound ill effect on agricultural livelihoods. For young people, who tend to find their first jobs on family farms, the slowdown in agricultural growth is dire news. Indeed, analysis of the Uganda household panel survey between 2009–2016 shows that labor movements out of agriculture, from rural to urban areas, and from informality to formality are very rare in Uganda.

FACT 2: UGANDA’S LABOR FORCE GROWTH HAS BEEN SPEEDING UP

Uganda has one of the world’s most youthful and fastest growing populations. The median Ugandan is just under 16-years-old, making Uganda’s population the second youngest in the world; only Niger has a younger population (Figure 2.4). At 3.3 percent in 2016, population growth is very high, even by SSA standards. Fertility rates have fallen somewhat since the 1970s, but remain at 5.7 births per women. Uganda’s women have not experienced the dramatic reduction in fertility rates registered in Asian low and middle-income countries, where fertility rates are now well below three percent, or indeed many African countries. The average age of Ugandans has come to a standstill at around 16 years since 1995, due to high fertility rates compounded by adult mortality from the AIDS epidemic. Significant population growth also implies high strain on access and quality of social services, such as health and education, necessary to increase productivity and growth. And high population density translates into unsustainable pressures on land. Continued high fertility and early family formation takes a toll on girls’ access to education, exposes them to health risks, and delays and reduces women’s participation in economic activities.

16 UN Population data.
High past population growth is resulting in high and accelerating labor force entrants per year. Between 1992 and 2014, more than 300,000 additional workers entered the labor market annually. These numbers will increase rapidly in the future: between 2014 and 2030, the number of entrants per year will double, and between 2030 and 2040 the number of new entrants will exceed one million each year. In the period since 2000, only Mali and Gabon within Africa have seen their workforces grow faster than Uganda’s 3.8 percent annual average growth.

The working age population is young. Young people between ages 15 and 34 make up about 40 percent of the population, but nearly 70 percent of the working age population. The young nature of the population means that Uganda’s economy will need to create two, and then over three times as many jobs annually in the coming generations, and these jobs will need to target youth employment specifically.

These demographic trends, combined with the structure of Uganda’s employment, suggest that Uganda will need to increase exports of rural products and labor-intensive goods or services as part of a job strategy for youth employment. Most Ugandans, as we shall see, are unpaid or self-employed on farms, or are self-employed in services that supply the domestic economy. The number of self-employed people joining the labor force and supplying the domestic economy with services is growing in line with demand for the services. This means that without external demand pull, average earnings for the self-employed cannot grow rapidly. To stimulate higher productivity and higher labor demand, Uganda must either export more labor-intensive goods and services, or it must capture a higher share of domestic demand for higher-value income-elastic goods and services. International experience suggests neither is easy to achieve, but some countries have been successful in stimulating exports of labor-intensive goods and services.\footnote{Following Japan, the East Asian Tigers greatly expanded labor-intensive exports in their decades of sustained high economic growth from the 1960s to 1990s. Most recently Bangladesh, Cambodia, China, and Vietnam benefited from rapid growth in jobs in firms producing light manufactures for export, and Ethiopia is trying to follow. Uganda may also look to Latin America: Brazil grew rapidly from 1950–1980 with export diversification and a largely resource-based economy (Commission on Growth and Development (2008)).}
FACT 3: ACCESS TO JOBS IS DETERIORATING

After increasing in the 2010s, labor force participation has fallen, especially for young people and women. A high share of the population of working age (15–64) is active in Uganda compared to more developed economies, and unemployment is very low. High poverty, the dependence on subsistence agriculture for livelihoods, and lack of social safety nets implies that most people in most households cannot afford not to work. Whereas labor force participation increased significantly between 1999 and 2012, for both men and women, the most recent results in UNHS (2016) suggest they have declined since 2012. Between 2012 and 2016, labor force participation fell from over 90 percent to just over 80 percent for men and from 90 to about 75 percent for women. The reduction was most pronounced for women, urban residents, and young people. The decline in labor force participation for youth was dramatic, with youth not working rising from about 20 percent to almost 40 percent between 2012 and 2016. As of 2016, some 3.1 million adults were inactive, about 42 percent of them were young people below 25-years-old, and 73 percent were women.

Dramatic reduction in youth participation rates is driven mostly, but not entirely, by higher access to schooling. Because of the high share of youth in the working age population, increases in schooling affects overall labor force participation significantly. In 2016, almost 40 percent of youth aged 15–24 were inactive, compared to around 20 percent in 2012. Compared to 2012, the share of youth in school only (not combining school with work) increased, but so did the share of youth that are neither working nor in school, albeit to a smaller degree. Taken together, over two-thirds of the increase in inactivity among 15 to 24-year-olds reflect an increase in school attendance. The share of jobless youth not in school also doubled, however. In 2016, 20 percent of women and 12 percent of men aged 20 were neither at work nor in school, compared to 10 and 5 percent in 2012, respectively. Idle, these young people represent a lost opportunity for both the individual and society.

Access to jobs differ between men and women. Women are much more likely than men to be out of a job and out of school, and the share of women leaving school only to enter inactivity increased between 2012 and 2016. For the age group 20–24, 10 to 15 percent of men are neither in school nor at work, compared to 25 to 30 percent of women (Figure 2.7).

Lack of job opportunities, as well as family responsibilities in the case of women, are the main reasons why people are neither working nor studying. Among the inactive and not-in-school, almost half are discouraged workers, stating that there are no jobs available, or had looked before but not found a job. Nearly 30 percent of women gave family responsibilities or pregnancy as a main reason for inactivity. Family formation starts earlier for women than for men: the median age for marriage is 18 years for women compared to 22 for men in Uganda.

Idle youth and slow or incomplete school-to-work transition is an inefficient return for the investment Uganda has made in education and productive resources. Between 2012 and 2016, the share of youth

Figure 2.5
Accelerating labor force growth will create pressures on labor markets
Figure 2.6
Labor force participation (LFP) has fallen for both men and women

Source: Estimates based on UNHS, various years.

Figure 2.7
School-to-work transition has been delayed

Source: Estimates based on UNHS, various years.
15–24 having completed at least primary education increased from 46.9 to 52.5 percent. However, the education system is still characterized by high dropout rates, low completion rates, low achievement, and stark quality differences across regions. Employability of young people, even with access to post-secondary levels of education, is reportedly low.

In addition to promoting growth and job creation in more productive sectors, Uganda needs to better prepare young people for the workforce to hasten school-to-work transition. Uganda needs to increase access to post-primary education, raise educational quality, and ensure that training at higher levels is labor-market relevant, whether for wage employment in the formal sector or for productive self-employment.

**FACT 4: THE QUALITY OF JOBS IS DETERIORATING**

Labor productivity growth is not keeping pace with comparable countries. The Ugandan labor force is growing fast, and since most people work because they cannot afford not to, employment is also rising fast. But growth in value-added is not accelerating. As a result, aggregate labor productivity growth (GDP per person employed) has fallen quite significantly, eroding the basis for sustainable increases in real earnings (Figure 2.8).

Agricultural productivity growth, which for some time has been slow in Uganda compared to other countries, was negative between 2005–12 and has now fallen further. Average Total Factor Productivity (TFP) growth has been negative in agriculture in Uganda for the last two decades. This is due to the combined result of workers being slow to leave the agricultural sector and slow growth in average yields. National agricultural output has grown at only 2 percent annually over the last five years, compared to agricultural output growth of 3 to 5 percent in other EAC members, and 3.3 percent annual growth in Uganda’s population over the same period (Figure 2.9).

Labor earnings have been falling across the board in recent years. The labor force is expanding faster than labor demand, reflected in declining median real earnings for workers (according to UNHS data) and declining average remuneration per employee in the formal private sector (according to UBI data). Hours worked increased in the services sector between 2012 and 2016, alongside an inflow of workers. Work hours remained constant in agriculture and in the rural industry sector, and they decreased in the urban industry sector. This marked a change...

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**Figure 2.8**

Labor productivity growth and international competitiveness is falling


Source: Estimates based on World Development Indicators.

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18 A study from 2011 showed that more than 70 percent of Ugandan third-graders could not read a single word [Cloutier, Reinstadtler, and Beltran 2011].

compared to the previous period (2005–2012) when hours of work had increased significantly in agriculture and industry, but remained constant in the services sector. Earnings fell between 2012 and 2016 in services, in both urban and rural areas, as quantity of employment grew through both an inflow of workers and an increase in hours worked per person. In rural areas, earnings fell in both industry and services sectors, and stagnated in agriculture. Since employment growth in services appears to be largely subsistence work outside farms, rather than real job opportunities driven by expanding demand for services, inflow of workers is likely to have resulted in crowding, over-competition, and lower earnings. Wages in formal firms fell in sectors with falling productivity.

Figure 2.9
There is significant scope for increasing agricultural labor productivity

Source: Estimates based on World Development Indicators.

Figure 2.10
Hours of work have increased but earnings per hour have fallen across sectors and locations

Source: Estimates based on UNHS (various years).
Wages in Uganda vary more with productivity than in many other countries. Falling productivity, hence, was linked to lower real wages between 2001–2011 (Figure 2.11). It is possible that falling real wages also reflects the abundance of young workers in the labor market, putting downward pressure on wages at a time when demand for labor is not strong. Jobs outcomes in the formal sector mirror those of the overall economy: a fall in workers’ earnings related to significant inflows into sectors with limited value-added growth.

Increasing demand for goods and services—domestically or by expanding markets abroad—is necessary to provide higher quality jobs. Low domestic demand for goods and services is holding back opportunities for earnings and productivity growth in Uganda. Flows of workers into self-employment and microenterprises in the services sectors reflect small scale, low value-added operations, for example in low-cost food preparation or personal services, where demand is limited. These activities will remain significant sources of livelihoods for Ugandan youth for the foreseeable future, but cannot provide the kind of impetus to productivity growth necessary to achieve economic transformation.

**FACT 5: SPATIAL INEQUALITIES ARE INCREASING**

*Uganda is characterized by spatial inequalities in economic and job opportunities.* Areas around Kampala and parts of the central and western regions show more economic dynamism, have higher shares of paid employment, and depend less on subsistence agriculture. However, there is significant untapped potential for diversification from low-productivity farming activities in other regions. Uganda’s eastern region, with its high population density, is located close to international markets, including Kenya and South Sudan, currently Uganda’s most important food export markets. Agglomeration and internationalization should be possible, but spatial analysis shows this is not happening in any significant scale.

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20 Although out of date, these are the only reliable representative data for firms in Uganda. They come from the Uganda Business Inquiries of 2001 and 2011, in which around 4,700 firms were sampled based upon the structure of GDP and firm turnover. One hundred percent of large firms were included.
Regional gaps in job opportunities have increased over time. Population census data, which permits granular spatial analysis of socio-economic conditions, show strong and widening differences in job opportunities across Uganda’s regions. The density of paid (wage) employment increased between 2002 and 2014, but much more in the Kampala, western, and central regions than in the eastern and northern regions (Figure 2.12). In the same period, the share of self-employment increased in the eastern region, more so than in other areas (Figure 2.13). Hence, whereas employment may be formalizing somewhat around Kampala and the western region, and in some parts of the east, this is not the case for other areas of Uganda, where self-employment focused on informal subsistence activities in agriculture and services is dominating.

Even in the agriculture sector, business opportunities are concentrated around the richer towns, especially Greater Kampala. Farm size varies across regions because of variations in population density, farming systems, available arable land, and the degree of economic development. Small, market-oriented farmers and processors are concentrated in the western and eastern regions. Less than one in four are found in the northern region. They are also much less likely to live in the central region. Diversification and growth from subsistence farming into commercial farming has been concentrated in the central and western regions: Fort Portal, Kasese, and Mbarara are areas with potential for commercial farming and agro-processing to create jobs. With the exception of Jinja, commercial farming and food processing companies remained underdeveloped in the eastern and northern regions in 2010 (Figure 2.14). There were many food processors in the eastern region, but these were not to scale.

At the same time, subsistence farming increased in the Eastern region, where population density is the highest and pressures on land consequently significant. Analysis also reveals that subsistence farming has developed close to many small-scale agro-processing firms, even in the Eastern and Northern regions (Figure 2.15). These patterns suggest that there are indeed possibilities for decentralized growth and diversification through incorporation into value chains in Uganda.

Figure 2.12
Density of paid employment is lowest in the northern regions

Source: Population Censuses 2002 and 2014, UBOS.
Figure 2.13
Self-employment is increasing outside of Kampala

Source: Population Censuses 2002 and 2014, UBOS.

Figure 2.14
Opportunities in commercial farming are concentrated close to urban areas and in the Central and Western regions

Inequalities in business and job opportunities are mirrored in a significant and growing spatial concentrations of poverty. The share of poor who live in in Northern and Eastern Uganda increased from 68 to 84 percent between 2006 and 2012. Households in Uganda’s Northern, Eastern, and Western regions have much lower levels of human capital, fewer assets, and more limited access to services and infrastructure, including electricity, than households in the Central region. There are agglomerations of poor people in the Eastern region, West Nile, and the corridor from the Kenyan border to Gulu (the old cotton belt).21

Another complicating dimension to poverty concentration in Uganda is the large and growing refugee population in the Northern and Eastern Uganda. Thanks to a comprehensive and progressive refugee policy, including economic and social rights, refugees do access economic opportunities to a significant extent, however (Box 2.3).

Spatial inequalities suggest both challenges and opportunities for job creation. Uganda needs to target investments to develop more spatially decentralized growth, tapping into growth prospects offered by agricultural resources, agglomeration, and trading opportunities. With investments to help local populations access value chains, directly as well as indirectly through backwards and forwards linkages. decentralized and more inclusive job growth would follow.

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21 Uganda Poverty Assessment [May 2016].
BOX 2.3: EMPLOYMENT AMONG DISPLACED POPULATIONS

- Uganda is currently hosting an estimated 1.1 million refugees, most originating from South Sudan. This is a high number related to the Ugandan population of 40 million, making Uganda the largest host country for refugees in the world. A majority of the refugees are children and young people, and 80 percent are women and girls. Uganda has risen to the challenge with one of the most progressive refugee policies in the world: refugees and asylum seekers are entitled to work, have freedom of movement, and can access Ugandan social services, such as health and education.

- A recent World Bank/UNHCR study concluded that refugees do access economic opportunities, although their access to formal sector wage employment is limited. In the sample, some 43 percent of refugees are employed or self-employed. This is quite remarkable given that only 8 percent had held a job in their native countries. Given language, education, cultural differences, and qualifications constraints, most end up in self-employment or informal, low-skilled employment. In rural areas, they predominantly work in the agricultural sector. However, refugees are also engaged in in nonfarm activities, especially in the trade sector (which is facilitated by movements), partly in the selling of food items, and other services such as milling or hairdressing. Refugees around Kampala are engaged in diverse economic activities.

