UGANDA’S EMPLOYMENT CHALLENGE

AN EVALUATION OF GOVERNMENT’S STRATEGY

Economic Development Policy and Research Department
Ministry of Finance, Planning and Economic Development

November 2014
Foreword

This report comes at a critical juncture in Uganda’s development. Our achievements over the last 20 years deserve to be celebrated, most notably the reduction in poverty by almost a factor of three, from 56.4% in 1992/3 to 19.7% in 2012/13. Improved service delivery and progress towards the MDGs has led to higher life expectancy, contributing to the rapid growth of our increasingly educated labour force. If provided with a pathway into stable high-value-added jobs, the expanding labour force provides an opportunity to spur sustainable and inclusive economic growth. Government is therefore focusing greater efforts on addressing the challenge of creating enough jobs. In addition to pursuing macroeconomic stability and economic growth, Government will attach greater attention to job creation in its policymaking processes and resource allocation decisions.

One valuable contribution this study makes is to produce credible labour market projections. It is estimated around 700,000 individuals currently enter the labour market each year, and this is projected to increase to over 1.5 million by 2040. The number of workers with secondary education or higher is expected to increase by a factor of six over this period. Adjusting to this transformation in the labour market is a major economic and social challenge. Government will continue to play a critical role in helping to stimulate labour demand in sectors with dynamic potential, and helping to equip workers with the business, technical and vocational skills that such sectors demand. To this end, Government will facilitate the diversification of the productive base of our economy to provide new sources of employment for the rapidly growing and increasingly urbanised labour force.

Our success will depend on putting lessons from our past experience to use, to scale up what is working and to modify our approach where necessary. This is something we are already doing. For example, independent studies revealed that Government’s Youth Opportunities Programme has had extremely positive outcomes for beneficiaries in northern Uganda. Our new Youth Livelihoods Programme will build on this success by giving similar support to many more youths in all regions of the country. This report identifies many other lessons, on which we must act.

The report highlights the success of initiatives linking agribusinesses and smallholder farmers, such as the Vegetable Oil Development Project in Kalangala. These projects must be replicated in other regions and commodity value chains. Government has adopted a value-chain approach for 10 strategic agricultural commodities. This will help to create productive employment opportunities along the entire commodity value chain of input provision, production, storage, processing and marketing. Substantial public resources are devoted to support smallholder farmers but they are often not used optimally. A case in point is the current changes being made to NAADS, which are aimed at improving service provision. Reforms are needed and are ongoing to ensure improvements in implementation.

Alongside our interventions to improve agricultural productivity, we must simultaneously focus on efforts to generate off-farm employment and manage the urbanisation process. Uganda has recently experienced a rapid increase in the urbanisation rate, from 15% in 2009/10 to 23% in 2012/13. This presents a large economic opportunity, not least for the construction sector which will build Uganda’s new towns and cities, particularly with the boom that is set to accompany the start of oil production in a few years’ time.
The demand for bricklayers, welders, electricians and plumbers will surge, which is why we are investing heavily in technical and vocational skills. We have also recently completed computerisation of the land registry, which is expected to improve the security of land tenure and encourage investment in the housing market.

A competitive local private sector does not happen only through the stable macroeconomic environment and good infrastructure provided by Government, although these are critical. The report underlines that we must unleash the economic dynamism and job creation potential of SMEs, and proposes a number of reforms that will improve access to credit. To accelerate job creation, the private sector, workers, civil society and other development partners must work together, with Government playing a catalytic role. The evidence-based recommendations in this report will be used to re-evaluate and adapt Government’s policies, and this must continue as the needs of industry change. The report includes concrete proposals to build the institutions that will guide this process.

Keith Muhakanizi

Permanent Secretary/Secretary to the Treasury
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<tr>
<td>aBi</td>
<td>Agricultural Business Initiative</td>
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<tr>
<td>ACF</td>
<td>Agricultural Credit Facility</td>
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<td>ATP</td>
<td>Assessment and Training Package</td>
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<td>BOU</td>
<td>Bank of Uganda</td>
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<td>BTVET</td>
<td>Business, Technical and Vocational Education and Training</td>
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<td>BUDS</td>
<td>Business Uganda Development Scheme</td>
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<tr>
<td>CBET</td>
<td>Competence Based Education and Training</td>
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<td>CGE</td>
<td>Computable General Equilibrium</td>
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<td>CIT</td>
<td>Corporate Income Tax</td>
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<td>COMESA</td>
<td>Common Market for Eastern and Southern Africa</td>
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<tr>
<td>DANIDA</td>
<td>Danish International Development Agency</td>
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<tr>
<td>DCA</td>
<td>Development Credit Authority</td>
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<tr>
<td>DIT</td>
<td>Directorate of Industrial Training</td>
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<td>EAC</td>
<td>East African Community</td>
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<td>ESP</td>
<td>Expanding Social Protection</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>FFB</td>
<td>Fresh Fruit Bunches</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GEF</td>
<td>Government Evaluation Facility</td>
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<tr>
<td>GEM</td>
<td>Global Entrepreneurship Monitor</td>
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<tr>
<td>IBP</td>
<td>Industrial and Business Park</td>
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<tr>
<td>ICT</td>
<td>Information and Communications Technology</td>
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<td>ILO</td>
<td>International Labour Organisation</td>
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<td>IFPRI</td>
<td>International Food Policy Research Institute</td>
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<td>ITC</td>
<td>Industrial Training Council</td>
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<td>KALIP</td>
<td>Karamoja Livelihoods Programme</td>
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<td>KASSIDA</td>
<td>Katwe Small Scale Industries Development Association</td>
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<td>KCCA</td>
<td>Kampala Capital City Authority</td>
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<td>M&amp;E</td>
<td>Monitoring and Evaluation</td>
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<tr>
<td>MAAIF</td>
<td>Ministry of Agriculture, Animal Industry and Fisheries</td>
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<td>MAMS</td>
<td>Maquette for MDG Simulations</td>
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<tr>
<td>MDA</td>
<td>Ministries, Departments and Agencies</td>
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<td>MEACA</td>
<td>Ministry of East African Community Affairs</td>
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<td>MFA</td>
<td>Ministry of Foreign Affairs</td>
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<td>MFPED</td>
<td>Ministry of Finance, Planning and Economic Development</td>
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<td>MJCA</td>
<td>Ministry of Justice and Constitutional Affairs</td>
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<td>MLGSD</td>
<td>Ministry of Labour, Gender and Social Development</td>
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<td>MLHUD</td>
<td>Ministry of Lands, Housing and Urban Development</td>
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<td>MPS</td>
<td>Ministry of Public Service</td>
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<td>MSC</td>
<td>Microfinance Support Centre</td>
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<td>MSME</td>
<td>Micro, Small and Medium Enterprises</td>
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<td>MTEF</td>
<td>Medium Term Expenditure Framework</td>
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<tr>
<td>Abbreviation</td>
<td>Full Form</td>
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<tr>
<td>MTIC</td>
<td>Ministry of Trade, Industry and Cooperatives</td>
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<td>MTWA</td>
<td>Ministry of Tourism, Wildlife and Antiquities</td>
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<tr>
<td>NAADS</td>
<td>National Agricultural Advisory Services</td>
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<td>NDP</td>
<td>National Development Plan</td>
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<td>NEP</td>
<td>National Employment Policy</td>
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<td>NUSAF</td>
<td>Northern Uganda Social Action Fund</td>
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<td>NUSAF2</td>
<td>Northern Uganda Social Action Fund II</td>
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<td>NYP</td>
<td>National Youth Policy</td>
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<td>ODI</td>
<td>Overseas Development Institute</td>
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<td>OPM</td>
<td>Office of the Prime Minister</td>
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<td>OPUL</td>
<td>Oil Palm Uganda Limited</td>
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<td>PEAP</td>
<td>Poverty Eradication Action Plan</td>
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<td>PIP</td>
<td>Public Investment Plan</td>
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<td>PSFU</td>
<td>Private Sector Foundation Uganda</td>
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<td>PWP</td>
<td>Public Works Programme</td>
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<td>SACCO</td>
<td>Savings and Credit Cooperative</td>
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<td>SAP</td>
<td>Structural Adjustment Programme</td>
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<td>SEZ</td>
<td>Special Economic Zone</td>
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<td>SME</td>
<td>Small and Medium Enterprises</td>
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<td>SPEDA</td>
<td>Skills for Production, Employment and Development Project</td>
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<td>TNC</td>
<td>Transnational Company</td>
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<td>UAHEB</td>
<td>Uganda Allied Health Examinations Board</td>
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<tr>
<td>UBOS</td>
<td>Uganda Bureau of Statistics</td>
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<tr>
<td>UBTEB</td>
<td>Uganda Business and Technical Examinations Board</td>
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<tr>
<td>UDB</td>
<td>Uganda Development Bank</td>
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<tr>
<td>UIA</td>
<td>Uganda Investment Authority</td>
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<td>UIRI</td>
<td>Uganda Industrial Research Institute</td>
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<td>UMI</td>
<td>Uganda Management Institute</td>
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<td>UNHS</td>
<td>Uganda National Household Survey</td>
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<td>UPE</td>
<td>Universal Primary Education</td>
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<tr>
<td>UPPET</td>
<td>Universal Post Primary Education and Training</td>
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<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
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<tr>
<td>USE</td>
<td>Universal Secondary Education</td>
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<td>UVQF</td>
<td>Uganda Vocational Qualifications Framework</td>
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<td>VAT</td>
<td>Value Added Tax</td>
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<td>VODP</td>
<td>Vegetable Oil Development Project</td>
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<td>YLP</td>
<td>Youth Livelihoods Programme</td>
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<td>YOP</td>
<td>Youth Opportunities Programme</td>
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<td>YVCF</td>
<td>Youth Venture Capital Fund</td>
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The final evaluation report was informed by several background studies. The economy-wide analysis of policies for employment growth benefited from input from Dr. John Mary Matovu, and the Scoping study of interventions seeking to improve labour market outcomes was undertaken by Amos Bakeine (Consultant, Cana Advisory Services Limited). The Qualitative impact evaluation of Business, Technical and Vocational Education and Training benefited from the involvement of technical staff in the nine selected districts; the Office of the Prime Minister; Makerere University; the Ministry of Education and Sports; UGAPRIV; Directorate of Industrial Training; The Federation of Uganda Employers; Southern Range Textile; Ministry of Trade Industry and Cooperative; Team Institute of Business; Tata Uganda; Bee Natural Uganda and all participating Technical Colleges and institutions.
Executive summary