- Refugees nonetheless experience some constraints. Those living in urban and settlement areas point to lack of English language skills, legal issues, inadequate interview skills, discrimination, and lack of relevant documentation. Low education or low recognition of education received in native countries, is also a significant obstacle. Refugees in Uganda aspire mostly to building qualifications to find better jobs in Uganda, or in South Sudan when they can return. Despite great efforts by UNHCR and the Government of Uganda to provide educational services to refugee children, not all are enrolled in school because their families lack funds to pay requisite fees.


FACT 6: THE MOVE OUT OF AGRICULTURAL SUBSISTENCE ACTIVITIES AND NON-WAGE WORK IS SLOW, ESPECIALLY FOR YOUTH

Economic growth did not result in sufficient structural transformation in output or employment between 2005 and 2012. The share of value added in agriculture fell from 33 to 26 percent, with industry increasing from 16 to 20 percent, and services from 51 to 54 percent. However, Uganda remains dependent on unprocessed raw materials for exports: the structure of exports did not change materially between 2005 and 2015. The economy remains poorly integrated through backward and forward linkages.

Notably, there was no change in the share of agricultural employment in this period. Labor productivity can improve when workers move to more productive sectors (a “between” sector effect), or when productivity improves within different sectors (a “within sector effect”). Non-agricultural productivity is several times higher in Uganda than agricultural productivity when measured using GDP and employment per sector. At first glance there would appear to be significant gains to be made from workers moving into non-agricultural sectors. However, there was no structural change in employment by aggregate sectors, even though the share of agriculture in value added fell. The share of workers in agriculture remained at over 70 percent; and in absolute numbers, agricultural employment increased more in that period than employment in other sectors (Figure 2.16). Uganda saw a much slower rate of structural transformation than neighbouring countries: the share of agricultural employment in Tanzania, Kenya, and Rwanda fell by six, eight, and 12 percentage points in the same period. Productivity within industry and services increased in this period, whereas agricultural productivity remained stagnant, which, in view of the structural transformation in neighbouring countries, suggests a loss of competitiveness for agricultural products. No productivity gains were made through reallocation.

23 Average productivity by sector as calculated from real GDP value-added accounts and employment shares tells a very different picture from median real hourly earnings in household data. This is a significant finding because it suggests lower hours worked in agriculture and/or that earnings are very uneven between the capital-rich modern sector and the traditional sector where most people work.
of workers across sectors. The majority of workers, hence, could not benefit from any spill-over of productivity improvements into earnings.

**Between 2012 and 2016, services sector employment grew rapidly by more than 1.5 million, whereas agricultural and industrial employment stagnated in absolute numbers.** The share of agricultural jobs fell from 72 to 63 percent, giving way to an increase in the share of jobs in services from 21 to 29 percent of total employment. However, labor productivity fell in industry and fell even more in services. Although the services sector on average offers much higher productivity than agriculture, these trends reflect an inflow of workers into low-productivity activities in the services sectors. Moreover, 11 million Ugandans were still trapped in low-productivity agriculture in 2016, a vast majority of them in small-holder subsistence activities vulnerable to climatic conditions and price changes.

**Young people entering the labor market start off mostly in the agricultural sector, and a vast majority stay there.** Over three in four youth start off in the agricultural sector. The higher share of agricultural employment among youth compared to older workers may also reflect the fact that children in rural areas—whose main option to work is agriculture—drop out of school earlier than those in urban areas. Entering a
low productivity activity as a first job is a problem if the first job determines further opportunities. Figure 2.18 illustrates that over half of 25 to 34-year-olds are also in agriculture. Analysis of panel data (from 2009/2010 to 2015/2016) shows that young people employed in agriculture at one point in time were very likely to remain there—between 85 and 95 percent stayed in agriculture, depending on year and gender.

**In business, the food and beverage sector has been creating wage jobs in Uganda.** Food production dominates manufacturing in Uganda. Data from the firm census show that businesses in agricultural production (excluding smallholder farm families working on their own farm), food and beverage processing, and food and beverage services retail grew by 15 percent per annum from 2001 to 2010, and accounts for more than a quarter of all formal business employment in 2010. Large food manufacturing firms were the most successful in creating jobs. These larger firms have provided better paid jobs than wage jobs in the agricultural primary production. An analysis of six Sub-Saharan African countries showed that transforming their food systems could add more jobs than the rest of the economy taken together between 2010 and 2025. And these would be better jobs: labor productivity in agribusiness can be up to seven times higher than in agriculture, depending on the type of activity.

The evidence suggests policies must concentrate initially on increasing young people’s opportunities on-farm, from subsistence to commercial farming, as well as facilitate movement out of farming, to more profitable non-farm rural activities and to towns and cities. These include efforts to accelerate agricultural productivity by encouraging private investment in agriculture and agro-processing, providing public goods including infrastructure such as investment, research, extension services, and connecting youth with these opportunities. To increase their employability and entrepreneurial opportunities in non-farm activities and in urban areas, young Ugandans need to be equipped with key technical skills.

**FACT 7: THE URBANIZATION PROCESS IS SLOW**

Stagnation rather than reduction in the agricultural labor force explains a relatively slow process of urbanization. Uganda is urbanizing, with population flows into Kampala as well as secondary towns, and urbanization accounted for ten percent of poverty reduction from 2006 to 2013. Given that the population as a whole is growing so fast, the pressure of urban population on the existing urban infrastructure is clearly evident around Greater Kampala. However, Uganda’s population growth rates are even higher in the poorer

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24 Townsend et al. (2017).
25 Ibid.
26 World Bank, 2016, ibid.
rural areas and regions, resulting in a slower rate of urbanization than in most other countries in Sub-Saharan Africa. Towns and cities in Uganda offer agglomeration effects, more wage jobs, more jobs in higher value-added sectors, and informal sector opportunities off farm.

**Low agricultural yields have reduced opportunities for urbanization by reducing resources for diversification and migration.** Between 1992 and 2014, Kampala’s share in the total population increased only one quarter of the average increase in the largest cities in Sub-Saharan Africa. Uganda’s secondary towns gained in share only half of the regional average increase. Three quarters of Ugandans still live in rural areas with limited job options outside of farming and high exposure to climate-induced hazards. In the absence of sustainable soil and water management practices, high rural population growth has led to increasing rural population density on arable land, unsustainable pressures on land use, and water degradation.

**Compared to small towns and rural areas, cities provide diversified livelihood alternatives, but smaller towns play a significant role in improving the lot for rural migrants.** Rural migrants experience the biggest welfare gains by moving to big cities, like Kampala, where job opportunities are significantly more diverse than elsewhere. In fact, the profile of job opportunities is very similar between small towns and rural areas (Figure 2.20). However, secondary cities and towns often contribute more to poverty reduction than the biggest cities, since a larger number of migrants move there compared to big cities, as they find them more accessible.27 Little is known about internal migration probabilities in Uganda. However, the declining median hourly wage difference and slow urbanization suggest that migration is not rapid.28

**Attracting investment by larger firms and facilitating productivity growth among smaller ones—with the provision of targeted infrastructure investment, market facilities, land policy, support services—can help foster a process of managed urbanization.** Tradable and higher value-added sectors (food processing, other manufacturing) that could offer better jobs are small in size in Uganda. To the extent that they exist, they are located in urban areas. Smaller secondary cities may offer fewer formal wage job opportunities but still provide non-farm employment in informal wage work or self-employment. Unbalanced and unmanaged urbanization creates its own challenges, including the spread of slums and higher insecurity and crime. Nonetheless, the low rate of urbanization in Uganda is another piece of evidence for lack of transformation of labor markets and job opportunities and the lack of agglomeration economies. Urbanization hinges on both higher agricultural productivity and higher productivity in activities in urban areas.


28 This was also born out in UNHS panel data analysis.
FACT 8: TRANSITION FROM NON-WAGE TO WAGE EMPLOYMENT HAS NOT TAKEN PLACE

Wage employment is not increasing sufficiently fast to provide better job opportunities to Ugandan youth. Access to paid employment increased between 1992 and 2016, but relatively slowly: by 9 percentage points over 24 years. This slow transition is typical of several other low-income countries in Sub-Saharan Africa, where increases in employment in services largely represents self-employment in the informal sector. Rapid transformations are not impossible, however. Many countries in southeast Asia had low levels of wage employment in 1992, at par with Sub-Saharan Africa, but experienced much faster shifts into wage employment (Figure 2.22). In Uganda, nearly three in four workers are still non-wage workers, a majority of them working for themselves, on their own (own account), or contributing to a family business (unpaid employee).

Figure 2.21
Insufficient shifts into wage employment

Source: UNHS, UBOS.
New service sector jobs created were mostly informal jobs, mostly for younger people. Nonetheless, wage employment is increasing and half of non-agricultural employment in Uganda is now wage employment. Uganda’s share of wage employment actually exceeds, albeit marginally, the average for Sub-Saharan Africa. Young people’s access to wage jobs have increased proportionally more. Between 2012 and 2016, the share of young workers in wage employment increased from 16 to 23 percent for 15–24-year-olds, and from 26 to 29 percent for the 25–34-year-olds. Both young men and women experienced this increase. Young (and older) women in rural areas have much less access to wage employment than men, however. Gender gaps in wage employment increase with age in urban areas: a majority of males aged 25–34 are wage employed, whereas almost 70 percent of females in the same age group are non-wage workers, either self-employed or unpaid family workers. Few males aged over 24 are in unpaid work, virtually none in urban areas.

Most of the wage work created in the private sector was informal. In 2016, a majority of young informal wage workers (57 percent) were employed in the services sector, a significant shift compared to 2012 when the vast majority (84 percent) of young people in informal sector wage employment were still in agriculture. Older workers (ages 25–64) also shifted into more services work, although the change was less dramatic than for youth. For women, the shift of informal wage work away from agriculture and into services sector employment (not shown here) was even more dramatic (Figure 2.23).

As argued above, transition to wage employment needs policy to raise productivity in agriculture as well as encourage creation of more productive jobs in the industry and services sectors in locations which show promise. More formal jobs will mostly come from larger firms, which requires private investment. Uganda needs to provide conditions first and foremost in agro-industry to attract larger firms that can invest locally and create more productive employment.

Informal is here defined as jobs offering no contracts to employees, and as such avoiding labor regulations regarding working conditions or hiring and firing practices.
FACT 9: PRIVATE SECTOR DEMAND FOR WAGE WORKERS IS LOW

Low job creation in the formal private sector is a critical factor behind the lack of transformation of jobs. Wage job opportunities depend on having a dynamic private formal sector that is expanding and therefore hiring workers. Larger firms are often, but not always, more productive and therefore in a position to provide more productive employment.

Even by low-income country standards, Uganda’s formal sector is made up of a large share of small firms, and large firms account for very few jobs. Business census data show that in 2010, the structure of Uganda’s firm sector was heavily biased towards micro-firms: 97 percent of all firms have fewer than ten employees, and this category accounts for around two-thirds of all jobs in the formal sector. The very small share of middle-sized (20-99 employees) or larger firms (100 employees or more) in total employment stands out compared to other low or middle-income countries (Figure 2.24). Very large firms (>500 employees) employed only 5 percent of all workers. The share of employment in micro-firms has also increased over time. By 2010, more jobs were in small firms, and fewer jobs were in large firms, compared to 2001. In 2010, half of all employment was in relatively young firms, aged 5 or lower. One in five jobs in Uganda is created by entrants, which is very high by international standards. Job creation in younger firms is often more vulnerable as many firms exit (are closed down) at a young age.

While Ugandan firms do not suffer from barriers to entry, there are signs that they may suffer from barriers to growth. Firm survival rates appear to have increased between 2001 and 2010, and older firms have increased their share of total employment over time. Still, only one out of four firms that existed in 2001 were still operational in 2010, and about 15 percent of firms are at risk of exiting in any one year. Moreover, increased survival rates have not resulted in employment growth. On average, older firms have not expanded in terms of jobs, and if anything, the relationship between age and size has become less positive since 2001. Patterns in Uganda mirror those of India but are very different from those observed in advanced economies like the United States (Figure 2.25).

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30 Latest available data are from 2010 and hence do not reflect recent changes in level and sources of economic growth.
31 These numbers exclude firms in the Census of Business Establishments that report hiring no employees.
Figure 2.24
Distribution of firms by employment size


Figure 2.25
Firms survive but do not grow with time

Source: UBE 2001, COBE 2010, and Jobs Group, World Bank
Is the high entry and small size of firms in both formal and informal sectors a sign of entrepreneurial activity or of significant distress work? The Global Entrepreneurship Monitor survey identifies Uganda as the country with the most entrepreneurial culture in the world in terms of how business opportunities are viewed and cherished. Uganda also has provided strong evidence of how even very poor and marginalized groups can profit from business opportunities when given the chance (Box 2.4). However, among its 1.8 million informal firms, most “entrepreneurs” are in business by necessity rather than opportunity. They have low growth expectations, and few innovate or diversify their businesses. Ugandan youth are encouraged by their community including family, friends, and religious leaders, to enter into commerce especially. The Ugandan Government and, by consequence, donors, have put significant effort into supporting entrepreneurship opportunities through a number of schemes. Generally, these schemes are targeted to self-employment and livelihoods, with little attention to high growth entrepreneurship. These schemes have nonetheless provided important impetus through motivation and mentoring. Yet, youth lack knowledge about support schemes, have low levels of education, and lack business skills, all of which limit their capacity to transition from own-account work into employing more people and grow their businesses.33

**BOX 2.4: UGANDA—THE MOST ENTREPRENEURIAL COUNTRY IN THE WORLD?**

The Global Entrepreneurship Monitor (GEM) Survey provides various measures of entrepreneurship through country-level surveys. The GEM highlights entrepreneurial culture as a key factor in business creation and captures the entrepreneurial culture in different dimensions: How respondents perceive business opportunities; how they deem their own capacity as entrepreneurs, whether actual or potential; their views on risk and failure; and their intentions of starting a business. In Uganda, answers to these questions combine to rate Uganda the most entrepreneurial country in the world:

- 81 percent of surveyed individuals perceive good business opportunities.
- 88 percent rate their own entrepreneurial capability high.
- 79 percent say they plan to open a business.
- Only 15 percent say they fear failure.
- 91 percent of youth interviewed claim they would prefer to run their own business rather than become an employee in the future.


At the same time, proliferation of self-employment largely reflects lack of other prospects, rather than increases demand for the goods and services produced by these micro-enterprises. Comprehensive evidence from different sources and across different types of firms show that demand constraints are key to Uganda’s labor market woes. Uganda’s self-employed do not make enough profit to actually employ somebody else and pay them a wage. Fewer than four percent of self-employed workers are employers, and 52 percent are working for themselves only (own account workers), while 43 percent are unpaid family workers. Lack of demand is considered a key constraint, even to formal firms: three in five new firms in the formal sector list “lack of market” as their main constraint to business, and low demand is a problem even for older and larger firms (Figure 2.26). Among household enterprises, “lack of demand” is the second most important constraint to growth after finance (Figure 2.27).34 The Manpower survey for informal firms indicates that their main problems in expanding, after access to finance, are lack of customers/marketing and increased competition. Business opportunities have not been a major driver for these firms to enter, but rather lack of job opportunities elsewhere.

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Lack of demand is holding back business growth in the formal sector.

Figure 2.26


Note: Question: “What are the difficulties affecting the operation/growth of your establishment/enterprise.

Lack of demand is holding back business in the household enterprise sector

Figure 2.27


Note: Question: “What factors have constrained the business owner’s ability to increase the size of the business to the desirable size.”
FACT 10: JOBS ARE NOT SHIFTING INTO HIGHER PRODUCTIVITY FIRMS

Most jobs in the formal sector were created in low-productivity sectors. In the period 2001–2010, firms in tradable sectors—agriculture, food processing—became more productive, whereas firms in non-tradable sectors—commerce, hotels, bars and restaurants—became less productive. In goods sectors exposed to international competition and with access to international markets, older firms account for more employment on average and firms in tradable sectors also became more productive between 2001–2010. For firms in the tradable sector, their average size increases with age, suggesting that they are less growth constrained. This is not the case for firms in non-tradable sectors (Figure 2.28).

Larger firms are losing their productivity advantage over smaller firms. Larger firms are more productive than smaller firms on average, but the difference compared to smaller firms have shrunk. On the positive side, smaller firms are becoming slightly more productive (Figure 2.29). On the negative side, larger and medium-sized firms have seen productivity shift downwards. The convergence in productivity levels between smaller and large firms may be another sign that productive firms are becoming increasingly “stunted” and, because of growth constraints, are less likely to create jobs. If business conditions were favorable to competitive firms, more productive firms would be able to expand to account for an increasing share of employment. They would also offer more productive jobs overall. The diminutive share of employment in larger firms hence signals a deeper jobs problem.

Without structural change into higher value-added goods and services, the demand for workers with more education has not increased in tandem with the supply of workers. Skills gaps do not seem to be a binding constraint to private sector development in Uganda. Education pays off in higher earnings but returns to education are falling. Returns to completing primary education fell by half between 1999 and 2016, at a time when the share of working age population with at least primary education increased from 18 to 34 percent for women.

Figure 2.28
Firms in tradable sectors grow, those in non-tradables do not

[Graph showing average firm size by age for selected sectors, 2010]
The minority of young people holding a paid job in the formal sector tend to start off in jobs with lower quality than older workers. Younger workers in paid jobs have lower earnings, lower job security, and less access to social security than older workers (see job quality composite in figure 2.29). That young people entering work should earn less than more experienced workers is not surprising. Nor is it improper, so long as it is not a sign that

Figure 2.29
The link between productivity and firm size weakened between 2001 and 2010

Source: COBE 2010.

and from three to 42 percent for men. Moreover, returns to tertiary education have dropped significantly, even though the increase in adults with some post-secondary education increased only marginally. In fact, the pay-off to tertiary education is now the same as returns to secondary education, which is unusual as post-secondary education pays off more than lower levels of education, sometimes exponentially, in many countries (see Annex A).35 Virtually no firms cite skills as a main constraint to business, whether in the formal or the informal sector.

Figure 2.30
Youth get entry-level jobs with lower quality


diplomas and certificates are not signalling actual skills, and as long as there are opportunities for moving upwards over time. Longitudinal data is not available to show whether this is the case in the formal private sector.

It is clear that entry jobs do matter. Employees who report having had a first job that fit their level of education earn more than those that got off to a wrong start. Although this could be evidence of unobservable differences in actual skills, it is also a sign that jobs in Uganda are path-dependent, even in the formal sector, such that the first job matters for future employment profile. Half of workers had found their jobs almost immediately, but half did not have a good match with their levels of education, which suggests a need to help match supply and demand (Figure 2.30).

Jobs seekers and firms are not using formal channels to find jobs. According to UNHS 2016 data, two-thirds of job seekers ask friends, relatives or acquaintances to help them find a job. Only four percent are registered at an employment center, and only 14 percent place or answer job advertisements. Firms advertise vacancies mostly using tools like traditional media and friends/relatives. The lack of digital platforms—more accessible to youth who are more technically savvy than their parents, and which are not location specific—means that employment information is not widely spread. The low demand facing even more established formal firms, the shrinking productivity gap between larger and smaller firms, and the fact that young or adult workers are not getting into more productive jobs, all point again to the need to identify market opportunities abroad, helping small and large firms access markets and encourage private investment in locations with advantages for value chain development and agro-processing. These avenues are the topic of the next section of the report.
3. A STRATEGY FOR MEETING UGANDA’S JOBS CHALLENGES

Uganda’s Jobs challenges require a more rapid and jobs-rich economic transformation. The key findings from the Jobs Diagnostic show how Uganda’s Jobs challenges are mounting: an unprecedented number of young Ugandans are entering the labor market; three quarters of young Ugandans work in agriculture, where productivity growth is negligible; and slow growth in agricultural productivity means that economic transformation into urban waged jobs is taking too long. Moreover, older workers are slowly shifting from largely subsistence agriculture to more productive commercial agriculture, rural-off farm activities, and into wage jobs and entrepreneurial activities in towns and cities. However, since about 2010, past drivers of growth—exports, foreign direct investment, aid, private transfers, public infrastructure investments—were no longer growing appreciably faster than real GDP. This has meant that off-farm wages and returns to education have been falling. In this section, we set out the building blocks for a Jobs strategy and provide specific recommendations.

To prioritize, we have used the diagnostic findings and international benchmarks for jobs indicators to narrow reform areas and eliminate recommendations for non-binding constraints.

The jobs strategy must be phased and prioritized. Uganda is awash with strategies and policy documents. Implementation and action lags intentions. Facing a multitude of inclusive growth challenges and limited implementation capacity, we suggest that Uganda looks to the most binding constraints to a growth path that will bring the most job-rich economic transformation. Specific policy and regulatory reforms, public investments, and priority public services can then guide an achievable strategy to remove these constraints. Most LICs require many improvements, but not all challenges prevent the creation of better jobs with higher productivity for Uganda’s youth and children, who together make up 68 percent of the population. Not all policy areas, public services, and infrastructure investments are equally urgent. An important starting point is to revise guidelines for the 2021 Ugandan Budget and draft the National Development Plan (NDP) to set out priorities to foster inclusive growth in Uganda and build pathways to better jobs for young Ugandans.

To help prioritize, the next section starts by downplaying some policy areas that do not at this stage represent binding constraints. We downplay some themes only because the urgency of jobs challenges demand attention to other priorities. For instance;

- Labor market regulations are not seen as a major constraint by firms.
- Technical skills are not, for now, a major obstacle for the private sector, although poor educational outcomes may become more binding in the future.
- Entrepreneurship, if equated with self-employment, is already high in Uganda. A significant share of SMEs complain that competition is their main constraint to business expansion; while 45 percent of household enterprises in the 2016 Uganda National Household Survey (UNHS) complained about a lack of market demand for their produce.

Section 3.1 sets out the Jobs problem statement: that Uganda has a labor demand problem. Section 3.2 then sets out short and long-term growth paths that can increase labor demand and build on Uganda’s revealed comparative advantage. Section 3.3 suggests how Uganda can create more waged jobs by supporting domestic firms with fast-growth potential, attracting FDI, encouraging formalization, and promoting labor-intensive firms with market potential. makes recommendations to accelerate the transformation of Uganda’s agriculture, Section 3.4 makes recommendations to manage urbanization for better jobs through promoting regional investment, decentralizing private sector development, and developing labor market information systems. Section 3.5 then
sets out recommendations to accelerate transformation of Uganda’s agriculture, to set economic transformation off. Finally, section 3.6 makes recommendations for inclusion by:

(i) Improving efforts to connect smallholder farmers with value chains.
(ii) Improving opportunities for informal and micro firms.
(iii) Reforming youth employment programs to help young Ugandans find employment.

3.1. A LABOR DEMAND NOT A LABOR SUPPLY PROBLEM

Creating more micro enterprises on the premise that the millions of youth entering the labor market should be “job creators, not job seekers” is a flawed strategy that would make conditions worse unless demand increases faster. It is true that, if the past repeats itself, many young Ugandans entering the labor force in the coming years will be forced to survive in self-employed work, such as boda-boda drivers and street vendors, or be forced into underemployment and/or unpaid family work on parents’ farms. The strategy outlined discusses what may work best for these workers, with the main aim of accelerating growth in waged employment, rather than creating more micro enterprises.

We conclude that today, Uganda’s labor market is demand-constrained, not supply-constrained. The main evidence that Uganda faces labor demand constraints are the regression analysis evidence studying returns to education over time as part of the Jobs Diagnostic (Annex A), and in trends in the mean working hours and median earnings per sector trends (Figure 3.1). More people are working longer hours, and more, better educated young people than ever are working. But waged earnings are static in agriculture, have fallen for adults in industry and services, and have fallen for youth in industry. The gaps between youth and adults are narrowing, and our regressions, as shown in the annexes, find that the gaps between sectors and between rural and urban have narrowed. Although significant, the premium to education has fallen for all levels of education, especially for those with incomplete secondary education or below. The relative returns to some tertiary education have almost halved since 1999, even though the share of the total workforce having completed tertiary education has not increased dramatically—rising from just 1.5 percent in 1999 to just 3 percent in 2016. Compared to 1999 when the share of the workforce with some secondary education was 30 percent, by 2016 that number rose to 41.5 percent, a legacy of universal education programs in Uganda. The share with some primary education did not change at 44 percent.

Figure 3.1
Earnings and Hours Worked by Age Group in Uganda 2005–2016

Source: UNHS and authors’ calculations.
That incremental benefits to having some primary education more than halved relative to having no education, is a significant finding that underscores demand constraints. If the economy was changing in its skills intensity, we would expect to see rising demand for secondary and tertiary education. One explanation for why we do not would be that the supply of educated workers was rising faster than demand. In fact, the occupation shares of employment in Uganda have not changed much, and do not suggest dramatic increases in the demand for education. The combined categories of Elementary Occupations, Skilled Agriculture, Service and Market Sales and Craft Workers was 95 percent of total employment in 1999. Despite changes in the sectoral shares of value added between then and 2016, these categories still account for 90.4 percent of employment in 2016. The symptoms all seem to point to an over-supply of skills relative to constrained demand for workers.

There do not seem to be significant barriers to firms seeking to enter Uganda’s economy, and competition is strong. Even by African and low-income country standards, firm entry in Uganda is very high. The stock of firms is highly tilted to micro-firms (Figure 3.2). In the Uganda Census of Business Establishments for 2010, 85 percent of firms had one employee or fewer, and own account work (single-person) dominates household enterprises. Medium and larger firms signal a lack of enforcement of product standards, tax compliance, and business regulations in investment climate surveys, rather than a regulatory burden. Except for time spent with tax officials, Uganda scores better than sub-Saharan Africa on the proportion of firms in enterprise surveys that complain about taxes and regulations.

Competition from informal firms is especially strong. According to the World Bank’s Enterprise Surveys, when formal firms in Uganda are asked to identify major constraints to business, a higher share of them (38 percent) mention competition from informal firms than mention electricity (27 percent) or finance (20 percent), two constraints that are typically higher in other countries on the list of constraints to business expansion. Forty-five percent of firms with 10 percent or more foreign ownership cite the activities of the informal sector as the biggest constraint to business expansion. Ninety-five percent of Ugandan firms in the 2013 enterprise survey reported that they were competing against unregistered or informal firms. This underscores that in Uganda even in the formal sector, firms are small, and are consequently competing with the many informal sector firms. Perhaps because of strong competition, micro firms persist, especially in commerce (retail and wholesale) and restaurants and bars where micro firms represent a high share of old as well as new firms, suggesting that the average firm in these service sectors does not grow employment over time.

Figure 3.2
Most firms in Uganda are small and most jobs are in small firms

Source: COBE and International see Merotto et al. 2019.
Labor regulations do not seem to limit job creation in the formal private sector. Less than 10 percent of Ugandan workers are in formal employment. Only 2.5 percent of large firms in Uganda identify labor regulations as the most important constraint to business, and fewer than one in five identify them as an obstacle to business (Figure 3.3). Interestingly, large firms are less likely to identify labor regulations as binding compared to smaller firms. Among informal firms, which account for most firms and jobs in Uganda, labor market regulations are not binding as these firms operate outside the regulatory framework. There is no information on whether labor market regulations present an obstacle to job and firms’ formalization. The higher share of smaller firms finding them problematic suggests this could be the case. Even so, it seems fair to conclude from comparing Uganda’s labor regulations with other countries and with firms’ responses and given the fact that the majority of workers are not affected, that overhauling labor regulations is not an urgent policy priority.

Similarly, skills gaps are not [yet] affecting business performance or job creation significantly. Even fewer firms in the enterprise survey (13 percent) identify skills as a major constraint to operations. Again, this evidence supports the conclusion that low demand for labor and the low level of sophistication of production and services in Uganda are limiting factors. This said, large firms are much more likely than others to consider skills a problem, and this share has doubled from 13 to 27 percent between 2006 and 2013, according to World Bank enterprise surveys. Moreover, skills take time to build, and for Uganda to create more high-productivity jobs, skills may become a more serious constraint in the future. Meanwhile Uganda should identify strategic skills gaps both in dialogue with the private sector and in reviewing applications for work permits for non-Ugandans.

We cannot predict the skills that Uganda will need for tomorrow’s economy with any precision, and it will be important for post-secondary curricula at colleges and Universities to be responsive to the needs of the private sector. Nonetheless, with Uganda’s demography is it clear that the country is going to need more health care professionals, more teachers, more qualified builders, electricians, plumbers, welders, bio-tech engineers, engineers, tourism workers. Given the complementarity of workers in more sophisticated

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Figure 3.3
Labor regulations and skills are not major constraints to business

<table>
<thead>
<tr>
<th>LABOR REGULATIONS AS A CONSTRAINT TO BUSINESS</th>
<th>SKILL GAPS AS A CONSTRAINT TO BUSINESS</th>
</tr>
</thead>
<tbody>
<tr>
<td>ALL</td>
<td>ALL</td>
</tr>
<tr>
<td>OTHER SERVICES</td>
<td>OTHER SERVICES</td>
</tr>
<tr>
<td>RETAIL</td>
<td>RETAIL</td>
</tr>
<tr>
<td>OTHER MANUFACTURING</td>
<td>OTHER MANUFACTURING</td>
</tr>
<tr>
<td>TEXTILES AND GARMENTS</td>
<td>TEXTILES AND GARMENTS</td>
</tr>
<tr>
<td>FOOD</td>
<td>FOOD</td>
</tr>
<tr>
<td>FOREIGN OWNERSHIP ≥10%</td>
<td>FOREIGN OWNERSHIP ≥10%</td>
</tr>
<tr>
<td>EXPORTS IN SALES ≥10%</td>
<td>EXPORTS IN SALES ≥10%</td>
</tr>
<tr>
<td>LARGE (100+)</td>
<td>LARGE (100+)</td>
</tr>
<tr>
<td>MEDIUM (20–99)</td>
<td>MEDIUM (20–99)</td>
</tr>
<tr>
<td>SMALL (5–19)</td>
<td>SMALL (5–19)</td>
</tr>
</tbody>
</table>

% OF FIRMS

0 5 10 15 20 25 30


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36 UNHS 2012 is the only reference point for whether a worker has a contract, health and social insurance, and overtime payments, because other UNHS results have too many missing responses to define formality.
businesses, Government should undertake a study of worker capabilities and of the knowledge, skills and abilities required for a growth path around trade on agro-industrial products, commercial farming and tourism.