Uganda's labour force is set to double in size within the next 20 years. The country's development trajectory will be determined by the employment opportunities available for this new labour force. Productive jobs are the means to sustain economic growth, reduce poverty, achieve structural transformation and prevent social and political upheaval. Employment is appropriately positioned at the centre of Uganda's development agenda although more needs to be done given the increasing proportion of the workforce engaged in low-productivity activities.

There is limited consensus on the extent to which Government's current strategy will adequately address the binding constraints to job creation. Even with appropriate policies in most areas, there is need for a better coordination framework. This report evaluates Government’s overall approach to the employment challenges facing Uganda, with a view to making this process better-functioning in the future.

Employment context

Labour market trends

The most recent evidence suggests that despite Uganda's impressive macroeconomic performance over the last 20 years, there has been a relatively limited impact on the structure of the labour market:

- Employment has expanded in lower-productivity activities such as subsistence agriculture and petty trade, but contracted in some high-value sectors.
- The rate of unemployment under the newly revised definition is 9.4%, and is particularly high among those with higher levels of education.
- Over 80% of those primarily engaged in subsistence agriculture work fewer than 40 hours per week.
- Despite significant progress since the introduction of universal primary education, 64% of the labour force has still not completed primary school. 5% of the labour force has completed a vocational training course.
- There has been substantial diversification in household income sources. While 76% of households earn income from agricultural production, it is the most important source of income for only 42% of households, and only 26% of households rely on agriculture exclusively.
- Only 11% of the labour force is primarily engaged in non-agricultural wage employment. The number of permanent non-agricultural wage jobs declined between 2009/10 and 2012/13.

Uganda's employment challenges

Uganda's most pressing employment challenge is insufficient labour demand due to inadequate firm creation and growth. Most jobs are created in industries such as retail trade, hospitality and recreational and personal services, which are characterised by very high firm entry but also high exit rates and therefore limited sustained employment growth. Intense competition among small and microenterprises more often results in destructive imitation than innovation and positive market selection. Employment growth amongst almost all formal firms is stagnant.
A 35-year-old firm in Uganda is on average only twice as large as it was at its establishment, while in Ghana it is likely to be five times as large. The most important binding constraints to labour demand are:

- **Inadequate physical infrastructure.** As much as 58% of the productivity handicap faced by Ugandan firms can be attributed to infrastructure constraints.

- **An inadequate supply of practical skills among the labour force.** Skill-intensive sectors have grown much slower in Uganda than in similar countries.

- **Poor management practices.** The limited supply of specialised management skills – for instance in human resource management, quality control, branding and managing supplier relationships and distribution channels – reduces consistency in business operations and increases the risk of expansion, even among established firms.

- **Regulatory framework.** Regulatory requirements, corruption and Government support for individual firms disproportionately hinder SMEs. Larger and more-established firms often have an unfair advantage. This limits positive market selection and discourages inter-firm linkages and the development of strong value chains.

- **Credit for Small and Medium Enterprises (SMEs).** Access to credit is particularly difficult for many start-ups and small firms perceived by lenders to be high risk; this adds an additional barrier to entry for SMEs and reduces competition among large incumbent firms.

Even as these constraints are removed, job creation in the formal sector cannot transform the economy fast enough to respond to the pressures presented by the rapidly growing labour force. There are currently 12 working adults living below the poverty line for every individual without work seeking a job. A large section of the labour force still depends on subsistence agriculture and informal non-agricultural enterprises. To raise living standards for all Ugandans, it is critical to also increase the productivity of these activities. Disadvantaged sections of the population lack technical and business skills and start-up capital for self-employment generation.

**Government's labour market interventions**

Government has initiated a number of interventions explicitly aiming to improve employment outcomes – by supporting productive economic activities in both the formal and informal sectors, equipping the labour force with practical skills and protecting vulnerable households. These labour market interventions accounted for 8% of Central Government spending in FY 2012/13 – almost half the amount spent on economic infrastructure. Most of this amount is used to support smallholder farmers. Tax exemptions and investment incentives have by far the largest fiscal implications of any intervention to support job creation – foregone revenue is at least 10 times the amount Government spends on projects and programmes related to private sector development.

A number of projects have provided targeted support to reduce un- and underemployment among the youth. The most recent and important example is the Youth Livelihood Programme (YLP) under the Ministry of Labour, Gender and Social Development (MLGSD), with a budget of UGX 265 billion over the next five years. The YLP provides youth groups with vocational skills and interest-free loans for self-employment generation.
Evaluation findings

**Appropriateness**

Most Government interventions appropriately target the demand side of the labour market, although Government should do more to support growth-orientated SMEs. SMEs are typically hindered by the weak regulatory environment and lack appropriate channels to constructively engage the public sector. Tax exemptions are poorly targeted, favouring larger firms. Government needs to place more emphasis on the development of professional management skills, even though entrepreneurship and business training targeting established firms and professional entrepreneurs have demonstrated large job-creation effects. Past interventions targeting the youth have had limited reach but the recently introduced YLP promises to have broader benefits if implemented effectively.

**Coherence**

Uganda’s overarching development agenda acknowledges the most-pressing employment challenges but has not effectively translated into a coherent implementation strategy due to inadequate coordination across Government, inadequate labour market information, conflicting policy objectives and a bias towards short-term priorities over longer-term sustainable progress. The need for a Government-wide approach to integrate policies and interventions for employment creation across sectors is acknowledged in the National Employment Policy (NEP), but the envisaged National Employment Council has not been established yet.

There is no institutionalised process to coordinate Government action to address industry-level constraints. SMEs in particular lack appropriate channels to coordinate and demand effective Government support, making policy less responsive to the constraints they face. The impact on the labour market is often not a primary consideration during the formulation of many policies in areas that are critical for job creation, such as the macroeconomic framework, public investment strategy and resource mobilisation. For instance, greater and more rapid infrastructure investments are required to ease constraints to firm growth but many high-return projects may not be funded under the current macroeconomic framework.

**Effectiveness**

Most interventions providing direct support to Uganda’s primary growth sectors fall under Ministries, Departments and Agencies (MDAs) with weak implementation capacity, which is often a larger constraint than the availability of funds. Up to 40% of the funds available for labour market interventions are not being spent, while a significant share of spending is not in accordance with the annual budget and workplans. There is significant variation in the effectiveness of labour market interventions. Those that have performed best tend to have been narrowly targeted to address the needs of a specific group or geographic area – such as the Vegetable Oil Development Project (VODP) in Kalangala. But many projects have been designed in a top-down manner and are often unresponsive to beneficiary needs. Lessons from past experience need to be better exploited to feedback into improved project design and delivery practices. In most instances project managers view Monitoring and Evaluation (M&E) as the responsibility of external agencies such as Ministry of Finance Planning and Economic Development (MFPED) or Office of the Prime Minister (OPM); rather than as a tool for learning and improving performance. The quality of training in Business, Technical and Vocational Education Training (BTVET) institutions
has improved with increased funding, the new curriculum and qualifications framework, but is still limited by inadequate practical sessions and industrial placements.

**Impact**

BTVET has had significant benefits for participants but a more limited impact on aggregate employment growth. Graduates of formal BTVET institutions are more likely to find wage jobs and make use of their skills, but few create jobs for themselves or others. Giving greater emphasis to business and entrepreneurial skills would increase the number of jobs created by BTVET graduates. Limited access, despite high demand among disadvantaged sections of the population, is the main factor restricting the impact of BTVET – enrolment is only at around 10% of National Development Plan (NDP) targets and the provision of more flexible and short-term modularised non-formal courses is still rare.

High-profile credit schemes have not reached the firms most in need and have had limited impact on job creation. Most public funds have been disbursed to larger, more established borrowers that would likely have invested to some degree in any case. Most large firms have access to credit but have still not expanded employment. The Agricultural Credit Facility (ACF) has supported viable on-going agribusinesses, but almost no start-up ventures. The Youth Venture Capital Fund (YVCF) has mainly supported more experienced entrepreneurs – almost all lending has occurred without the mentoring services or management training that was intended to support those with less experience. Loan guarantee schemes including the Agricultural Business Initiative (aBi) are more effective in reaching SMEs and in stimulating firm growth and should be scaled up to have an impact at the macro level.