**Building skills in the longer term will require increasing efforts to improve access, equity, and quality of basic education.** Employment programs like Skilling Uganda, and similar initiatives, have tended to focus on equipping youth with technical skills. However, the basic foundation of literacy, numeracy, and problem-solving skills, as well as soft skills, are needed before technical skills can “take hold”. Access to quality basic education remains a key problem in Uganda. Post-primary enrolment remains low, and lack of school infrastructure, high student/teacher ratios, and teacher absenteeism decreases the quality of learning. As a consequence, a majority of Ugandan pupils lack basic literacy and numeracy skills. A stronger basic education is needed to equip children with the necessary skills needed to take on more advanced and specialized training and succeed in working life later on.

Start-up constraints, labor market regulatory frameworks, and technical skills as not binding constraints to creating more and better jobs in Uganda. A focus on self-employment assistance and technical skills in youth employment programs can be warranted from a livelihood perspective, but we conclude that a new and broader strategy to enhance demand for waged work is needed.

### 3.2. INCREASING LABOR DEMAND IN UGANDA

#### 3.2.1 why it is important to raise demand for labor

**Uganda is labor demand-constrained relative to growth in its labor force.** Demand in Uganda is rising, but not fast enough to create appreciably higher productivity jobs needed for a workforce growing at around four percent annually. Importantly, this is not an issue of cyclicality that can be solved with demand management policies, but a long run trend. It also has its roots in structural dualism. The low productivity of self-employed jobs in Uganda’s so-called “traditional sector” provides most workers with low earnings, which limits demand for more sophisticated income-elastic goods and services. The demand for labor is derived from the demand for these goods and services, therefore constrained domestic demand for more sophisticated or “complex” products constrains the demand for higher productivity jobs, especially in food markets and services.

Constrained demand, combined with high micro-firm entry and high informality, leave Ugandan firms who supply the domestic market “stunted” and complaining about competition. Most Ugandan firms are small, low productivity, and non-complex. Larger, more productive firms are not expanding employment on average. The small size and apparent overcrowding with small firms in domestically-oriented services sectors suggests that whereas starting a business is not a problem in Uganda, business expansion is. Unless demand for Ugandan goods and services rises faster, those workers swelling the armies of low-productivity, self-employed workers will see their earnings per-hour-worked continue to decline in still more competitive markets.

#### 3.2.2 how can labor demand be raised?

**In the short term, Uganda can exploit new sources of demand for its existing goods and services.** It can do this by: (i) exporting more to existing markets abroad, (ii) becoming more competitive in displacing imports in selected domestic markets, and (iii) shifting production to goods and services with higher value. In practice, each these agendas requires raising agricultural productivity, improving the competitiveness of agro-processing, and improving energy, storage, transportation, and marketing. This is because most employment, most domestic consumption, and most exports from Uganda are agricultural or land-based products sold to neighboring countries. Unprocessed agricultural products—including coffee, tea, tobacco, and cotton—provide about half of Uganda’s exports; and in 2017/18, 65 percent of Uganda’s exports were to neighboring countries where

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39 More ambitious strategies would be to increase export “sophistication” or “complexity”, selling higher value products in new markets.
people have similar consumption patterns and market demands as Uganda.40 Uganda has five neighboring countries—Rwanda, Tanzania, Kenya, South Sudan, and the Democratic Republic of Congo (DRC)—and the border with Ethiopia is 200 km away from Uganda’s eastern borders. Combined, these countries make up a potential market of 300+ million people on top of Uganda’s own population of 43 million.

Uganda remains a small market, but with significant opportunities in regional and international integration. Uganda is a small market compared to neighboring countries in terms of the size of its economy, which is about half of Ethiopia and Kenya’s GDP. The economy is currently growing more slowly than comparator countries.41 Contrary to a market like Nigeria, the current size of the Uganda market would likely not attract investors purely to serve a domestic market. Rather investors would be interested in outward-market strategies. Uganda has access to multiple trade agreements that open regional and international markets. Uganda is part of the East African Community (EAC) and customs union, signed in 2005, which lowers trade barriers through internal elimination of tariffs for goods meeting EAC Rules of Origin (RoO) criteria, elimination of non-tariffs barriers, and establishment of a common external tariff. Uganda also benefits from being a member of the Common Market for Eastern and Southern Africa (COMESA). It is a signatory of both the US African Growth and Opportunity Act (AGOA) and the Africa, Caribbean, Pacific-European Union (ACP-EU) Cotonou Agreement that gives Uganda preferential access to both the U.S. and the European Union. As shown by the example of smaller neighbor Rwanda, Uganda does not need a huge market to attract FDI: a conducive business environment combined with capacity to serve regional and main international markets is enough. Rwanda and Uganda have similar trade agreements.

Policy reforms and investments to facilitate net trade in agricultural products in the short-run will be also be needed for other sectors in the medium to long term. Although the main short-term jobs challenge is to facilitate improvement in net trade in agricultural products, improvements in transport and trade logistics efficiency, along with expansion and productivity gains in energy and telecommunications, will also be needed. Tourism, with potential to create better jobs, depends heavily on telecommunications and transport logistics, and growth in hotels and lodges could support modest backward linkages to higher-value farm produce. Productivity gains in transport, trade logistics, energy, and telecommunications will also be needed to keep Uganda’s economy internationally competitive in the face of possible Dutch Disease effects from oil production. Hence, some aspects of the proposed strategy to increase labor demand have broader justifications.

In the medium-term, economic transformation will be hastened by increasing agricultural productivity and reducing real food prices. Most Ugandan consumers are farmers, whose labor productivity and real earnings did not increase by much from 2005–2016. If incomes from farming and waged work rise faster than the food prices, then Ugandan consumers will demand higher value non-food goods and services. This will trigger economic transformation.42

It matters how fast and for whom agricultural productivity rises: gains must be faster than decline in prices, and they must be inclusive. As we saw, real prices of food in Uganda are rising, not falling, and agricultural productivity growth is slow. For food prices to fall relative to non-food prices, agricultural productivity needs to rise. But it is a delicate balance, and gains need to spread to the majority of farmers and across regions. If rural-urban terms of trade deteriorate faster than productivity grows, farmers will be left worse off. Net exports43 and value addition can keep demand for farm produce buoyant to smoothen necessary price declines as productivity rises. If the gains all go to large land-owners who produce higher-value food exports to, say, Nairobi’s supermarkets, then peasant farmers’ earnings will not change, poverty will not fall, and consumption

41 Annex B shows calculations of the relationship between per capita income and consumption shares from Merotto and Casanovas [2019] “Labor Incomes, Consumption and Economic Transformation: Which Comes First, the Chicken, the Egg, or the Demand for Poultry Products?”, forthcoming.
42 We are agnostic as to whether these goods are sold in Kampala or Nairobi, Mumbai, Zurich, or Beijing. As long as Uganda maintains a liberal trading environment and is competitive in quality and price at home and abroad, more sales will generate rural incomes and boost domestic consumption. Markets abroad are generally bigger and more demanding in terms of quality than those at home, but regional East African demand for food is rising fast and there is market potential in Uganda in a range of products.
patterns for most low-earning Ugandans will not change. Market creation opportunities from new shifts in Ugandan tastes would be lost. If gains go only to farmers in western and central regions, market creation and economic transformation opportunities in eastern and northern Uganda would be lost. The agricultural productivity strategy must be inclusive and balanced, making the most of value chain linkages and out-grower schemes.

3.2.3 What will success look like?
Success will bring down relative food prices, kick-start labor movement to towns and cities, and generate multiplier effects. Selling more in growing regional food markets and nurturing value chain linkages between smallholders and agribusinesses will generate more and better wage-jobs on Ugandan commercial farms, and off-farm wage work in agricultural support services, storage, transport, refrigeration centers, and pack houses. Off farm work will create a double-demand for food as new off-farm workers become net consumers of food. As young workers move to towns for work, these towns will require construction jobs in housing, drainage, water and sanitation, market centers, roads, and sidewalks. Designed well and procured fairly, labor-intensive public works schemes in secondary towns can also generate demand for food and services. Supporting net exports to develop agro-processing in towns with comparative advantages will further boost employment, wage income, and consumer demand in lagging rural towns. Carefully planned electrification, including solar, reduce generation costs of scarce energy, and managing land use well can help transformation progress in towns. History shows us that where population grows fast, economic transformation can feed off itself in the early stages of orderly urbanization and agrarian reform, so long as towns and cities create good waged jobs, and markets for new products expand. Productivity and earnings gains from labor movements out of agriculture tend to be particularly significant in low-income countries (LICs) because of the wide gaps in productivity and hours worked between agriculture, industry, and services. Success will allow the pursuit of more wage jobs, mobility to better jobs, higher quality self-employment, and better jobs for youth. The key requirements for each are set out in Figure 3.4 and are discussed in the remainder of this report.

Figure 3.4
More good jobs, faster shift into those jobs, and higher quality of jobs for youth

More good jobs, faster shift into those jobs, and higher quality of jobs for youth

ACCELERATE TRANSFORMATION OF AGRICULTURE

MORE WAGED JOBS
1. Get the fundamentals right
2. Expand Net Exports
3. Promote FDI
4. Support domestic firms to transition to medium and large firms

MOBILITY TO BETTER JOBS: MANAGED URBANIZATION
1. Facilitate urbanization
2. Prioritize investment in secondary cities
3. Fiscal decentralization for local economic development
4. Inclusive infrastructure in urban areas
5. Business development services
6. Mobility support

FOSTERING INCLUSION IN BETTER JOBS
1. Value chain integration
2. Entrepreneurship programs, finance
3. Skills—Basic education
4. Youth employment programs

44 What modern day China and East Asian countries, and eventually Western Europe, did successfully, Latin America and Africa has on the whole failed to do: create a massive pool of organized waged jobs in large firms with higher labor productivity. The economic and political power created by an emerging middle class of urban-based waged workers has been an irrefutable force for growth and development throughout history.

45 Merotto, Weber, and Aterido (2018), op. cit., pages 12–17. The underlying data on earnings and hours worked for figure 32 suggests that for many Ugandans, the shift out of agriculture.
3.2.4 Agriculture’s potential to spur jobs with economic transformation

Agriculture, food production, and services have particularly strong potential for jobs and economic transformation. Why does agriculture come first in a job strategy when farm incomes are much lower than non-farm?

First, an agriculture job strategy affects the most producers and workers. Improving agricultural earnings by even a small margin will increase consumer demand of over 26 million Ugandans. Agriculture is still by far the largest employer in Uganda, and so improving the productivity of jobs in the broader food and horticulture system is an obvious priority. Agriculture, and especially food processing and retailing, are labor intensive, with high employment elasticities. Agricultural jobs are inclusive, involving those most marginalized: the poor, women, youth, and rural citizens.

Second, there is strong market potential. Food is the main consumption item for most low-income people, so decreasing its relative price is important for economic transformation. Demand for food is increasing in East Africa. Some food products have high income elasticity, so demand for them should keep increasing along with urbanization and economic growth. In the early stages of development, the share of processed food products, fresh fruits and vegetables, breads, bakery products, dairy, poultry, fish, and meats rise quite fast with incomes. This is true at the household and national level, as cross-country data in Annex B shows. As East Africa’s populations expand and urbanize, as countries in the region grow to lower middle-income status, and as a middle class emerges, food markets will grow very fast.

Rising regional and local demand for food and dietary shifts into higher value, more processed foods offer massive opportunities for Ugandan farmers and for Ugandan value chains beyond farm production. Regional demand for goods and services is large and growing. As in many other African countries, demand is powered by high population growth, urbanization, and income growth per capita (Tschirley et al. 2015b). Household consumption and imports have grown more rapidly in Uganda’s neighbors than in Uganda (Figure 3.5). Income elasticities for processed and protein-rich food products are high in low-income countries, meaning that households are prone to allocate a greater portion of additional income to food to diversify their diets. Demand for food, and agricultural products more broadly, are likely to rise significantly in Uganda’s geographic vicinity.

Figure 3.5
Regional market demand is growing

Source: Estimates based on WDI. Data not available for South Sudan.

46 Increases in household crop income are associated with poverty reduction in Uganda, especially among the poorest households (Hill and Mejia-Mantilla, 2016).
Analysis of household consumption patterns in Uganda also shows that urban consumption of higher value-added agricultural goods such as meat, fish, milk, and fruits increase significantly with income growth (Boysen 2016).

Uganda’s natural resources and agricultural skills position the country to stimulate economic growth by selling into a new agricultural commodity boom. Uganda has the natural resources and climate conditions to produce a variety of agricultural products. Regional demand for products such as confectionery, fish, maize, animal feed, vegetable oil, and dairy has grown significantly (Figure 3.5). The shares of these and other non-traditional products, such as cocoa, spices, and flowers, has increased Uganda’s exports, in some cases overtaking traditional exports like coffee, tea, cotton, and tobacco.

Uganda is also a large importer of processed foods and a growing importer of unprocessed agricultural products, including cereals. Processed foods accounted for 9 percent of all Ugandan recorded imports over the 2012–2016 period; fresh (i.e. unprocessed) food accounted for 3 percent and has been on the rise in 2012–2016.47 Food import dependency reached almost 13 percent by 2016.48 This suggests scope for competitive replacement by local domestically grown and produced goods.49

Agriculture and agro-processing exports not only affect many people, they have strong potential for better jobs outcomes. Increasing output and value added in these sectors can create significant wage jobs. Both agriculture and agro-processing intensively use unskilled labor (indeed, this is the reverse side of low labor productivity). Wage employment in firms in these sectors has grown by 14.6 percent per year per from 2001 to 2010, accounting for more than a quarter of all business employment in 2010.50 If implemented, policy measures to increase agricultural productivity, develop agri-business and agro-processing, and increase exports set out in

Figure 3.6
Exports have increased significantly in the past decade, due to higher exports to African neighbors. Food products still dominate exports.

Source: WITS, Comtrade data.

48 Ibid.
49 Higher imports of cereals, especially feed grains, may indeed be expected if Uganda’s agricultural exports develop towards more higher value foods such as vegetables and fruits more suited to Uganda’s topography and climate.
50 Data are taken from ISIC rev 2 digit estimates for 2010 underlying more aggregated figures in UBOS (2013), although there is some uncertainty in disaggregating “other manufacturing” and “trade” and thus these are not included here. The Census of Business Enterprises in question reports only jobs in businesses enumerated in the census.
this report can increase agricultural GDP growth to five percent per year, compared to two percent currently. Formal sector jobs in food processing manufacturing and associated services could increase by approximately 560,000 over the next ten years. As seen in figure 3.7 food system employment structure and opportunities change as economies develop. In 2010, the number of jobs in agribusiness amounted to 10 percent of the number of all agriculture jobs in eastern and southern Africa. Labor productivity in agribusiness can be up to seven times higher than in agriculture, depending on the type of activity, pointing to the importance of such a transformation.

**Agro-processing also offers the potential to spread the benefits of wage jobs through industrialization across the country.** A spatial analysis for this report shows that roughly half of large food processors, those hiring more than 99 workers, and many smaller ones, are located in and around Kampala, where they enjoy agglomeration economies, good infrastructure, and a growing market. Smaller firms are located where smallholder farming is most dense, fish processing locates close to Lake Victoria, and firms outside Kampala locate close to large, national, all-weather roads. Approximately one-third of large food processing firms, and many smaller ones, are located close to national borders, even relatively remote ones: in the eastern region, near the Kenyan border; in the western province, near the DRC; in Mbarara leading to Rwanda; and in the northwest, close to South Sudan (see Figure 3.8).

**Tapping into agro-processing opportunities requires significant policy reform, institutional upgrading, and investment in research, technology, infrastructure, and more.** Agricultural value chains everywhere are rapidly becoming higher value, more processed, longer, wider, and more anonymous. They are also becoming more demanding in terms of quality and reliability of shipments. Firms in Uganda identify infrastructure, land availability, and the lack of effective private-public dialogue as critical constraints to investments.

**A jobs growth strategy based on agriculture will increasingly need to deal with risks related to climate change.** Average temperatures in Uganda have increased, seasonal rainfall has become more variable and less predictable, and crops and animal pests and diseases linked to climate change have increased. Uganda’s

**Figure 3.7**
The composition of jobs in the food system varies with income levels

![Diagram showing the composition of jobs in the food system for low-income, middle-income, and high-income countries.](image)


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51 Tschirley et al. (2015).
53 Based on focus group discussions with over 115 firms in prominent sectors, and 89 government and other stakeholders. See World Bank (2016). Re-positioning Local Governments for Economic Growth. The role of Local Governments in Promoting Local Economic Development in Uganda—focusing on Jinja Municipality, and Arua and Nwoya Districts.
agro-economic systems are poorly adapted to climate change, and rural communities are increasingly vulnerable. The lack of resilience affects smallholders, but also discourages would-be investors in more formal agricultural enterprises.

**A jobs growth strategy based on agriculture will increasingly need to deal with risks related to climate change.** Average temperatures in Uganda have increased, seasonal rainfall has become more variable and less predictable, and crops and animal pests and diseases linked to climate change have increased. Uganda's agro-economic systems are poorly adapted to climate change, and rural communities are increasingly vulnerable. The lack of resilience affects smallholders, but also discourages would-be investors in more formal agricultural enterprises.

### 3.3. Creating more waged jobs in Uganda

Transition into higher productivity wage work requires growth in labor-intensive formal farms and businesses in response to increased net export demand, so these businesses can hire workers as they grow. This section sets out four priority areas:

- **Get the fundamentals right**: Foster economic growth with macro-economic stability, improve investors’ access to land for industrial sites, target infrastructure projects, especially electricity and roads; and invest in climate-favorable cross border trade and transport logistics.

- **Expand Net Exports**: Improve logistics and trade facilitation through, (i) capacity building for institutions in charge of inspections, sanitary standards, certification with international quality certificates; (ii) reducing trade costs; enhancing the quality of infrastructure, improving logistics quality and competence, improve tracking, tracing and timeliness of shipments.
Support small and medium enterprises (SMEs) to transition into export market by, (i) building capacity of Uganda's Export Promotion Board for SMEs to facilitate operations for SMEs (assistance with tax-related services and exemptions, access to certification, financial support to attend trade fairs, information about markets and suppliers, among others); (ii) provide specialized consulting services to SMEs willing to export, including establishment of a pool of local and international consultants and services paid by a matching grant.

- **Promote Foreign Direct Investment (FDI):** Make gains in the three factors that foster FDI:54 (i) use natural resources: the tropical climate, abundance of rainwater and fertile soil to attract agribusiness; (ii) utilize relatively low labor costs to attract labor-intensive foreign firms, and (iii) through good trade facilitation, integrate into regional and international markets (EAC, COMESA, AGOA, and the Everything but Arms initiative).

- **Support small domestic firms to grow to small and then large firms:** (i) Provide more intensive technical support to fewer entrepreneurs in productivity (technology, choice of markets, business practices); (ii) reduce distortions in inputs markets and improve access to product markets; (iii) develop structures for technical assistance and financial support for firms in early growth stages, such as technical assistance to incubators and accelerators; support to research centers; online platforms with information about financial and non-financial support to start-ups, promising markets, accredited supporting structures, among others.

  For businesses planning to expand, diversify, or open new subsidiaries, launch a business plan competition for young firms with matching grants; expand markets for SMEs, for instance, by facilitating access to public procurement (training, online notices and tendering, smaller packages), and developing a supplier database for SMEs to connect with exporters and/or foreign investors.

**Foster growth and reduce instability**

Uganda’s future success in creating jobs to reduce poverty and increase overall wellbeing hinges on sustained, sustainable, and diversified economic growth. This requires macro-economic and financial stability and predictability as well as a favorable investment climate, human capital development, and rule of law.55

In the short-term, Uganda must use the rebound in economic growth in 2017/18 to reign in fiscal spending, maintain macroeconomic stability, and refocus spending on investments. Growth rebounded, but political tensions, continued reliance on good weather conditions for economic growth, and continued volatility in the DRC and South Sudan create major risks. In 2017, good weather resulted in a recovery in food production, and consequently the service sector grew rapidly. This did not improve the fiscal situation, deficits widened due to increased spending well above budget, whereas revenue collection deteriorated.56

Spending pressures arise from high political tension and the promise of future oil revenues. Heavy investments in oil industry infrastructure place strong pressures on Uganda to quickly realize high oil exports. Swings in global oil prices are destabilizing as they have two contradictory effects: low oil prices are good for Uganda’s trade balance and growth today, but bad for investments in the oil sector. Finally, and importantly, at a time when Uganda needs to increase demand for products and services abroad and at home, it is imperative to avoid a loss of competitiveness in the tradable sector due to high inflows of foreign currency and increased spending on non-tradeable goods (Dutch disease). As mentioned, investments to improve the productivity of non-tradeable goods remain the best strategy to counter the effects of Dutch Disease on the tradeable sector, as discussed in World Bank (2007),57 and in the background study by Adam and Bevan (2006).58

Well managed, and well spent, oil revenues can raise government revenues and boost jobs and economic transformation, but this outcome depends on careful management and reliable institutional frameworks.59 Careful and transparent spending of oil revenues can support economic transformation if it

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54 Chen et al., [2015].
56 Uganda Economic Update #12, 2018.
leads to investments that foster agricultural productivity, net exports, and development of agro-processing and services in secondary towns and Greater Kampala. This requires strong institutions resisting the temptation to spend windfalls on recurrent items, and ensuring that investments target regional and sectoral spending on infrastructure (not only in oil sector) and education.

**Develop an economy that attracts and nurtures larger domestic firms**

**Develop structures to provide technical assistance and financial support to promising, high-growth domestic firms in early stages.** Uganda is dominated by micro firms and household-based enterprises, but not every own account or self-employed worker is destined for entrepreneurship. To nurture creation of larger firms led by its most dynamic entrepreneurs, Uganda should provide more intense support to fewer individuals, concentrating efforts on a handful of high-growth firms. It is important to build viable structures equipped to provide services to domestic startups, and to help the Government identify the best high-growth entrepreneurs to nurture. Actions could include:

(i) **Providing technical assistance and funding to business incubators.** With some public funding, as well as collection of fees from customers, business incubators could tailor services to entrepreneurs and refer the best for further government financial support. Government funding could remunerate incubators based on their performance. Such a scheme could provide high-quality technical assistance to some incubators currently blooming in the country, but also facing bankruptcy, by answering such questions as: What services should incubators provide? What specialization, if any? What prices? Should these prices be segmented by type of customer?

(ii) **Support research centers to foster innovation** as well as entrepreneurs’ access to these research centers; and

(iii) **Centralize information on a web platform** about financial and non-financial support to startups, promising markets, and supporting structures.

**Provide financial support to young firms to grow.** In the short term, in the absence of financial sector reform, business plan competitions could support high-growth, but financially constrained, firms (see Box 3.1). This business plan competition could be opened to businesses operating for at least three years in sectors that could generate more jobs. After intensive screening of detailed and thorough business plans, winners would receive a grant in two or three tranches.

**Enhance market access for SMEs.** For young firms to grow, evidence suggests that product demand and market access are critical. To expand market access for SMEs, Government of Uganda (GoU) could:

- **Facilitate access to public procurement.** Some countries have boosted market access for SMEs by setting targets for SME participation in public procurement. These countries are now looking to address procedures and regulations that can prevent SMEs from winning government contracts. Unbundling procurement contracts into smaller bidding packages can help keep SMEs from being excluded due to scale. Assistance to SMEs can include free training on how to bid, understanding notices and online tendering, among other things.

- **Develop a supplier database.** This has been tried in many countries with mixed results. To work well, the database should be designed to offer benefits to both SMEs and potential clients. For SMEs the benefits include access to clients, preferential access to finance with partnering banks, and information about clients’ payment reliability. For clients, the database can offer information about SMEs’ products quality and reliability.
**BOX 3.1: YOUWIN! IN NIGERIA: A BUSINESS PLAN COMPETITION TO IDENTIFY A POOL OF HIGH-GROWTH FIRMS THAT CAN GENERATE JOBS**

The Youth Enterprise with Innovation in Nigeria (YouWiN!) program is a business plan competition for young entrepreneurs launched in 2011 by the Nigerian Ministry of Finance (MoF). To be eligible for the program, applicants had to be Nigerian citizens aged 40 or younger, proposing creation of a new or expansion of an existing business venture within Nigeria through a concept note. In 2012, the top 6,000 out of 23,888 applications were selected for a four-day business plan training course; 4,510 business plan applications were received and scored, and 1,200 most innovative winners were selected to receive prizes averaging US$50,000 each. The grant was given in four tranches conditional upon close monitoring.

McKenzie (2017) indicates that the program was able to identify high-growth firms, address their finance constraints through a grant, and as a result, accelerate the growth of winners. The author found for semi-finalists in the business plan competition, there was no good predictor for which would become high-growth firms. The total business plan score did not predict new and existing business success. The selection process was more important than the business plan itself. Indeed, the selection process was quite intense: candidates were asked to fill out a concept note on Excel, register online, complete an in-class training program, and submit a detailed business plan online. As a result, applicants were older and more educated on average than most young Nigerians.

Three follow-up surveys were done in 2012, 2013, and 2014 to track results over time. Three years after applying, new firm applicant winners were 37 percentage points more likely than the control group to be operating a business, and 23 percentage points more likely to have a firm with 10 or more workers (relative to a control mean of 11 percent). Existing firm winners were 20 percentage points more likely to have survived, and 21 percentage points more likely to have a firm with 10 or more workers (relative to a control mean of 17 percent). The winners are also innovating more and are earning higher sales and profits.

The latest follow-up 2016 survey found that the program continues to have significant impacts three years after the last tranche was received, despite the economic crisis in Nigeria. Based on a rigorous impact evaluation, the program generated 2,500 jobs in 2012, 6,800 in 2013, 7,000 in 2014, and 4,200 in 2016. Given the program budget, the cost per job created was about 2,300 dollars over five years.

**Attract more Foreign Direct Investment (FDI) to Uganda**

Foreign investment is needed in sectors and industries with potential to generate formal sector and export-led jobs, and to foster linkages with domestic producers and service providers. Attracting foreign investment in new sectors is necessary for creating more export jobs through GVC participation. Large firms provide better jobs in Uganda, and whereas small and medium-sized enterprises grow organically, FDI brings large scale investment into the country. Well targeted, these investments trickle down to Ugandan producers and service providers through backwards and forwards linkages, and help diffuse technology and upgraded skills. In the past decade, foreign investors have established large-scale commercial farms for grain and pulses exports, especially in northern Uganda, which have created a significant number of jobs. Multinational companies entering the agricultural sector have improved the quality and volume of supply along the value chain. They are important catalysts of economic transformation, have helped small-scale producers organize themselves into larger scale cooperatives or associations, and have provided producers access to extension services, quality inputs, and credit.

**There is significant room for increasing FDI in job-creating sectors.** Currently, the importance of FDI flows are lower in the Ugandan economy than, for example, in Ethiopia and Rwanda (2.7 percent of GDP, versus 4.5 and 3.2 percent respectively). Moreover, most FDI into Uganda is in mining, with few linkages into the local economy, and very little job creating effects. The share of FDI in manufacturing is only 20 percent of that in mining.

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60 In 2016, Nigeria suffered its worst economic performance in thirty years, driven by a contraction in the oil sector, which is the main export and accounts for 70 percent of government revenues.
Uganda needs to adopt and implement an investment policy regime that applies a jobs-lens to attracting FDI into new productive sectors and activities. This would include:

(i) Introducing investment tax credits for large investments in sectors close to existing local products, and/or investments for firms that can generate more than 500 jobs in three years;

(ii) Streamlining the approval process for incentives.

(iii) Strengthening investment promotion efforts.

(iv) Building linkages with domestic firms. This could be done by offering basic match-making services as well as making sure that information about local firms is up-to-date, complete, and available to the right institutions, such as the Uganda Investment Authority (UIA) and Invest Uganda. Again, these actions point to the need to strengthen capacity and accountability in relevant Ugandan institutions.