Tax exemptions have had limited impact on investment and job creation, despite the very large fiscal cost. Exemptions and investment incentives reduce compliance among larger taxpayers, who enjoy lower effective tax rates but have not generated additional employment. 93% of investors admit they would have invested even without any tax incentives.

**Sustainability**

Employment growth will not be sustainable without productivity improvements across the economy, particularly in sectors such as agriculture and construction that benefit less-educated workers. Yet feasible productivity improvements of Uganda’s existing economic activities are unlikely to be sufficient to absorb the projected number of labour market entrants – entirely new employment-intensive and outward-looking industries must emerge. It is difficult to identify what these industries will be – sustainable employment growth will require institutionalised mechanisms to continually re-evaluate and adapt Government policies and support to fit the changing needs of the private sector.

Oil production will further increase the importance of structural change in the labour market. An oil-driven investment boom can create a significant number of jobs – but if the private sector (particularly the construction industry) is unable to respond to the surge in demand, costs and prices may be forced up, reducing competitiveness of the tradable sector. Even with significant oil revenue, it may not be fiscally sustainable to maintain broad tax exemptions and investment incentives while scaling up public investment.
Policy Recommendations

Elevate the profile of employment within Government’s development strategy

A stronger consensus on the importance of employment as the central focus of Uganda’s development strategy is needed to realise the targets set out in the NDP and Vision 2040. Relevant and realistic employment-related targets, combined with high-level political commitment and clearly defined timelines can place employment at the centre of Uganda’s policymaking and resource allocation decisions; necessitate an improvement in the quality and frequency of labour market information; and bridge the gap between policy priorities and Government action. A dedicated Jobs Action Plan should also be considered – this could consist of a set of clearly defined actions to be completed in the first 100 days of NDP II, for instance. This will help to focus Government, private sector and civil society efforts under extra pressure and scrutiny; build credibility, political capital and momentum; and set a precedent for Government to improve its future performance.

Resolve inconsistencies between strategic investment plans and the fiscal framework

Physical infrastructure is one of the most important constraints to job creation. Infrastructure investment has increased over recent years, but slower than planned in the NDP. In real terms the budget projected for FY2014/15 is 17% below the NDP projection. This is due to lower-than-planned financing – the fiscal deficit averaged 3.6% of GDP in the first three years of the NDP, compared to the planned 5.5% of GDP – and disappointing performance towards domestic resource mobilisation targets. There is need to develop a credible financing strategy to form the basis of NDP II, guide longer-term sector planning, and formulation of the annual budget. Tax policy reforms must be pursued to reduce reliance on non-concessional borrowing. Value Added Tax (VAT) exemptions should be streamlined and initial capital allowances and special income tax regimes for agro-processors and exporters urgently reviewed.

Improve the efficiency of interventions to support smallholder farmers

Increasing yields among smallholder farmers is critical to raise incomes and reduce poverty, and will also help to generate a large number of non-agricultural jobs. Substantial public resources are devoted to support smallholder farmers, but are often used ineffectively. The provision of agricultural inputs through the National Agricultural Advisory Services (NAADS) should be reduced. An electronic voucher system would do more to strengthen input markets. Successful initiatives linking agribusinesses and smallholder farmers such as the Kalangala Vegetable Oil Development Project (VODP) should be replicated in other regions and commodity value chains.

Address constraints in the construction sector, particularly low-cost formal housing

The construction sector has significant potential to create jobs directly and indirectly, but unleashing this potential will require reforms in a number of areas, including building regulations, housing finance, urban planning, land rights and skills development. This can only be guaranteed by high-level political support to coordinate efforts across several Government sectors.
Build institutional structures for firms to work with Government

Existing forums such as the Presidential Investors Roundtable, the National Competitiveness Forum, and the Private Sector Forum have tended to focus on high-level strategic issues. Working at a high level of aggregation encourages firms to lobby for broad Government aid – such as tax holidays – rather than focusing on industry-specific public inputs. The forums have had only limited and indirect input from SMEs, and on their own are unable to execute reforms or supply public inputs. Self-organised industry-level working groups should be supported to identify the common public inputs required and propose regulatory and institutional changes. A formal annual process should be established to review these suggestions, decide which ones qualify action and coordinate Government’s response.

Increase the flow of credit to SMEs and social priority sectors

Credit to certain sectors and activities – such as agriculture and SMEs – can have a large impact on job creation, but more policy instruments need to be put in place to influence the allocation of lending. Government could consider recapitalising Uganda Development Bank (UDB) to expand the amount of subsidised credit for social priority activities – which might include commercially orientated smallholder farmers; SMEs (particularly agribusinesses and small construction firms); farmer collectives and business associations. It may be more cost-effective and feasible to leverage private sector credit. Sector-specific asset reserve requirements are a flexible tool that can be used to incentivise social priority lending. It is also necessary to significantly scale up credit guarantee schemes to benefit more SMEs, particularly in priority sectors. Partial loan guarantees incentivise financial institutions to upgrade their lending capacity, reduce the risks and costs associated with lending to SMEs, and therefore the interest rates charged.

Expand access to BTVET

Public BTVET institutions should expand the provision of non-formal courses to encourage enrolment of those who cannot participate in formal courses. The Youth Livelihood Programme has significant potential to expand access to skills training, but must be effectively implemented in coordination with BTVET providers. Private training providers should be supported by bringing forward planned incentive schemes, such as matching grants or a voucher programme. Funding mechanisms should also be reviewed to encourage industrial placements.

Establish an autonomous National Training Authority

An autonomous National Training Authority – as envisaged in the Skilling Uganda plan – would enable greater employer involvement in all aspects of the design, management and delivery of training, allowing greater flexibility and responsiveness as labour market needs inevitably change. Employers should be equal partners in designing the new authority, which should be governed by a board comprised predominantly of private sector representatives.

Scale up specialised entrepreneurship and business management training

More Government support needs to be provided for the development of management skills for established firms and professional entrepreneurs; small-scale projects have demonstrated large job-creation effects. A large-scale entrepreneurship and business management training programme targeting secondary school leavers and undergraduates should be established.
Government should also expand resources for professional management training; consider a scholarship scheme for management-oriented degree programmes; and matching grants to help firms train their managers.

**Facilitate and coordinate the externalisation of Ugandan labour**

With many young Ugandans unable to gain work experience in Uganda, migration to other countries can play a significant role in developing the labour force. Uganda should negotiate temporary migration programmes with foreign governments, both for relatively low-skilled workers and tertiary graduates who currently struggle to find gainful employment in Uganda.

**Integrate experiential learning into Government M&E systems**

Labour market interventions address critical but complex and context-specific problems – such as increasing agricultural productivity or employment growth among SMEs. Implementation is often inadequate due to inflexible project design and limited opportunities to learn from past experience. Rather than relying on traditional mid-term or end-of-project assessments, project managers should be encouraged to continually monitor performance and adjust the project design during implementation. Once managers see the value of monitoring data in improving implementation performance, they will collect it more conscientiously – making top-down accountability more effective.
1 Introduction

1.1 Rationale

Uganda’s unemployment rate is 9.4%, but this does not reflect the actual balance between labour market supply and demand. An additional 8.9% of the labour force is time-related underemployed, and a further 6.1% possess a higher educational attainment than required for their current job. The labour force increased at an average annual rate of 4.8% over the last three years – sufficient to double the size of the labour force in just 15 years. This has not been matched by the creation of new jobs, leading to the growing importance of the informal sector which has absorbed four in five new entrants into the labour market.

A shortage of opportunities for the growing youth population has detrimental effects on these individuals’ confidence and aspirations. Many who want jobs and who are capable of performing them are unable to get them. This is economically inefficient, and perhaps more importantly increases resentment and the risk of social and political upheaval. To maintain social stability and sustain impressive growth and poverty reduction, Uganda must rapidly expand productive employment opportunities to accommodate the large youth population.

Government acknowledges the employment challenge and has initiated a number of interventions to address it – prominent examples include technical and vocational training, the development of serviced industrial parks, efforts to promote agricultural commercialisation and agro-processing, and facilitating young entrepreneurs through a venture capital fund. There is need for an overarching strategy and coordination framework to guide efforts by Government and other stakeholders to avoid disjointed planning and implementation of this response. Employment outcomes are influenced by broader policies as well as targeted programmes, but the employment impact of fiscal and monetary policy decisions, for instance, should be considered more.

Evidence on the effectiveness of individual Government interventions and the understanding of the underlying economic challenges remains inadequate. Limited progress in the structural change of the labour market – a pre-requisite for socioeconomic transformation as articulated in the National Development Plan (NDP) and Vision 2040 – suggests that Government’s current strategy does not adequately address the binding constraints to job creation. The majority of the labour force is employed in low-productivity agricultural activities, and the share of workers employed in formal manufacturing has stagnated. There is thus a need to evaluate Government’s strategy to employment, as a whole, with a view to enhancing the impact of Government interventions to reduce un- and underemployment and accelerate the pace of structural transformation.

1.2 Scope and conceptual approach

Job creation is a central theme of the National Development Plan launched in 2010, and has remained at the centre of Uganda’s development agenda with the introduction of the National Employment Policy (NEP) in 2011. However, there is currently no dedicated strategy in place to achieve Uganda’s employment-related goals. The NEP is to be continually monitored and reviewed every five years based on thorough impact and performance assessments. This report
is not formally part of this process but is a broader assessment of Government’s strategy to address the employment challenge in practice, of which the NEP constitutes one component. The study was commissioned under the Government Evaluation Facility (GEF) and its principal client is the Cabinet of Uganda. The evaluation is also to assist Government ministries, development partners and other stakeholders in enhancing employment policies and programmes.

This report evaluates Government’s current approach to employment in practice, with a view to making the process better-functioning in the future. The specific objectives are to:

i. Establish how effectively Government policies and programmes in response to un- and underemployment have been coordinated and have addressed the underlying economic challenges.

ii. Provide an opportunity to learn about good practices and challenges in the implementation of Government’s employment-related policies and programmes.

iii. Provide evidence for policy makers and other key stakeholders to use in shaping a formal implementation strategy to achieve Uganda’s employment objectives.

The evaluation is guided by five key criteria, associated with a number of evaluation questions. These are:

- **Appropriateness.** Are Government interventions in the labour market the appropriate response to the underlying employment challenges?

- **Coherence.** How has Government’s response been implemented across key actors? What is the employment impact of Government’s broader policies and development strategy as a whole? How have different Government interventions to address un- and underemployment interacted and complemented each other?

- **Effectiveness.** How effectively have Government interventions in the labour market been implemented relative to their objectives?

- **Impact.** To what extent have Government interventions reached citizens and improved their employment status and livelihoods?

- **Sustainability.** Have government interventions had a persistent impact on beneficiaries? How will Government’s overall approach to employment need to be adjusted to reflect the changing domestic and international context?

Appropriateness and coherence mainly relate to issues of policy: whether Government correctly understands the underlying challenges in the labour market, and has articulated a coordinated and feasible response that strikes an appropriate balance with other, potentially conflicting, objectives. Effectiveness and impact mainly relate to issues of implementation: whether Government’s strategy has been translated into well-designed and cost-effective projects and programmes that have improved labour market outcomes. Almost all Government activities can indirectly affect the labour market – particularly infrastructure investment and formal education services for example. These activities are considered in this report to the extent to which they are coherent with direct labour market interventions that explicitly aim to improve employment outcomes. Figure 1.1 represents the conceptual approach of the evaluation study. The entire circle represents the object of the evaluation – Government’s de facto employment strategy.
1.3 Methodology

Reflecting the scope and complexity of the topic in hand, the evaluation consists of a number of components utilising a combination of methodologies, spanning micro and macro tools of economic analysis, and key stakeholder dialogue and discussion. While the methods for evaluating the impact of individual interventions have become more rigorous and standardised, evaluating an entire portfolio of programmes and projects is more difficult. Micro-level evaluations are therefore complemented with other tools, such as economy-wide modelling techniques. To assess the extent to which the current Government strategy adequately responds to the underlying employment challenges, recent labour-market trends are also analysed. Specifically, the following activities have informed the final evaluation report:

Scoping study of interventions seeking to improve labour market outcomes

This study provided a comprehensive picture of Government’s projects and programmes addressing the employment challenge. The study aimed to identify all the interventions that explicitly targeted an improvement in labour market outcomes implemented by Government and development partners since 2000. The Public Investment Plan (PIP), Project Appraisal Documents, Participatory Market Research, and Project Completion Reports were studied to establish the performance of each intervention compared to the initial intentions. Key informant interviews with the project managers of 20 interventions (a representative sample of the 83 identified) were conducted to ascertain their perceptions and lessons learned.

Econometric analysis of firm dynamics and the binding constraints to employment growth in Uganda

Drawing on the growth diagnostic approach, this study identified the most binding constraints to employment generation in Uganda using the World Bank Enterprise Survey – a standardised dataset with information on formal firms in Uganda and over 130 other countries. The most-
binding constraints to both the growth of established firms and the ability of entrepreneurs to establish and maintain successful businesses were identified by first quantifying each industry’s inherent sensitivity to a particular constraint, and then using these industry-level variables to benchmark Uganda's pattern of employment and employment growth against other countries (controlling for how production typically changes at different levels of development). The severity of each potential constraint was assessed by examining whether activities that are sensitive to that constraint account for a disproportionately large or small number of jobs. This was complemented by descriptive and econometric analysis of firm creation, growth and exit in Uganda. The Business Register, the national household and panel surveys, and the Global Entrepreneurship Monitor (GEM) survey were used to capture all types of enterprises in Uganda, including those in the informal sector.

**Economy-wide analysis of Government policies for employment growth**

A macro-micro, economy-wide model was used to explore Uganda's employment challenge in a broader context. The study analysed the impact of growth on employment, and the indirect consequences of interventions that can generate more and better-quality jobs. Capturing feedback mechanisms between the education system and the labour market, the model was also used to project the number of labour market entrants (and the educational composition of the labour force) over the next 30 years, and to analyse the capacity of the economy to absorb them productively. The main analytical tool used was Maquette for MDG Simulations (MAMS), a dynamic-recursive Computable General Equilibrium (CGE) model developed by the World Bank, which has been used for medium and long-run development strategy analysis in over 40 low and middle-income countries. The model was carefully calibrated to the Ugandan economy, taking account Government's infrastructure investment plans and expected oil revenue.

**Qualitative and quantitative impact evaluations of Business, Technical and Vocational Education and Training (BTVET)**

It is impossible to evaluate the impact of the entire profile of diverse labour market interventions in Uganda. BTVET was chosen as an individual government programme to be evaluated in more depth – due to its current prominence on the policy agenda and plans to significantly increase its funding allocation.

An in-depth qualitative evaluation was approached along three thematic areas: accessibility, implementation effectiveness and quality, and labour market outcomes. A range of qualitative methods were used including semi-structured case studies, documentary reviews, demographic profiling, tracer interviews with formal and non-formal BTVET graduates and employers, focus group discussions with continuing and prospective students, and key-informant interviews with officials and experts in labour market analysis. The study was conducted in nine districts: Arua, Buikwe, Gulu, Kampala, Mbale, Mbarara, Nebbi, Sironko and Wakiso, and carried out by the Ministry of Finance, Planning and Economic Development; the Office of the Prime Minister; Makerere University; Local Government authorities and civil society. This was complemented by quantitative analysis to estimate the average impact of technical and vocational training on individual welfare, using four waves of the national panel survey to control for unobserved factors and past earnings.
1.4 **Structure of the report**

Chapter 2 describes the evolving position of employment within Uganda’s development framework since 1987; analyses the country’s labour market trends and employment challenges; and provides an overview of Government’s labour market interventions. The evaluation findings in terms of appropriateness, coherence, effectiveness and impact are presented in Chapter 3. Chapter 4 concludes the report by discussing future challenges and opportunities; the sustainability of Government’s current strategy; and provides recommendations to strengthen the relevance, effectiveness and coordination of Government’s labour market interventions. An action matrix summarising what is required by various stakeholders is provided as an annex.
2 The employment context

2.1 Government’s strategy: 1987 to date

Government embarked on a series of macroeconomic and trade policy reforms from the late 1980s. Structural Adjustment Programs (SAPs) were taken up which aimed to reduce inflation through fiscal and monetary discipline, minimise balance of payments crises, rehabilitate the economy and promote growth. The structural reforms are widely seen as among the most far-reaching and successful in Africa, enabling two decades of rapid economic growth. Compared to the maintenance of macroeconomic stability, job creation was only a secondary priority during this period. It was felt that providing an enabling environment for private-sector led growth would in the longer term be sufficient to generate adequate employment.

Economic growth started to pick up in the mid-1990s but over half the population was still living in poverty and many basic public services were lacking. In response, Government introduced the Poverty Eradication Action Plan (PEAP) in 1997, facilitating significant aid and domestic spending targeting the social sectors – education, health, water and sanitation. This signalled poverty reduction as the fundamental goal of Government, and there was significant progress towards this end – the poverty rate declined from 39.0% in 2002/3 to 24.5% in 2009/10 and to 19.7% in 2012/13. Employment was considered a means to reduce poverty but received less attention as an end objective in itself.

Gainful employment emerged as one of the central objectives of Uganda’s development strategy with the launch of the first NDP in 2010 – the first of six five-year plans under the Vision 2040 framework. This represents an attempt to rebalance the policy agenda to consider longer-term issues related to the productive capacity and employment potential of economic sectors. Job creation is recognised as the key driver of socioeconomic transformation, “equally critical for both wealth creation and poverty reduction.”3 With a strong emphasis on physical infrastructure investments, the first NDP reflects Government's intention to address binding supply-side bottlenecks that are constraining the rate of growth and employment creation.4

There has been a significant shift in Government's approach and recognition that the public sector must play a more active role in ensuring the expanding labour force has access to productive employment opportunities. Rather than the private-sector led model pursued in the 1990s and early 2000s, the NDP advocates for a ‘quasi-market approach’ – Government is to go beyond providing an enabling environment to “evolve a meaningful working relationship between the public and private sectors as a means to forge ahead in an increasingly competitive global marketplace.”5 But despite the recent emphasis on infrastructure provision, the implementation effectiveness of other strategic interventions to catalyse structural transformation and employment generation requires enhancement. Government has tried to strengthen dialogue between the private and public sectors – through the Presidential Investors Roundtable and the National Competitiveness Forum for instance, but there needs to be an institutionalised process to coordinate Government action to address industry-level constraints.