FDI can bring large scale job-creating investments and also play an important role in technology “leap-frogging” and skills enhancement.61 Foreign investors can be large contributors to employment, provided investments flow to labor-intensive sectors. Mining, the main recipient of FDI, has very little impact on employment. Uganda should aim to spur foreign investment in commercial farming, agri-business, food manufacturing, and the electricity and digital economy by eliminating cumbersome processes to register business, opening markets to more competition and new players by eliminating unfair and restrictive incumbent practices, and tackling corruption. Actions which could facilitate job-creating foreign direct investments include:

(i) **Intensify high-profile anti-corruption efforts.**

(ii) **Improve access to orderly farm markets and commercial property** for reputable foreign owners by improving land titling.

(iii) **Streamline business procedures overall, but with specific focus on foreign investors.** The UIA could play a stronger role in investment promotion, and could function as a “one-stop-shop” for foreign investors. Its key roles should be assistance with the establishment of operations, and after-care services. Assistance with establishment includes tax-related services and exemptions, access to utilities, and obtaining visas and work permits. To strengthen its ability to attract and establish FDI, the UIA should have a more focused mandate: UIA currently oversees many activities, such as managing industrial parks and SME development. Reforms to the Act that created UIA could make it more effective.

**Align fiscal incentives with policy objectives.** The tax code in Uganda is comprised of many, not always necessary, exemptions. For manufacturing or services, Uganda has some comparative advantages compared to most countries (natural resources, low labor costs, and commercial treaties), but so do other countries in the region. With high competition for FDI, incentives are commonly offered to attract these investors. A corollary conclusion is that FDI in natural resource-seeking sectors flow into resource-rich countries regardless of the business environment; hence, incentives for these sectors are not necessary. Uganda provides many tax rebates or exemptions, mostly to exporters (tax holidays for 10 years, zero-rate VAT for exports, and inputs to exported products) and farming or agro-processing activities (exemption on income tax for agro-processors, zero-rate VAT for fertilizers, pesticides, etc). While Uganda has diversified its industrial base, the impacts have not met the costs of these fiscal exemptions and rebates. Rwanda has a clearer policy on tax incentives with less exemptions and more focus on key sectors and industrial zones. The Government of Uganda (GoU) should:

(i) **Re-orient incentives towards investments expected to bring jobs.** For instance, GoU could offer investment tax credits for firms, for instance, that can generate more than 500 jobs in the coming three years to foster private investment in job-rich economic sectors.

(ii) **Conduct a cost-benefit analysis of current exemptions to understand impacts on different types of firms.** This cost-benefit analysis could support expansion of the Government tax base and fiscal revenues as the current fiscal regime generates many distortions, resulting in very low fiscal revenues compared to other

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countries (WB, 2018b). As a result, large farmers are also excluded and in terms of absolute value, the level of support provided to large farmers significantly exceeds that provided to small farmers (WB, 2018b). Exemptions should be kept at the bare minimum while the government can out more efforts in providing non-fiscal incentives.

(iii) **Eliminate discretionary tax exemptions** from any authority, in whatever form.

### Expand net exports and encourage trade integration

**Improve logistics and trade facilitation.** As mentioned above, productivity growth requires faster and more reliable supply chain processes. Modernizing to improve supply chain lead times and trade logistics reliability and infrastructures is important for attracting investment, and jobs, in global value chains. Countries that facilitate movement of imports and exports are more likely to attract investment and help their private sector participate and compete in the international trading system. To improve logistics, GoU should:

(i) **Build capacity in institutions charged with inspection and sanitary standards and international quality certification.** Access to the regional market (compliance with EAC rules, for instance), as well as to US and European markets, depends on firms being able to meet destination market requirements. The capacity of existing institutions is limited.

(ii) **Continue efforts to reduce trade costs.** Efforts include enhancing the quality of infrastructure, improving logistics quality and competence, including tracking, tracing, and ensuring timeliness of shipments.

**Support SMEs transition to exporting.** SMEs typically lack knowledge about, (i) regional and international markets, (ii) potential market requirements, and (iii) relationships abroad to find customers. Access to exports boost demand for SME products and allow SMEs to grow.

Potential actions include:

(i) **Establish a specialized agency to support SMEs to export.** The Uganda Export Promotion Board could also be strengthened rather than create a new agency. This agency would support only domestic micro, small, and medium enterprises. This agency would facilitate SME operations; among its services, the agency could assist with tax-related services and exemptions, access to certifications, financial support to attend trade fairs and international events, and training to bid for contracts.

(ii) **Provide specialized consulting services to SMEs willing to export.** This technical assistance could be provided by local consultants as well as international advisers for a specific need requiring highly specialized competency; for instance, developing a website, developing a quality management system, prospecting for clients, and developing a marketing strategy. The example of the European Bank for Reconstruction and Development (EBRD) in Tunisia demonstrates the opportunities for SMEs (see Box 3.2).

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**BOX 3.2: SUBSIDIZED TECHNICAL ASSISTANCE FOR SPECIALIZED CONSULTING TO SMEs**

The European Bank for Reconstruction and Development (EBRD) has provided business advice to SMEs in more than 30 countries. Since 2013, EBRD has helped more than 1,000 SMEs in Tunisia. They have established a database of local and international experts in various areas including strategy, marketing, organization, operations, technology, engineering solutions, quality management, financial management, and energy efficiency and environment.

Supporting an SME usually starts with a one-to-one consultation with an expert from the local office. The expert then connects the SME with the right consultant, either local or international depending on the SME’s need.

According to the EBRD, in the first year in Tunisia 75 percent of SMEs helped increased their turnover, and 55 percent improved their productivity; 62 percent experienced significant job creation, and 27 percent secured external funding to finance their growth.

Sotupa—a manufacturer of health and beauty products in Monastir, Tunisia—received support from an international advisor. The company developed a three-year operational plan and started exporting to Libya. The manufacturer also received support to improve its internal organizational scheme as well as to upgrade packaging for its cotton products. For more details: https://www.ebrd.com/work-with-us/advice-for-small-businesses/tunisia.html.

**Encouraging formalization**

**Formalization can provide significant benefits to firms and workers, and can create more and better jobs in Uganda.** Formal firms are more likely to access credit and business services and operate within the confines of the law. They are more likely have a fixed location, to grow and become more efficient, and thus increase production and employment. Hence, formal firms provide not only better employment, but are also more likely to create jobs. Formal firms pay taxes to invest in job and growth-promoting activities. And causality goes both ways, with formalization increasing as value-added grows.

**Several reforms, representing both carrot and stick-policies, have been implemented in developing countries to encourage firms’ formalization.** These include reforms to reduce administrative burdens and cost of registration; reduce the cost of being in the formal sector, by lowering taxes and social security contributions, for instance; provide information on the benefits of formalization and how to do it; and take inspection/enforcement measures that penalize informal firms. The results are mixed in terms of what works (see Box 3.3), but evidence from Brazil and Peru suggests that formalized firms increased turnover and profits and hired more people, pointing to this area as potentially an important policy reform. For Uganda, it will be difficult to encourage formalization among the many low-profit nano-firms and own-account workers, and it is not clear that this would be cost effective. However, there may be scope for, and benefits derived from, encouraging formalization among informal firms that have already taken the step to hire employees.

**“Carrot” policies could include streamlining services to formal firms and providing information on benefits of formalization to firms as well as citizens more broadly.** Registering a business in Uganda has been simplified, but there is still room for improvement. High entry in business suggest that entry costs are not prohibitively high; however, many informal sector operators may still hesitate as they do not see benefits in formalization—only additional costs. International evidence suggests that it is important to upgrade and modernize government structures to provide services for formal firms; and to launch communication campaigns about the benefits to the country in paying taxes. Tax compliance is linked to trust and transparency in government spending.

**“Stick” policies focus on enforcing laws.** Lack of enforcement and corruption in tax collection reduces incentives to formalize (or, similarly, to conduct trade through official border crossings). Improving inspections to ensure compliance has proven somewhat effective in Brazil and Peru in encouraging formalization. Information about existing laws, regulations, and grievance/complaint mechanisms that help firms and individuals report issues, can help with both compliance and enforcement.
BOX 3.3: FORMALIZATION OF JOBS AND FIRMS—EXPERIENCES FROM MIDDLE-INCOME COUNTRIES

In Brazil, the Government focused on both simplifying the paying of taxes (streamlining several different taxes, including social security contributions, into one monthly payment), and reducing taxes for micro and small firms. Evaluations of the initiative found that it had significant effects on formalizing businesses along many different dimensions, such as licensing rates, micro-firm registration, and tax payments. The policies were particularly effective for firms with employees, which are affected by social security contributions. More importantly, these firms increased revenues and profits, much of it attributable to a rise in the number of paid employees. Indeed, firms with employees saw profits increase by more than half—more than firms with no employees.

In Peru, the cost, time, and effort related to business licensing procedures was significantly reduced: with simplified procedures through streamlining, coordination, and modernization of practices and classifications, the time to obtain a license fell by 60 percent and the cost fell by 42 percent compared to pre-reform. The impact of these savings was large: the number of firms obtaining licenses quadrupled, and many of the new licenses were existing firms that had operated informally.

In addition to lowering the direct and indirect costs to firms of formalizing, other policy approaches. One approach is to provide more information about things like the benefits of formalization, the costs involved, and “how-to” formalize. Another approach is to increase enforcement measures, such as inspections. Analyses of policy approaches in Brazil, Bolivia, and Sri Lanka show inconclusive results. In Bolivia, firms with little information on formalization prior to information campaigns were more likely to formalize, but did not benefit from formalizing. In Brazil, information campaigns or subsidies for registration were not effective, but a visit from an inspector did increase chances of firms formalizing. In Sri Lanka, information campaigns and free registration did not prompt formalization, but financial incentives—subsidies for registered firms—created a strong move to formalize.


3.4 MANAGED URBANIZATION—MOBILITY INTO BETTER JOBS

As gains in agricultural productivity free young workers, Uganda can stimulate agglomeration of Uganda’s ample food and agro-processing in secondary towns and around greater Kampala; and can encourage jobs in tourism in attractive sites. Cities provide more tradeable, higher value-added jobs and off-farm livelihood opportunities. These benefits accrue not only in the main economic centers, as balanced growth reaches thriving secondary cities and towns.

Greater Kampala has a relative advantage in non-food manufacturing compared with other locations, while secondary cities have a relative advantage in food processing. Figure 3.10 shows that employment in Kampala is relatively more concentrated in “other” manufacturing than it is in other areas of the country. Conversely, secondary cities offer proportionally more jobs in food and agro-processing sectors. The differences in industry sectors are more significant than for retail services prevalent across the country. Policy should focus on strengthening these clusters to foster employment in tradeable and higher value-added sectors in Ugandan cities.
Prioritizing regional investment

Given that investment resources—especially from the Government's budget—are limited, investments must prioritize those secondary cities with high potential for job creation. First, these cities must be identified. Secondary cities that manage to foster more and better jobs are likely to be the ones with agglomeration and agro-processing potential, and which display local economic dynamism.

According to these criteria, the eastern region has the most cities with jobs potential, followed by the central region. As figure 3.11 shows, the eastern region has the most cities in Uganda's top ten cities with potential: Mbale, Jinja, Busia, and Iganga. This is followed by the central region with Greater Kampala, Lugazi, and Kampala City in the country's top ten. Next is the western region, with Mbarara and Fort Portal, and the northern region has the city of Lira.

Specific sectors—such as agro-processing, other manufacturing, and tourism—should be targeted in each of the secondary towns according to their comparative advantage. Among Uganda's top twenty cities with economic potential, Greater Kampala, Lugazi, Busia, Fort Portal, Njeru, Masaka, Bugembe, and Mityana could be targeted specifically for their agro-processing potential. Other cities have high overall economic potential, but do not score high on agro-processing potential, including Mbale, Jinja, Kampala City, Mbarara, Iganga, Lira, Entebbe, Soroti, Gulu, Kasese, and Arua. While these cities currently have food processing activities, they are not situated in areas with higher than average vegetation, indicating they might have more competitive advantage in other sectors.

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63 See background Policy Note “Secondary Cities: Engines of Job Creation in Uganda.”
Decentralized approaches to private sector development

Firms in sectors with growth potential—food processing, other manufacturing, and tourism—identify infrastructure and business development services as important factors for growth and job creation. Food processors, for whom perishability is an issue for both livestock and crop sectors, need infrastructure that connects producer areas with markets. They also need reliable water and electricity supplies. Additional markets and storage facilities at sub county and land allocated specifi-cally to food processing hubs and storage areas would also alleviate constraints. Local government investment in industrial land and establishment of parks for manufacturing and cottage industries would alleviate land access difficulties stemming from Uganda’s complex land tenure system. Industrial land and parks also usually provide easy access to reliable electricity. The Ministry of Lands, Housing and Urban Development (MoLHUD), in collaboration with local governments and other relevant ministries, is in a good position to lead the process to identify land that can be serviced for rental or sale to food processing and manufacturing firms.

Investments would also be needed to improve tourism infrastructure and make land available. Many existing and undeveloped tourist sites need to be more accessible with better roads. Areas with tourist potential need hotels and better water treatment, sanitation services, and electricity. There is also a need to allocate and develop sites for crafts markets and events. Partnership between the Ministry of Tourism, local government, and the private sector are needed to prioritize and balance the need for growth and job creation with environmental and social sustainability. The approach adopted by the Ministry of Tourism in Mexico, provides an example of a partnership between local and the central government, where funding was granted for infrastructure as well as technical assistance (Box 3.4).
**BOX 3.4: MEXICO REGIONAL PROGRAM FOR SUSTAINABLE TOURISM DEVELOPMENT AND MAGIC TOWNS**

The Ministry of Tourism in Mexico established the PRODERMAGICO program to help improve tourism infrastructure in priority municipalities and localities throughout the country. The Federal Sectoral Program for Tourism 2013–18 provides the policy framework for state and municipal tourism plans and programs. Local governments can apply for funding for projects emanating from their tourism plans in the following areas:

- **Infrastructure:** including public lighting in tourist areas; illumination of monuments and historic buildings; sidewalks and fittings; kiosks, fountains, and squares; urban furniture; public parks.
- **Tourist equipment:** projects that directly support and strengthen local tourism activity and tourist sites such as walking circuits and lookouts for nice views.
- **Technical assistance:** preparation of technical feasibility studies for the execution of works.

Local governments responsible for project implementation must provide match funding towards the project from their own budgets.


In addition to infrastructure, supporting local firms is important to ease the business environment and help firms increase scale and specialization. Access to finance, modern technology, skills, and market information is needed. Business Development Services can help firms develop bankable business plans for upgrading machinery and production technologies. Business incubation centers can help them with quality upgrading and modernization.

**Municipal/Urban development policies need to take smaller informal firms into account.** These policies affect freedom of “footloose” household enterprises, especially in the services sector, physical and communications infrastructure, and safety and security. There is a fine line between safeguarding public space and protecting property rights and unduly harassing household enterprises operating in towns and cities. It is important to allocate land for their activities (in return for compliance), ensure that they are not harassed by police or other authorities, and involve them in policy dialogue as a local stakeholder.