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4 The theme of the 2010/11-2014/14 is “Growth, Employment and Socio-economic Transformation for Prosperity”.
Resource constraints and project un-readiness have reduced the pace of public infrastructure investment – in real terms the projected budget for 2014/15 is 17% below the NDP projection.\textsuperscript{6} But the credibility of monetary policy has been strengthened under the Bank of Uganda’s inflation-targeting framework, introduced in July 2011, which helped to rapidly restore market confidence following a brief period of nominal instability. There has been significant progress in financial sector development – credit to the private sector more than doubled in the second half of the 2000s. But only a small share of this credit boom was channelled into productive investment – only 3% of capital outlays by manufacturing firms are financed by banks.\textsuperscript{7} Government largely does not influence the allocation of private sector lending.

In 2013 the Uganda Development Bank (UDB) – Government’s largest direct intervention in the credit market – only advanced loans totalling UGX 30 billion, equivalent to just 0.2% of gross capital formation.\textsuperscript{8}

The National Employment Policy launched in 2011 is an ambitious attempt to create a comprehensive and integrated framework for employment creation. The policy outlined six key policy objectives that span multiple Government sectors:

i. To promote macroeconomic policies and investment strategies for employment creation.

ii. To increase productivity, competitiveness and employability of the labour force, especially the youth and other most vulnerable members of the labour force.

iii. To promote in-employment skills development, training and apprenticeships and/or internships, especially for the youth.

iv. To promote purposeful and functional vocational and technical skills training.

v. To ensure availability of reliable and timely labour market information, especially for those sectors of the labour market employing the poor and vulnerable women.

vi. To promote and protect the rights and interests of workers in accordance with existing labour laws and fundamental labour standards.

Although the NEP was an important step in terms of understanding the employment challenges facing Uganda, the first three years of implementation have fallen short of focusing Government’s broader development strategy on employment issues. The policy was formulated by the Ministry of Labour, Gender and Social Development (MLGSD) – with technical support from the International Labour Organisation (ILO) – but with limited participation from Government MDAs that need to play a leading role in the policy’s implementation. The National Employment Council envisaged by the NEP has not been established and a Government-wide approach to integrate polices and interventions for employment creation across sectors is not fully functional.

\textsuperscript{6} MFPED (2014), Uganda’s medium and long-term fiscal strategy for socioeconomic transformation.

\textsuperscript{7} World Bank Enterprise Survey 2013.

\textsuperscript{8} Other Government schemes have tended to be smaller. For instance, the Youth Venture Capital Fund disbursed a total of UGX 17.3 billion in 2013 (including the contributions of the participating financial institutions). The total approved budget for the microfinance vote function in FY2013/14 was UGX 8.7 billion. The Agricultural Credit Facility was established in 2009/10 with a Government capitalisation of UGX 30 billion.
2.2 The Ugandan labour market

2.2.1 Key facts and trends

Uganda’s impressive macroeconomic performance over the last 20 years has had a relatively limited impact on the structure of the labour market. Over the last decade, the number of wage employees in registered firms increased from 544,723 to around 849,461, or at an average annual rate of 5.1%. While job creation has been more rapid than in most other African countries, the share of the labour force in formal wage employment remains low.

Economic growth has in large part been driven by high-value services such as telecommunications, finance and real estate – activities that rely on a relatively small number of skilled workers. The majority of new jobs have been created in less productive sectors such as petty trade and subsistence agriculture.

**Figure 2.1 Productivity and employment growth by sector, 2009/10 to 2012/13**

The share of the labour force engaged in low-productivity agricultural activities is high and has recently increased. In 2012/13, 72% of the labour force was primarily working in agriculture, forestry or fishing, up from 69% in 2009/10. This increase in agricultural employment partly reflects higher food prices, which have increased the relative attractiveness of subsistence activities. Over the last three years agricultural output grew at just 1.2% per year, despite a 6.0% annual increase in agricultural employment, suggesting a significant decline in productivity. This reflects a broader pattern that has seen employment expand in lower-productivity sectors while contracting in many higher-value activities (Figure 2.1). Structural change of the labour market has not yet contributed significantly to economic growth.

**Demographic change is contributing to growing mismatches between labour supply and labour demand.** Over half of the labour force is under the age of 30, and with over half

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9 Census of Business Establishments 2001/2 and 2010/11. This is excluding sole proprietorships with only one worker.
12 Although changes in the sectoral structure of primary employment can be misleading given that a large number of workers engage in multiple activities, often in different sectors.
of the population still under the age of 15, the number of labour market entrants is increasing rapidly. Over the last three years, the labour force grew at an average rate of 4.8% per year. This is significantly faster than the growth of wage jobs over the same period, making the youth’s transition into working life increasingly difficult. At the same time, the labour force is increasingly urbanised. The urbanisation rate increased from 15% in 2009/10 to 23% in 2012/13, mainly driven by the expansion of up-country towns. Individuals are moving from rural to urban areas in increasing numbers but the majority are absorbed into low productivity forms of employment in the informal sector; 62% of the urban labour force work for themselves or their families.

**Unemployment is relatively low but increasing**, particularly among those with higher education. Although the majority of Ugandans lack wage employment, few are classified as unemployed. The unemployment reported by Uganda Bureau of Statistics (UBOS) was 4.2% in 2009/10, and 9.4% in 2012/13. The way the unemployment rate is computed has changed, meaning that numbers for 2009/10 and 2012/13 are not directly comparable. However, calculating the unemployment rate for 2012/13 using the old methodology (counting subsistence farmers as employed), reveals a similar upward trend. The youth are slightly more likely to be unemployed compared to older workers. There are more significant differences across education levels, with the better-educated significantly more likely to be unemployed, particularly women. Those in employment are also increasingly unable to utilise higher levels of human capital. In 2009/10, 73% of university graduates were employed in graduate-level occupations, but this fell to 53% in 2012/13.

**Underemployment is common, particularly in the agricultural sector.** In 2012/13, 8.9% of the labour force was classified as time-related underemployed – this means they were working fewer than 40 hours a week and reported that they would like to work more. But in total 67% of the labour force was working less than 40 hours a week, with this as high as 83% among those primarily engaged in subsistence agriculture (Table 2.1). Many do not want to work more hours because the rewards in their current activities are low and their other opportunities are limited. Those engaged in non-agricultural household enterprises usually work significantly longer hours. Although 72% of the labour force is primarily engaged in agriculture, only 54% of the total hours worked are in agricultural activities. The dramatic growth of off-farm employment over the last 20 years has helped to reduce underemployment and supplement and stabilise household incomes, even if productivity and hourly earnings are often low.

<table>
<thead>
<tr>
<th>Table 2.1 Average hours of work by main activity</th>
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<tr>
<td>Average hours worked per week</td>
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<tr>
<td>Agriculture</td>
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<tr>
<td></td>
</tr>
<tr>
<td>Non-agriculture</td>
</tr>
<tr>
<td></td>
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<tr>
<td>All</td>
</tr>
</tbody>
</table>

Source: Uganda National Household Survey 2012/13. Note: Excludes those who are in the labour force but also in education.

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13 Uganda National Household Survey 2009/10 and 2012/13. This trend is partly explained the creation of new districts which have resulted in gazetting many new administrative areas into Town councils and Town Boards.
15 Professionals; legislators; senior officials, managers, and administrators.
18 This has been one of the main drivers of the large reduction in poverty over this period, MFPED, Uganda Poverty Status Report 2012.
2.2.2 Uganda’s labour force

The youth are staying in education longer, but overall few individuals who are able to work choose not to. Uganda’s labour force participation is among the highest in the world. 84% of the working-age population, as well as many children and elderly, are economically active. Participation in the labour market is only slightly lower among women than men. Most of those who choose not to work are youth who are remaining in the education system for longer. However, only a minority of the youth attend school exclusively – most are also economically active (see Figure 2.2).

Educational attainment of the labour force is improving slowly but remains low. The youth have completed significantly more years of education on average, and the gender gap in educational attainment has narrowed substantially (see Figure 2.3). While this illustrates the progress since the introduction of universal primary education in the late 1990s, more than 60% of the labour force has not completed primary school – mainly a reflection of high dropout rates. Delayed entry into the education system and high grade repetition mean the majority of children reach working age before they complete primary school, and are consequently much less likely to continue to higher levels of education. Only around 5% of the labour force has completed upper secondary school.

![Figure 2.2: Table Labour force participation among the youth](source: Uganda National Household Survey 2009/10 and 2012/13.)

Although the quality of education is often inadequate, the main factors explaining high dropout rates operate outside the education sector. Economic vulnerability plays a large role in withdrawal of children from primary school: parents that are insecure in their ability to provide their family’s most pressing needs are unlikely to bear present costs to keep their children in school in the anticipation of returns only in the distant future. MFPED, Uganda Poverty Status Report 2012.
Technical and vocational skills are relatively prevalent but are usually acquired informally. With the last national manpower survey conducted in 1987, information on the skills profile of Uganda’s labour force is scarce. The 2009/10 household survey addressed some of these data gaps. Overall, a quarter of the labour force reported having a technical skill or trade. This was higher in urban areas (35%) than rural (23%). The types of technical skill differed by gender; among men the most common trades were related to construction (42%), agriculture, land management or fisheries (14%), and automotive repair (12%); the most common among women were handicrafts (41%) and tailoring (15%). These trades are usually acquired informally, either from a friend or family member (in 53% of cases) or through on-the-job training (16%); only 5% of the labour force has completed a vocational training course.