**Municipalities have an important role in providing “inclusive infrastructure.”** This includes things like markets and vending spaces, which protect informal enterprises and provide them with access to customers. For example, investments in bus, taxi and lorry parks could be complemented with market stalls in the same locations to support local producers and vendors’ access markets and consumers. Given that all Ugandan cities have a large informal services and trade sector, these measures apply to all secondary cities.

**Fiscal decentralization is necessary to allow local governments to plan and implement investments and activities related to local economic development.** The weak capacity of the local private sector and the narrow tax resource base means that central government must provide medium-term investment funding to support economic infrastructure and enterprises. A conditional transfer or competitive call for local government economic development proposals could be good ways to provide financing. Technical support from central ministries and development partners will also be critical for quality implementation given that this is a new area for local governments.

**Bringing people to jobs**

**Assisting workers to access jobs in towns and cities can be effective in improving jobs outcomes.** Even when there are job opportunities, the cost of transportation may be prohibitively high for many poor youths living in rural areas, cities, and towns. Providing them with information about jobs opportunities together with travel subsidies can be effective in matching workers with jobs. An experiment in Bangladesh showed that giving a travel grant, conditional upon migration of one household member during the lean agricultural season, increased migration and remittances. By helping rural poor experience their first migration, the travel-grant also
develops longer lasting jobs networks. As mentioned above, improving land security also indirectly fosters outmigration of underemployed agricultural workers as it removes uncertainty about future land use. Secondary towns can also focus on ‘livability’: conducting urban planning before towns become over crowded to reserve space for transport, schools, healthcare, sanitation, housing, and industrial development. Uganda’s relatively low urbanization and the dominance of development around Greater Kampala means that the country can plan for urban development elsewhere. At least another 30 million Ugandans will be born in the next 30 years, so urbanization is a certainty; how orderly it is, and how livable the cities will be, depends on public policy.

3.5 ACCELERATING TRANSFORMATION OF UGANDA’S AGRICULTURE

To transform its agricultural sector, Uganda must:

- Improve access to better inputs, technology, know-how, credit, and improved logistics, including storage and transport.
- Improve land security to increase productivity and facilitate rural finance.
- Accelerate implementation of regional trade agreements and trade facilitation.
- Help smallholder farmers to organize themselves and link to capital embodied in value chains, for instance through outgrower schemes.
- Enhance licensing procedures and import processing for improved inputs and new seed varieties to reduce delays and to foster agribusiness inputs.
- Increase both the amount and the efficiency of domestic public spending for agricultural research and extension services.
- Reform the current input subsidy program to improve allocation and quality of inputs.
- Promote improved storage of products, for example through warehouse receipt systems and laws on movable collateral, and of water storage.
- Adapt regulations to growing demand for quality and safety standards in global value chains (GVC).
- Build infrastructure in secondary towns that show promise for agro-processing.

Uganda needs a rapid turnaround in agricultural productivity growth, a necessary precondition for economic transformation. This includes helping farmers gain access to improved inputs, technology, know-how, and credit, as well as improved logistics including storage and transport. It involves improving land security to increase productivity and facilitate rural finance, and accelerating implementation of regional trade agreements and trade facilitation measures. It also involves building policy-making capacity, including strategy formulation, coordination, implementation, and evaluation, and creating data systems to improve stakeholders’ access to vital information. Since Uganda’s agricultural sector is dominated by many small-scale farmers, increasing overall effectiveness of policy reforms requires helping farmers organize themselves. This will help them achieve economies of scale and savings by sharing services and raising their agency as stakeholders in the agricultural sector, and as full participants and partners in GVCs.

The quality of traded seeds, fertilizers, and other inputs is a key constraint on sector performance. Within Sub-Saharan Africa, Uganda has one of the lowest adoption levels of improved seeds, inputs, or mechanized traction. It is vital to increase both the amount and the efficiency of domestic public spending in Uganda going to agricultural research and extension services, especially with respect to smallholder farmers.

A key step is to reform the current input subsidy program to improve allocation and quality of inputs. Extensive public funds are spent on procurement of agricultural inputs for redistribution on a free or subsidized basis, effectively serving as a redistribution scheme. In recent years, spending on extension services have accounted for up to half of all public agricultural expenditure. However, allocative efficiency and quality control

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64 Bryan and others (2014).
65 This section draws on World Bank (2018a), Closing the Potential-Performance Divide in Ugandan Agriculture.
are poor; no knowledge transfer accompanies distribution and agricultural inputs are widely contaminated by fake ingredients, resulting in low trust in the system. Poverty reduction could likely be achieved more effectively through other means, by using social protection linked to climate-smart soil and water management practices, for instance. Licensing procedures and import processing for improved inputs and new seed varieties should be enhanced to reduce delays and to foster agribusiness inputs. Farmer access to successful quality-certification initiatives, such as AgVerify, should be supported either through the tax code or with targeted aid, and the potential of expanding its procedures from seeds to fertilizer should be assessed.

The extension system should be supported by hiring qualified extension experts and using data collection systems and the capacity to implement them. Uganda, once a leading innovator in Africa in terms of extension services focusing on community interventions based on dialogue, should return to these practices. Outreach activities could also include information campaigns about agricultural practices, new technologies, and disease outbreaks, which could be disseminated through radio programs or in schools.

Promoting improved storage—of products, as well as of water—will increase productivity and reduce seasonality of agricultural income. A significant portion of agricultural produce is lost before it reaches the marketplace in production, harvesting, handling, and processing stages. These losses can be substantial: it is estimated that one-third of all food produced in sub-Saharan Africa is lost before reaching the market. This is due to poor logistics, including infrastructure, transport solutions, and storage facilities. For storage, promoting solutions at different levels is needed, ranging from low-tech but innovative solutions for small-scale farmers to larger shared storage facilities. Experience shows that if accompanied by targeted government infrastructure investments, a necessary complement to reduce post-harvest losses, private sector actors are willing to invest in building storage facilities and ensuring pest control, among other things. In a country dependent on rain-fed agriculture, improved water storage is also essential. Small holder farmers in particular need access to low-cost irrigation and water storage options.

Uganda needs to adapt to growing demand for quality and safety standards in global value chains. Branding is the market-based approach that helps quality assurance, by aligning incentives along entire supply chains towards meeting product standards. Improving the regulatory environment is vital. This includes a wide variety of agricultural issues such as import licenses, grading, and phyto-sanitary, sanitary, and food safety regulation. The scope of compulsory standards and certification is likely excessive, costly, and poorly implemented. There is a shortage of both public and private quality infrastructure for testing, certification, calibration, and inspection, and what is available is mostly located in central Uganda. With little presence on the ground, the private sector knowledge about standards, and the benefits of following them, is low, and application of new standards is ad hoc and difficult for firms to unpredictable. Following international best practice, the regulatory burden should be shifted from controlling registration, such as licensing of traders, to controlling actual operations through random sampling, in addition to regular controls.

Infrastructure is especially critical to the location and growth of agribusiness. In the World Bank’s Doing Business rankings, Uganda scores poorly on infrastructure, especially electricity, more so than on other investment climate areas. The location of agri-business tends to be determined by market access as well as availability of quality infrastructure rather than source material. Hence, infrastructure investments will be need to target locations showing promise (see section on Prioritizing regional investment). Infrastructure needs are broad: improving roads, electricity, access to water, information and communications technologies (ICT), other information and communication structures, and storage facilities.

Land reform is needed to increase private investment, increase mobility, improve access to finance, and increase gender equality. The predominance of customary land in Uganda implies a lack of land security (both land titling and enforcement), especially problematic in a country with porous borders and high influx of refugees. It is also rooted in patriarchal values that accord few ownership rights to women. Lack of security is
hampering large and small-scale investment, reducing the value of land as collateral for agricultural credit. Less than 20% of land in Uganda can be said to have secure tenure of the type required as collateral for formal loans. Land certification can also foster out-migration and off-farm activities by allowing land owners to sell or rent their land. Multiple initiatives are ongoing in Uganda to foster tenure security through better land demarcation or delivery of adequate documentation to land owners. These should be further supported and scaled up. Examples include the Systematic Land Adjudication and Certification (SLAAC) program or the GIZ-partnership with the Ministry of Lands, Housing and Urban Development (MLHUD). Enforcement is also critical, as customary laws sometimes prevail over legal systems.

One way to support faster resolution of land disputes would be to support relevant courts. Faster resolution of land disputes would reduce the burden on legal institutions and raise profitability as well as incentives for investment. Greater use could be made of GPS-data and of technologies such as drones to reduce the data collection time and costs related to field boundaries. Technologies are already transforming the digitization and securitization of land records in neighboring countries.

Innovative approaches—including mobile money transfers, digitized land titles, value-chain financing, and warehouse receipt systems (WRS)—can de-risk farming, overcome the lack of collateralizable land titles for loans, and increase farmers’ access to finance. Value chain financing, whereby integrator firms act as a middle-men between smallholder farmers and banks, collecting information and assuming a certain amount of credit risk, is increasing in Uganda. Warehouse receipts are issued by warehouse operators to producers who deposit commodities with them. As such, they provide evidence of creditworthiness and can be used as collateral. New improvements to the Warehouse Receipt System in Uganda appear to have promising results (Katuze et al. 2017). Similarly, the more than 5,000 Savings and Credit Cooperatives (SACCOs) currently registered in Uganda could be better supported by including them into legal banking frameworks, and improving their governance, and supervision mechanisms. Uganda should scale up donor funded programs in each of these areas and apply careful monitoring and evaluation.
Larger-scale agricultural operations, and both vertical and horizontal coordination, require significant improvements in rural ICT. It is critical for Uganda to define and implement investment policies specific to rural ICT for agricultural to build and sustain a modern infrastructure to support emerging technologies and services. Suggested measures include optimizing rural users’ connectivity, taking advantage of the potential made available by international undersea fiber-optic cables arriving in the interior of East Africa; encouraging private sector participation in ICT infrastructure development; and hastening enforcement and awareness of ICT-related property laws.

Expanding regional trade opportunities requires faster implementation of regional commitments. Uganda has subscribed to a growing number of regional treaties and commitments concerning agriculture, including those linked to the East African Common (EAC) Market Protocol (CMP) 2010, and the EAC Agriculture and Rural Development Strategy (2005–2030), and the Common Market for Eastern and Southern Africa (COMESA) Seed Harmonization Implementation Plan (COMSHIP), validated by COMESA Member States in 2014. These regional commitments reflect the fact that agriculture has become a priority among many African countries, but implementation is lagging. Related to this, border closures and other administrative hindrances to agricultural trade, including arbitrary ones imposed at short notice by local officials, urgently need to be contained. Leadership from the top is needed to build mutually beneficial trade relationships with neighbors that can endure weather shocks, local shortages, and electoral cycles.

Institutions—ministries and agencies—need to build policy-making capacity to coordinate their work. This includes clearer division of roles for joint and/or separate support for agricultural research and development (R&D), generating and using policy analyses, monitoring programs, and carrying out credible technical evaluations.

Institutions also need to coordinate the information base needed by policymakers, firms, consumers, buyers, and smallholders. For example, stakeholders need adequate and timely access to credible meteorological, price, and disease-related, and early warning information regarding droughts and other natural disasters. Better market information, including delivering agricultural transport flows and producer costs by radio and cell, will help show least-cost pathways and target areas needing attention. The Ministry of Agriculture (MAAIF) should take leadership in coordinating provision of user-friendly messages across government authorities, private sector entities such as telecommunication companies, academia, and civil society. MAAIF should also support vulnerable communities to develop local emergency response mechanisms aligned with national institutions.

Finally, improving the agricultural regulatory environment will be key. This includes a wide variety of agricultural issues, such as import licenses, grading, phyto-sanitary, sanitary, and food safety regulations.

3.6. FOSTERING INCLUSION INTO BETTER JOBS

The Jobs Strategy also needs to raise the productivity of work for the many Ugandans who remain excluded from wage sectors. Even with rapid growth in wage jobs, and higher mobility into better jobs, many youths will find their first job in farming or informal activities in very small firms. As in most African countries, youth, women, and poor people are overrepresented in low productivity jobs. Increasing the productivity of these jobs is therefore important to improving their livelihoods.

Connecting smallholders with value-chains

Overcoming the spatial and organizational fragmentation of smallholder farmers is critical to help them access new opportunities. Smallholders are geographically dispersed. Together with poor infrastructure, this represents a strong barrier to commercialization. Farmers with access to assets and markets are more active; larger firms commercialize because they can realize economies of scale by adopting modern technologies. Conversely, poor rural roads and road maintenance hamper the smallholders’ access to input and output markets and increase transaction costs, leading many to pursue more subsistence-oriented practices. Well integrated into value chains, smallholders have more incentives to produce more and better, and have access to the tools to do so.

70 Interested readers are referred to World Bank (2018a).
71 Nivievsksiy et al. (2010).
72 Oryokot (2017).
Uganda’s Districts will each need local economic development (LED) solutions to supply infrastructure for value chain integration. Not all areas of Uganda are similarly positioned for an agriculture-led economic transformation. The map in Figure 3.12, and the background papers to this study on urbanization and firm location, show (using 2014 population census data) that some Districts like Kibaale, Kyankwazi, Northern Mubende, Abletong, Amolatar Apac, Oyam, and the surround areas of Lira and Gulu, have a preponderance of subsistence farmers and few commercial farms. In 2010, they also did not have any large scale agro-processors. Value chain development in such circumstances is more complicated, but could be developed by attracting commercial farmers as lead farmers, and developing village cooperatives for storage of grain, soybean, vegetable oils, and root crops for processing elsewhere, including for animal feed. Out-grower and value chain approaches are more likely to take off in Districts in central and western regions, like Mubende, Kabale, Rukungiri Kyegegwa, Ntungamo; and Districts in the eastern region, like Namayingo, Bugiri, Iganga, and Tororo, where there is both market access and an overlap of subsistence and commercial farmers. Around Kampala and main secondary towns, dairy, poultry, and meat industries could provide out-grower potential at the District level.

To foster vertical integration arrangements in agriculture, the Government of Uganda could reduce information constraints, clarify legal status, and provide institutional oversight to the sector. Vertical integration is occurring rapidly in the agricultural sector in Uganda and elsewhere, but in a decentralized fashion. A central knowledge platform could record and disseminate good practices in this area, and the public sector should establish the legal basis for contract farming and other legal issues arising under these arrangements. Finally, a public authority should be empowered with the mandate and resources to provide oversight and assistance with different agreements, such as those between farmer groups and aggregator firms, and agreements between firms. In addition, as mentioned above, grading and quality standards regulations and monitoring will facilitate integration.