2.2.3 Employment opportunities

The most common types of employment are own-account work and unpaid-family work. Classifying the employment status of the labour force can be misleading as a large share of workers engage in multiple economic activities. 80% of the labour force works primarily for themselves or their families, mainly in the agricultural sector, but 15% of the labour force work in non-agricultural household enterprises as their main activity, and many others engage in this type of work as a secondary job. Overall, 24% of the economically active population reported working at two or more different jobs in the previous seven days, and secondary jobs are more likely to be in non-agricultural activities such as retail trade and informal manufacturing. Only 11% of the labour force is primarily engaged in non-agricultural wage employment, down from 15% in 2009/10 (Figure 2.4).
Although most individuals mainly work in agriculture, most households have diversified income streams. In rural areas agriculture remains the most important source of income, on average accounting for slightly over half of household income, but non-agricultural household enterprises and wage employment have emerged as important supplementary income sources, accounting for 15% and 14% of average household income respectively. 21 76% of households earn income from agricultural production, but it is the most important source of income for only 42% of households, and only 26% of households rely on agriculture exclusively – over 70% earn income from either wage employment or non-agricultural enterprises (Figure 2.5). This represents a major, welfare-enhancing structural change over the last 20 years, 22 but diversification has been uneven across different areas of the country, with some areas remaining much more reliant on agriculture (Figure 2.6).

Figure 2.5: Share of households that have income from agriculture, wage employment and non-agricultural enterprises


Regular wage jobs are the most desirable form of employment, particularly those outside of the agricultural sector. Around 2.5 million working adults are living below the national poverty line.23 Almost 90% of the working poor are primarily engaged in agricultural activities, where incomes tend to be low but also irregular and unpredictable. Formal-sector salaried jobs are almost universally desired, in large part due to the stability and peace of mind they provide.24 Agricultural wage jobs in contrast are usually on a short-term casual basis, and are often the last resort for the landless.25 27% of wage agricultural workers are below the poverty line – 10 percentage points above the national average (Table 2.2).

### Table 2.2 Welfare by employment status

<table>
<thead>
<tr>
<th></th>
<th>Working poor</th>
<th>Average monthly consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>number</td>
<td>rate</td>
</tr>
<tr>
<td><strong>Agriculture</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Self/family employment</td>
<td>1,948,335</td>
<td>19.7%</td>
</tr>
<tr>
<td>Wage employment</td>
<td>288,354</td>
<td>27.2%</td>
</tr>
<tr>
<td><strong>Non-agriculture</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Self/family employment</td>
<td>244,280</td>
<td>10.7%</td>
</tr>
<tr>
<td>Wage employment</td>
<td>87,582</td>
<td>5.3%</td>
</tr>
<tr>
<td><strong>All</strong></td>
<td>2,568,551</td>
<td>17.3%</td>
</tr>
</tbody>
</table>


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25 Among the most disadvantaged households selling labour is perceived to indicate poverty; MFPED, Uganda Poverty Status Report 2012.
Wage employment has expanded significantly but many new wage jobs are casual and temporary. Although jobs in registered firms are concentrated in more urbanised and affluent areas of the country – 60% are located in Greater Kampala, Jinja, Mbale and Mbarara – the last decade has seen significant job growth across many areas of the country, particularly along major transport corridors (Figure 2.7). Over more recent years, the number of regular wage jobs has stagnated, and declined in the non-agriculture sector (Table 2.3). Overall growth in wage employment has been driven by a sharp increase in the number of agricultural labourers. This points to constraints on the demand-side of the labour market that affect the ability of firms to generate and sustain good-quality jobs.

### 2.2.4 Job creation and firm dynamics

Uganda’s business landscape is increasingly dominated by a large number of very small firms. The last two censuses to update the Business Register, conducted in 2010/11 and 2001/02, captured approximately 460,000 and 170,000 businesses respectively. The average size of firms captured in the 2001/02 census was 3.41 employees, but this had decreased to just 2.35 by 2011. This reflects both an increase in the number of own-account workers – the share of firms with...
no employees rose from 53% to 60% – and a decrease in the average number of workers among firms with employees (from 5.9 to 4.3). While 52% of employees were working in businesses with five or more workers in 2001/02, this had fallen to 36% by 2010/11.

Figure 2.8 Firm entry and exit rates by industry

Source: Census of Business Establishments 2001/2 and 2010/11. Notes: Bubble sizes are proportional to the number of jobs in each sector in 2010/11. Averaging over a nine-year period underestimates the exit rate since the surviving firms towards the end of the period are significantly less likely to fail.

The entry of new firms is high but often displaces existing firms and jobs. Half of Uganda's entrepreneurial activity is classified as 'necessity-driven', the highest in sub-Saharan Africa. Driven by negative push factors, business founders choose activities with low barriers to entry rather than strong growth prospects, such as recreational and personal services, hospitality and retail trade. These activities are characterised by very high entry (of typically very small firms), but high exit rates and therefore low net employment growth (Figure 2.8). Competition more often results in destructive imitation rather than innovation and positive market selection. Jobs in these firms are inherently insecure.

Most firms are not growing. Among firms established in 2001 that survived to 2011, employment on average increased by less than one worker over a decade, from 1.9 to 2.7 employees. Stagnant employment size is also the norm among the larger firms sampled in the World Bank Enterprise Survey. A 35-year-old firm in Uganda is on average only twice as large as it was at its establishment. Firm growth is significantly lower than in similar African countries such as Ghana (the reasons for this are discussed in Box 1 in section 2.3.3). The firm growth that has occurred is driven by a small number of formal firms (around 5%), with the remaining 95% expanding only marginally since establishment. Almost all large firms are born large; only 12% of firms with more than 50 employees had fewer than 20 employees when first established. The absence of growth is not the result of a conservative outlook among entrepreneurs; in 2004, 60% of Ugandan business managers expected to at least double their number of employees in the next five years.

28 The following analysis is drawn from the 2006 World Bank Enterprise Survey for Uganda. This survey is intended to be representative of the non-agricultural ‘formal’ economy, and only sampled firms with five or more employees.
29 In the United States it is likely to be 10 times larger. World Bank (2012), World Development Report 2013: Jobs.
30 These high-growth firms are more likely to be operating within the manufacturing and construction sectors. Foreign ownership does not predict higher growth – foreign firms are significantly larger at establishment but tend not to expand employment after they begin operations. Exporting is a more reliable indicator of employment growth; firms that export some output directly or indirectly have increased their employment by over 50% on average since establishment.
2.3 Uganda’s employment challenge

The growth of productive employment is one of the most pressing economic and social challenges facing the country, but also the means to harness the demographic dividend and structural change needed to drive more rapid and sustainable economic growth. This subsection focuses on the acute challenges and opportunities specific to Uganda’s employment context.

2.3.1 Population growth and the demographic dividend

Uganda has one of the highest fertility rates and youngest populations in the world. Uganda’s demographic transition is occurring later than in most other countries – the fertility rate has only recently begun to fall, and 60% of the population remains below the age of 18. The gradual fall in fertility rates, coupled with increasing infant survival rates and life expectancies, are fuelling, and will continue to fuel, demographic change characterised by a declining dependency ratio and a rapidly growing youth (and working age) population (Figure 2.9).

Figure 2.9: Population pyramids for Uganda, 2010 and 2050


Figure 2.10: Projected number of labour market entrants (000s)

Source: MAMS simulation results.

32 The Total Fertility Rate – the average number children a woman of childbearing age can expect to have – was 6.9 in 1995, falling to 6.7 in 2006 and 6.2 in 2011.
Given Uganda’s demographic structure, an expansion in the number of youth entering the labour market is inevitable. Currently an estimated 700,000 individuals enter the labour market each year.\(^{34}\) The number of youth remaining in the education system for longer is temporarily limiting the growth of labour market entrants, but these students will eventually join the labour force and longer-term improvements in the schooling system will reduce the average time to graduation (by lowering grade repetition). These factors will lead to a much more rapid increase in the number of labour market entrants from the mid-2020s (Figure 2.10).

The path that the large youth population take into the labour force will have a large and long-lasting influence on Uganda’s development trajectory. A shortage of opportunities for new entrants to the labour force is likely to have detrimental effects on these individuals’ confidence and aspirations, particularly those who have invested both time and money in completing further education only to become cut off from society. With fewer regular wage jobs available than the number of individuals willing and capable of performing them, access to the better jobs must be rationed. Not all who want those jobs and who are capable of performing them will be able to get them. Not fully utilising human capital reduces the productive capacity of the economy and increases resentment and the risk of social and political upheaval. On the other hand, with sufficient complementary capital and technologies to enhance labour productivity and job prospects, Uganda can exploit the growth dividend associated with a lower dependency ratio and follow the much more positive development trajectory seen in East Asia.\(^ {35}\)

### 2.3.2 Skills mismatches

The skills that labour force participants possess are not well-matched with the opportunities currently available in the labour market. There are two distinct skill mismatches present in the Ugandan labour market:

i. **Poorly educated and low-skilled workers who are economically active (mostly in agriculture or self-employment) but usually unproductive and/or work few hours.**

   This mainly represents a supply constraint. Many Ugandan workers do not possess the skills to make a significant contribution to economic growth. 64% of the labour force has not completed primary education; but improved educational attainment alone will not be sufficient.\(^ {36}\) More important than formal education are informal skills and knowledge, which are acquired mostly through learning by doing. The private sector will need to participate in providing workers with the technical and entrepreneurial skills most demanded by key growth-promoting industries.

ii. **Educated workers who are not fully using their skills or, increasingly, are unemployed.**

   This mainly represents a demand constraint. Many educated workers fail to be absorbed into the Ugandan labour market, are employed in a job ill-suited to their skills profile, or emigrate to find appropriate employment. Those with higher education do better when employed but are more likely to be unemployed or to underutilise their skills.\(^ {37}\)

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34 To accommodate all the new entrants in regular wage employment will require the number of jobs to grow at around 26% per year (given that there currently around 2.7 million regular wage jobs, see Table 2.3). This is significantly above Uganda’s historical average of around 5%.