Policies limiting development of farmer cooperatives and producer associations as economic actors should be reviewed and revised. The development of rural cooperatives has had a difficult history in Uganda,

Figure 3.12
Subsistence farmers (map shading) proximity to towns and agro-firms

starting as a reaction to colonial exploitation in the early 1900s, and peaking around the time of Idi Amin’s “Economic War” in 1971. It has been limited since the 1980s by a policy of avoiding economic groups from straying into politics, but the economic role of cooperatives needs to be developed. Independent rural coops are important to organize and strengthen the bargaining power of smallholders under vertical coordination, and they also greatly simplify the interface of aggregators with their suppliers. They also spread the costs and simplify the ownership governance and maintenance of technical equipment, such as electronic soil scanners, too expensive for individual smallholders. Lessons can be drawn from pilots underway in Mozambique, and from a long tradition of village-level farmer cooperative supported by non-profits in Zambia.73

Access to finance is critical for smallholders to invest in better farming equipment and practices, but also to improve their livelihoods more generally. Agriculture-related finance made up only 8.4 percent of commercial bank lending in 2013.74 Commercial banks provided 95 percent of all agricultural finance in Uganda, but generally not to smallholders.75 Smallholders rarely hold collateralizable property rights to land, their small size and geographical dispersion raises transaction costs, and they represent high covariant (rather than individual) risk due to weather and price shocks. Crop and trade financing and insurance schemes are needed. As discussed above, different innovative options to facilitate access to formal credit and provide alternative sources could increase access to finance significantly. Options include warehouse receipt systems, inclusion of savings cooperatives in financial frameworks, governance and supervision mechanisms, and of course land reform.

To benefit from value chain opportunities, whether as entrepreneurs or as employees, youth need access to finance, technology, skills, and assets. Specifically, initial human capital is an important determinant, and training may not compensate for this (Sustainable Food Laboratory, 2011). This implies that: (i) the poorest segments of rural population may not be able to participate in global value chains focusing on high quality requirements, but can be integrated more successfully in local markets; and (ii) constraints in access to assets, such as land, and services (credit), and social networks (voice in producers’ organizations) need to be considered when focusing on more excluded populations such as youth or women (IFAD, 2016).

Improving opportunities for informal firms and micro-firms

The Commercial Office could support the informal fabrication and cottage industry sector. With an increased budget, activities of the Commercial Officer could include provision of business development services (BDS) support such as training in financial literacy, developing business plans, establishing cooperatives, bargaining collectively, and upgrading quality. For food processing cooperatives and producers, encouraging bulk marketing, for example, is important for farmers to be able to increase price bargaining power. For artisans, such as blacksmiths and carpenters and other cottage industries, supporting aggregation and market linkages is also important so that they can respond to larger orders and increase scale.

Well targeted business development services could improve the productivity and job creation capacity of smaller firms. Training programs for improving business practices have not, so far, tended to foster long lasting or significant firm growth or job creation (McKenzie and Woodruff, 2014). However, there is some evidence that helping informal sector entrepreneurs develop “entrepreneurial spirit”—by strengthening socio-emotional skills such as setting goals, planning work towards those goals, and overcoming obstacles—can be more successful in increasing employment (both hours worked and number of workers) than teaching conventional business management skills (Campos and others, 2017, unpublished draft). Targeted and tailored coaching and advisory services are costly, but have also been shown to increase job creation in some contexts (Bruhn and others, 2013, Gonzalez-Urine and Leatherbee, 2017).

73 In Zambia, an non-profit called ‘Musika’ works to support village cooperatives in technologies for irrigation, mechanization, storage and reducing post-harvest losses, and diversification, for instance in to livestock farming: http://www.musika.org.zm/.
75 World Bank (2015).
Reforming youth employment programs to help young Ugandans find employment

There is a need to coordinate, streamline, and strengthen the portfolio of youth employment policies and programs, and align these with policies in other areas, such as infrastructure, regional development, and industrial policies. Combating youth unemployment has been a major goal of the current Government’s strategy, and a variety of programs are in place to assist youth. A comprehensive review shows that these programs in general are not evaluated, and so little is known about their effectiveness and efficiency. However, impact is likely hampered by the fact that programs are scattered and poorly coordinated across many different ministries and donors.

Moreover, Uganda’s youth employment programs are heavily tilted towards self-employment and solving supply-side constraints, such as “skills gaps”. Skills and training programs tend to focus on technical rather than broader skills, and few programs appear to be integrating different services such as finance with training with coaching or training with job search assistance. The focus on micro loans and entrepreneurship ventures stands to contribute to the increase of the number of micro, medium, and small enterprises (MSMEs) relative to the number of small and medium enterprises (SMEs) and large-scale, job-rich firms. They are not linked to broader development objectives including regional policy and private sector-led development. Uganda hosts some very innovative self-employment programs, but these livelihoods programs are insufficient to promote job creation at a larger scale (see Box 3.5). Given that demand for labor appears to be constraining job opportunities in Uganda, these programs will likely continue to lack effectiveness if demand for youth labor does not increase.

**BOX 3.5: SUCCESSFUL ENTREPRENEURSHIP AND POVERTY REDUCTION PROGRAMS—WINGS**

The positive approach to entrepreneurship in Uganda is also supported by evidence from interventions targeting the extremely poor in northern Uganda. The Women’s Income Generating Support (WINGS) program reached out to extremely poor, war-affected women, providing them with a business support package of $150, five days of business skills training, and ongoing supervision. The intervention doubled the share of participants engaged in non-farm businesses, increased employment and earnings, and raised household consumption about one-third.


**Figure 3.13**

Design elements of comprehensive youth employment programs

<table>
<thead>
<tr>
<th>KEY DESIGN ELEMENTS FOR COMPREHENSIVE YOUTH EMPLOYMENT PROGRAMS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Formulate objectives that clearly address employment and job creation for youth where supply and demand side activities contribute to each other.</strong></td>
</tr>
<tr>
<td><strong>Select value chains, sectors or clusters for development based on their potential to create jobs for youth target groups.</strong></td>
</tr>
<tr>
<td><strong>Design integration-supporting incentives for youth or firms-beneficiaries such as wage subsidies or matching grants.</strong></td>
</tr>
<tr>
<td><strong>Set up a “Jobs for Youth Fund” to co-finance youth employment projects by public, private, and non-profits.</strong></td>
</tr>
<tr>
<td><strong>Choose youth target groups based on ability and interest to acquire necessary skill sets and work in firms.</strong></td>
</tr>
<tr>
<td><strong>Increase private sector investment and job creation in key value chains.</strong></td>
</tr>
</tbody>
</table>

APPENDIX: SUMMARY OF RECOMMENDATIONS

FOSTER GROWTH AND REDUCE INSTABILITY
- Uganda’s future success in creating jobs to reduce poverty and increase overall wellbeing hinges on sustained, sustainable, and diversified economic growth.
- In the short-term, Uganda must use the rebound in economic growth in 2017/18 to reign in fiscal spending, maintain macroeconomic stability, and refocus spending on investments.
- Spending pressures arise from high political tension and the promise of future oil revenues.
- Well managed, and well spent, oil revenues can raise government revenues and boost jobs and economic transformation, but this outcome depends on careful management and reliable institutional frameworks.

CREATE MORE WAGES JOBS IN UGANDA
- Get the fundamentals right. Foster economic growth with macro-economic stability, improve investors’ access to land for industrial sites, target infrastructure projects, especially electricity and roads; and invest in climate-favorable cross border trade and transport logistics.
- Expand Net Exports: Improve logistics and trade facilitation.
- Support small and medium enterprises (SMEs) to transition into export market.
- Promote Foreign Direct Investment (FDI).
- Support small domestic firms to grow to small and then large firms.

DEVELOP AN ECONOMY THAT ATTRACTS AND NURTURES LARGER DOMESTIC FIRMS
- Develop structures to provide technical assistance and financial support to promising, high-growth domestic firms in early stages.
- Provide technical assistance and funding to business incubators.
- Support research centers to foster innovation as well as entrepreneurs’ access to these research centers.
- Centralize information on a web platform.
- Enhance market access for SMEs.
- Facilitate access to public procurement.
- Develop a supplier database.

ATTRACT MORE FOREIGN DIRECT INVESTMENT TO UGANDA
- Adopt and implement an investment policy regime that applies a jobs-lens to attracting FDI into new productive sectors and activities.
- Introduce investment tax credits for large investments.
- Streamline the approval process for incentives.
• Strengthen investment promotion efforts.
• Build linkages with domestic firms.
• Intensify high-profile anti-corruption efforts.
• Improve access to orderly farm markets and commercial property for reputable foreign owners by improving land titling.
• Streamline business procedures overall, but with specific focus on foreign investors.
• Conduct a cost-benefit analysis of current exemptions to understand impacts on different types of firms.
• Eliminate discretionary tax exemptions from any authority, in whatever form.

EXPAND NET EXPORTS AND ENCOURAGE TRADE INTEGRATION

Improve logistics and trade facilitation
• Build capacity in institutions charged with inspection and sanitary standards and international quality certification.
• Continue efforts to reduce trade costs.

Support SMEs transition to exporting
• Establish a specialized agency to support SMEs to export.
• Provide specialized consulting services to SMEs willing to export.

MANAGE URBANIZATION—MOBILITY INTO BETTER JOBS

• As gains in agricultural productivity free young workers, Uganda can stimulate agglomeration of Uganda’s ample food and agro-processing in secondary towns and around greater Kampala; and can encourage jobs in tourism in attractive sites.
• Greater Kampala has a relative advantage in non-food manufacturing compared with other locations, while secondary cities have a relative advantage in food processing.

Prioritize regional investment
• Given that investment resources—especially from the Government’s budget—are limited, investments must prioritize those secondary cities with high potential for job creation.
• According to these criteria, the eastern region has the most cities with jobs potential, followed by the central region.
• Specific sectors—such as agro-processing, other manufacturing, and tourism—should be targeted in each of the secondary towns according to their comparative advantage.

Decentralize approaches to private sector development
• Firms in sectors with growth potential—food processing, other manufacturing, and tourism—identify infrastructure and business development services as important factors for growth and job creation.
• Investments would also be needed to improve tourism infrastructure and make land available.
• In addition to infrastructure, supporting local firms is important to ease the business environment and help firms increase scale and specialization.
• Municipal/Urban development policies need to take smaller informal firms into account.
• Municipalities have an important role in providing “inclusive infrastructure.”
• Fiscal decentralization is necessary to allow local governments to plan and implement investments and activities related to local economic development.

Bring people to jobs
• Assist workers to access jobs in towns and cities can be effective in improving jobs outcomes.
ACCELERATE THE TRANSFORMATION OF UGANDA’S AGRICULTURE

Transform the agriculture sector
- Improve access to better inputs, technology, know-how, credit, and improved logistics, including storage and transport.
- Improve land security to increase productivity and facilitate rural finance.
- Accelerate implementation of regional trade agreements and trade facilitation.
- Help smallholder farmers to organize themselves and link to capital embodied in value chains, for instance through outgrower schemes.
- Enhance licensing procedures and import processing for improved inputs and new seed varieties to reduce delays and to foster agribusiness inputs.
- Increase both the amount and the efficiency of domestic public spending for agricultural research and extension services.
- Reform the current input subsidy program to improve allocation and quality of inputs.
- Promote improved storage of products, for example through warehouse receipt systems and laws on movable collateral, and of water storage.
- Adapt regulations to growing demand for quality and safety standards in global value chains (GVC).
- Build infrastructure in secondary towns that show promise for agro-processing.

Accelerate growth in agricultural productivity
- Improve the quality of traded seeds, fertilizers, and other inputs.
- Reform the current input subsidy program to improve allocation and quality of inputs.
- Supported the hiring of qualified extension experts, use data collection systems and increase capacity to implement them in the extension service.
- Promote improved storage—of products, as well as of water—to increase productivity and reduce seasonality of agricultural income.
- Adapt to growing demand for quality and safety standards in global value chains.
- Enhance infrastructure which is critical to the location and growth of agribusiness.
- Implement land reforms needed to increase private investment, increase mobility, improve access to finance, and increase gender equality.
- Support relevant courts for faster resolution of land disputes.
- De-risk farming, overcome the lack of collateralizable land titles for loans, and increase farmers’ access to finance through Innovative approaches—including mobile money transfers, digitized land titles, value-chain financing, and warehouse receipt systems (WRS).
- Improve rural ICT for larger-scale agricultural operations, and both vertical and horizontal coordination.
- Implementation regional commitments to accelerate intra-regional trade in agricultural products.
- Build policy-making capacity to coordinate the work of ministries and agencies, including the information base needed by policymakers, firms, consumers, buyers, and smallholders.
- Improve the agricultural regulatory environment.

FOSTER INCLUSION INTO BETTER JOBS

Connect smallholders with value-chains
- Overcome the spatial and organizational fragmentation of smallholder farmers is critical to help them access new opportunities.
• Give Uganda’s Districts authority to develop local economic development solutions to supply infrastructure for value chain integration.
• Reduce information constraints, clarify legal status, and provide institutional oversight to the agriculture sector, to foster vertical integration arrangements
• Review and revise policies limiting the development of farmer cooperatives and producer associations as economic actors.
• Improve access to finance for smallholders to invest in better farming equipment and practices.
• Target young farmers with rural schemes to access, technology, skills, and assets in order to benefit from value chain opportunities, whether as entrepreneurs or as employees.

**Improve opportunities for informal and micro-firms**
• Support the informal fabrication and cottage industry sector through the Commercial Office.
• Improve the productivity and job creation capacity of smaller firms through well-targeted business development services.

**Reform youth employment programs to help young Ugandans find employment**
• Coordinate, streamline, and strengthen the portfolio of youth employment policies and programs, and align these with policies in other areas, such as infrastructure, regional development, and industrial policies.
• Rebalance Uganda’s youth employment programs towards wage employment and to address the needs of hiring firms.
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ANNEX A

Mincerian Wage Regressions for 1999 and 2016 show lower relative returns to education. These results hold when adjusting for sectors. Returns in the labor market have fallen. Returns relative to Central region have fallen, and so too have the urban v. rural earnings gap, and the gap between services and agriculture.

### Table A.1
Mincerian Wage Regressions

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### Mincerian Log Wage Estimation

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Standard errors in parentheses.

*** p < 0.01, ** p < 0.05, * p < 0.1

**Note:** Model 2 adjusts for sectors. Education returns are relative to no education. Sectors are relative to agriculture and regions relative to Central.
ANNEX B

As economies transform, the pattern of consumer demand transforms. These charts show the log of GDP per capita on the X axis and shares of consumption on the Y axis for 180 countries using World Bank ICP data.

Figure A8.1
Design elements of comprehensive youth employment programs

Source: Merotto, D. and Casanovas, E. (2019) "Labor Incomes, Consumption and Economic Transformation: Which comes first, the Chicken, the Egg, or the demand for Poultry Products?"