36 The Ugandan labour force on average has 5.8 years of schooling, higher than the level of the Netherlands in 1960 (5.3 years), but in 1960 the Netherlands’s GDP per capita was 8 times the current Ugandan level (in purchasing power parity terms). Uganda National Household Survey 2012/13; Barro and Lee (2001), ‘International data on educational attainment: updates and implications’, Oxford Economic Papers 53.3 (2001): 541–563; Feenstra, Inklaar and Timmer (2013), ‘The Next Generation of the Penn World Table’.

37 It is estimated that the labour market earnings of university graduates is more than 40 times the level of those who have not completed secondary school (Uganda Social Accounting Matrix 2009/10). Graduates are three times more likely to be unemployed and 23% are skill-related underemployed (National Labour Force Survey 2010/11).
This presents the challenge of increasing the demand for educated workers amongst established firms and increasing the number of growth-orientated start-ups, so that human capital investments are not wasted and skills are put to productive uses in the economy.

**Low productivity and underemployment afflict the majority of the labour force; unemployment is a smaller but growing problem.** There are currently 12 working adults living below the poverty line for every individual without work seeking a job. This situation is likely to persist for some time as the educational composition of the labour force will change only gradually. The proportion of labour market entrants to have at least completed secondary school is expected to increase significantly (Figure 2.11a), but this will not be sufficient to fundamentally change the structure of the labour force – by 2040 the share of the labour force not to have completed secondary education is projected to only fall to 78% (Figure 2.11b). Starting from the current low base, the labour force with secondary and tertiary education is expected to grow at least 7% each year. If job growth does not meet this high benchmark, there is a substantial risk of increased un- and underemployment of skilled workers. Even more rapid job growth is required to allow less-educated workers to enter the formal workforce as well. This will require appropriate demand-side interventions to address the binding constraints to firm creation and growth.

![Figure 2.11 Educational composition of labour market entrants and the labour force](image)

Source: MAMS simulation results.

### 2.3.3 The binding constraints to job creation

Removing the constraints facing growth-orientated and professionally managed firms is a central component of Uganda's employment challenge. There are two key issues that Government needs to address in order to stimulate greater and more sustainable job creation:

1. **The ‘missing middle’.** There are very few established firms with several paid employees compared to the large number of small and micro enterprises with more limited job creation and growth potential.

2. **Most formal firms are not growing.** Employment growth among the larger established firms that do exist is extremely low.
In light of Government’s limited resources and inadequate implementation capacity, it is important that its interventions focus on removing the most-binding constraints to employment growth. Background research for this report systematically reviewed the potential constraints to the creation and expansion of formal firms to identify those that matter most for job creation (see Section 1.3 for details). The evidence suggests that there are five main binding constraints to labour demand:

i. **Inadequate physical infrastructure.** As much as 58% of the productivity handicap faced by Ugandan firms can be attributed to infrastructure constraints. The high cost of electricity is a significant constraint to firm growth. Uganda’s poor internal transport network limits competition between geographically distant firms, giving many incumbents local monopoly powers. Very few firms operate on a national scale.

ii. **An inadequate supply of practical skills among the labour force.** Skill-intensive manufacturing industries (e.g. the manufacture of apparel, machinery and equipment) account for a disproportionately small share of formal manufacturing employment in Uganda (compared to countries at a similar level of development) and Ugandan firms in these sectors have expanded employment much slower than average.

iii. **Poor management practices.** A lack of professional management expertise means that many businesses in Uganda operate at a sub-optimal scale, with managers often unable to delegate responsibilities to employees. To be profitable, mass production or large-scale operation requires effective human resource management and quality control, and well-maintained supplier relationships, branding and distribution channels. The managers of Ugandan enterprises – even relatively large established firms – are often unable to ensure consistency in business operations.

iv. **Poor regulatory framework.** Regulatory requirements, corruption, weak contract enforcement and Government support for individual firms disproportionately hinder SMEs. This discourages inter-firm linkages and the development of strong value chains. Firms operating in close proximity to each other tend not to learn from each other or divide production processes efficiently among themselves, in part due to insufficient institutional channels for SMEs to coordinate and engage with Government. Larger and more-established firms often have an unfair advantage, limiting positive market selection. Comparisons with other similar African countries suggest that these factors have a significant role in explaining the extremely low employment growth of formal firms in Uganda (see Box 1).

v. **Access to finance.** Uganda has made significant progress in financial sector development over recent years, and there is no evidence that the cost of borrowing has constrained the growth of established formal firms. However, access to credit is particularly difficult for many start-ups and small firms perceived by lenders to be high risk; this adds an additional barrier to entry for SMEs and reduces competition among large incumbent firms. High interest rates mean that firms use retained earnings rather than credit to finance investment.

These factors are currently the most-binding constraints to labour demand. Other constraints to firm creation and expansion were found to be non-binding in most cases – meaning that improving these areas is unlikely to have a large impact on employment without progress in the four factors highlighted above. However, these other factors are likely to become more important in the future as the other more-pressing constraints are addressed.
i. **Scientific and technological knowledge.** Industries producing relatively complex products have grown significantly more rapidly in Uganda than in other countries at a similar level of development, partly due to Government’s policy emphasis on Science, Technology and Innovation. Due to high economic complexity relative to current income, Uganda ranks first out of 128 countries globally in terms of potential economic growth up to 2020. Most firms are able to acquire sufficient technical knowledge, although this is more difficult for entrepreneurs attempting to establish new businesses.

ii. **Formal education of the labour force.** Unlike practical skills, there is no evidence that the educational attainment of the labour force is a binding constraint to job creation. Dramatic improvements in human capital since the PEAP era have had a large impact – economic growth over the last decade has been driven by education-intensive sectors such as finance, communications, real estate, and business services. But since these activities have limited capacity to absorb additional labour, the social returns to investments in formal education will decline unless the binding constraints to labour demand are addressed.

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**Box 1: Why Ugandan firms grow less than Ghanaian firms**

**Employment growth over the firm life cycle in Uganda and Ghana**

The growth of formal firms in Uganda is significantly lower than in similar African countries such as Ghana. A 35-year-old firm in Uganda is on average only twice as large as it was at its establishment. In Ghana it is likely to be five times larger, while in the United States it is likely to be 10 times larger.

Background research for this report probed Uganda’s relatively poor performance by comparing the pattern of firm growth in Uganda and other developing countries using the World Bank Enterprise Survey (a standardised survey of formal firms conducted in over 130 countries).


Access to credit is not a major part of the explanation; industries inherently more reliant on external finance have experienced more rapid employment growth in Uganda than Ghana. The shortage of appropriate technical skills is one of the most important constraints to firm growth in Uganda. The skills gap is also a large problem in Ghana, although slightly smaller in magnitude. Physical infrastructure – particularly the cost of electricity and transport – constrains firm growth in both countries.

The most striking differences between the two countries relate to how firms interact with each other and with the public sector. Industries prone to external economies of scale (clustering) have performed better in Ghana than in Uganda. Competition from informal and unregistered firms is detrimental in Uganda, but appears to benefit formal firms in Ghana. One explanation is that production processes in Ghana are more efficiently divided across supply chains and individual firms more specialised in particular tasks. Rather than destructive imitation, firms are more likely to learn from each other with dynamic benefits. Poor management practices are binding constraints in both Ghanaian and Ugandan firms – it is therefore unlikely that dynamic clusters in Ghana stem only from firms themselves, suggesting that the government plays a more active and constructive role. Government regulations also appear to be more effective in Ghana – activities that are typically more burdened by red tape have grown faster. Formal firms operating in industries prone to corruption and reliant on contract enforcement have grown more slowly in Ghana than Uganda – this might indicate that Ghanaian firms are less able to bypass these constraints through informal relationships with government officials.
2.4 Labour market interventions

Almost all Government activities can indirectly affect the labour market, but a number of interventions explicitly aim to improve employment outcomes – by supporting productive economic activities, equipping the labour force with practical skills or protecting vulnerable households. To help map Government’s approach and the allocation of public resources vis-à-vis employment issues, these labour market interventions can be classified into five main categories:

i. **Support for smallholder agriculture.** Projects and programmes such as the National Agricultural Advisory Services (NAADS) that aim to reduce underemployment and increase the productivity and commercialisation (and therefore earnings) of smallholder farmers.

ii. **Interventions to enhance household livelihoods.** Projects taking a more integrated approach to improve household incomes, including efforts to improve the prevalence, profitability and sustainability of off-farm income-generating activities.

iii. **Private sector development.** Interventions to improve Uganda’s business environment and increase the competitiveness of formal enterprises so that new firms enter and incumbent firms expand their employment.

iv. **Skills development.** Direct public provision or support for private providers of business, technical and vocational training.

v. **Social protection.** Public works programmes, personal care services and the promotion of equity and decent working conditions, particularly for vulnerable households.

**Significant public resources are allocated to address employment issues, particularly support for agriculture and private sector development.** In the 2012/13 fiscal year, the types of labour market intervention described above accounted for over 8% of Central Government expenditure (UGX 300 billion), almost half the amount spent on physical infrastructure (Figure 2.12). The best-resourced category was support for smallholder farmers, accounting for around half of the total amount. Around a quarter was spent on private sector development. But given Uganda’s private-sector-led development approach, the allocation of public resources does not fully reveal Government’s strategy; many low-cost interventions can have large impacts on employment outcomes. Administrative spending – to support effective commercial courts and contract enforcement for example – does not directly target labour market outcomes, but may still be important for enhancing private sector development and investment. Tax expenditures (foregone revenue due to income tax and VAT exemptions) designed to encourage investment and job creation, are often more important than actual spending. The remainder of this section provides an overview of the most important programmes and projects in each of the five categories.

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38 Particularly infrastructure investment, formal education services, commercial courts and contract enforcement for example. These activities are not the focus of this report, except the extent to which they are coherent with Government’s more direct labour market interventions.

39 The classification of labour market interventions is not always clear-cut. Some interventions to support smallholder agriculture and household livelihoods aim to do so partly through the provision of non-formal technical training, for example.

40 Significant resources are also expended by Local Governments and development partners.

41 This section draws on a scoping study of labour market interventions that identified 83 relevant projects and programmes implemented by Government and its development partners since 2000.
2.4.1 Smallholder agriculture

Growing regional export markets, rising incomes and rapid urbanisation present significant potential for enhancing rural production, productivity and incomes in Uganda. This is reflected in the high share of agriculture-related initiatives in Government’s labour market intervention profile. Almost half of the labour market interventions implemented over the last decade targeted smallholder farmers. Most of these interventions focus on enhancing household incomes, commercialising smallholder agriculture and enhancing production capacity.

**Extension and advisory services.** The National Agricultural Advisory Services (NAADS) is the largest Government intervention in the agricultural sector, spending UGX 42 billion in FY2012/13. NAADS disseminates information on improved agricultural practices and technologies, and supports the institutional development of farmer groups. It has also more recently focussed on the provision of inputs such as seeds and livestock.

**Agricultural inputs.** In FY2012/13 government adopted the Commodity Approach strategy to enhance food security, household incomes and exports. This has helped to increase the production of a number of commodities through various initiatives which ensure improved seeds, planting, breeding and stocking materials. For example, in FY2012/13, 20,000 Arabic Coffee seedlings and 60,000 pieces of banana were distributed to farmers in Batambala, and funds were disbursed under NAADS to Kisoro, Kabale and Kanungu to raise tea seedlings.

**Contract farming.** In 2002 Government signed an agreement with Oil Palm Uganda Limited (OPUL) to undertake an integrated palm oil project in Kalangala District. The Vegetable Oil...
Development Project (VODP) has received UGX 389 billion. The edible oil industry has grown significantly under contract farming – BIDCO Uganda Limited has engaged over 1,300 farmers who have 2,100 ha under palm trees; which is expected to produce at full maturity 42,000 tonnes of palm oil fruit and generate UGX 21 billion in incomes for the farmers annually. Government is committed to further expand agro-businesses and support smallholder farmers by promoting contract farming arrangements.

**Irrigation.** Large-scale irrigation schemes to address the challenges of rain-fed agriculture are included in the NDP’s national flagship projects. Government is also committed to setting up 30 small-scale irrigation demonstration sites across the country. In FY2012/13, the Ministry of Water and Environment spent UGX 16 billion on water for production. According to the Irrigation Master Plan, 42% of the country’s irrigation potential will be exploited by 2035.

### 2.4.2 Household livelihoods

Significant public resources have been devoted to supporting off-farm enterprises, reflecting the importance of these activities in supplementing household incomes and reducing poverty, although these interventions have been implemented by a number of MDAs with no single sector responsible for oversight. Most interventions tend to equip beneficiaries with skills and start-up kits for new income-generating activities; fewer interventions aim to support the profitability and sustainability of existing enterprises, which rarely grow to employ non-family members and are often closed when more attractive opportunities emerge. A number of recent projects have provided more-targeted support to reduce un- and underemployment among the youth.

**Special programmes with a regional focus.** A number of programmes have taken an integrated approach to enhance the livelihoods of households in relatively poor areas of the country, supporting income-generating activities, the provision of skills for self-employment, the accumulation of productive assets and community-based public works programmes. These programmes are managed by the Office of the Prime Minister, often with significant donor support. Examples include the Northern Uganda Social Action Fund (NUSAF) and the Karamoja Livelihoods Programme (KALIP). The Youth Opportunities Programme (YOP) under NUSAF transferred cash to groups of youths to either pay for technical or vocational training at a local institute, or tools and materials to practice a craft.

**Trade and market infrastructure.** Retail trade is the most common type of non-agricultural enterprise. To support this income-generating activity and the commercialisation of the agricultural sector, Government is investing to improve the condition of market places in urban centres across the country. A planned UGX 170 billion will be spent over 5 years under the Markets and Agriculture Trade Improvement project, overseen by the Ministry of Local Government. The construction of 19 new markets is expected to benefit 900,000 households.

**Microfinance Support Centre.** Since 2001, the Microfinance Support Centre (MSC) has helped to expand access to affordable financial and business development services, especially in rural areas. Wholesale credit is channelled to low-tier financial institutions for onward lending, particularly Savings and Credit Cooperatives (SACCOs). There are now over 2,800 SACCOs across the country, with a total membership of more than 1.1 million. Lending through SACCOs stands at over UGX 120 billion, with almost 90% of the credit used to finance non-agricultural activities.
**Youth Livelihood Programme.** The Youth Livelihood Programme (YLP), overseen by the Ministry of Gender, Labour and Social Development, is Government’s most recent project to provide youth with marketable vocational skills, financial support (interest-free loans for implementation of approved youth projects), and relevant knowledge and information to increase self employment opportunities and income levels. The total budget for YLP over the next five years is UGX 265 billion. The programme came into effect in the second half of FY2013/14, with an allocation of UGX 19.25 billion.

### 2.4.3 Private sector development

While Government is accelerating the pace of infrastructure development to address the major constraints affecting business performance, particularly in the areas of energy and transport,45 a significant number of interventions aim to directly strengthen the capacity of private firms to create jobs. Almost a quarter of labour market interventions over the last decade explicitly aimed to improve the performance of MSMEs, creating new formal enterprises and jobs, increasing firm productivity and access to finance from commercial banks. Key interventions by Government and leading implementation partners and agencies are discussed below.

**Private Sector Foundation Uganda (PSFU).** Uganda’s apex body of business associations and corporate bodies has worked closely with Government on several projects and programmes to strengthen the private sector as the engine of growth and job creation. These include the Business Uganda Development Scheme (BUDS) intended to support business improvement, value addition and job creation in the greater north and parts of eastern and north-western Uganda. PSFU also trains community groups in different skill areas with support from other stakeholders. Under the Enterprise Skills and Linkages Programme, the foundation has worked with the Katwe Small-Scale Industries Development Association (KASSIDA) to provide hands-on training through apprenticeship schemes. These partnerships help to promote job creation by providing vital skills, advisory and financial support.

**Uganda Industrial Research Institute (UIRI).** A parastatal institution under the Ministry of Trade, Industry and Cooperatives (MTIC), UIRI is the lead implementing agency supporting the industrial sector. Funding has been increased significantly over recent years, from UGX 3 billion in 2006/07 to UGX 14 billion in 2012/13. The institute undertakes applied research and facilitates technological discovery, transfer and diffusion in order to create a strong effective and competitive industrial sector. UIRI has spearheaded business incubation to enhance the chances of success and growth of Uganda’s SMEs. It currently assists over 30 incubatees, providing common facilities – including skills training, physical space, legal advice and shared services – until the enterprises become self-sustaining. The institute has no explicit objectives related to employment, but in developing a more competitive industrial sector it has the potential to generate productive jobs.

**Uganda Investment Authority (UIA).** UIA is the semi-autonomous Government agency responsible for promoting and facilitating private sector investment. The authority helps to provide a conducive investment environment by providing land and serviced infrastructure to investors and aftercare services to SMEs. The authority reports the planned number of jobs for each investment programme it considers and in 2012 it produced a survey of all projects to

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45 Important projects include: Bujagali Hydropower Project (completed and the plant commissioned on October 8, 2012); the Karuma and Isimba Hydropower Projects (identified as national core projects in the 2010/11 – 2014/15 NDP); rehabilitation and construction of the national roads (the percentage of paved national roads increased from 15 to 20% between FY2010/11 and FY2012/13); and the integration of EAC transport systems including the upgrading of the outdated rail network.
assess how many jobs had been created.\textsuperscript{46} It is also in the process of establishing a minimum of 22 Special Economic Zones (SEZs) / Industrial and Business Parks (IBPs) throughout the country to create jobs and add value to locally available raw materials. The project has faced a number of implementation delays; total planned expenditure between 2008 and 2015 was UGX 200 billion, but up to the end of 2012/13 only UGX 25 billion had been spent.

**Youth Venture Capital Fund (YVCF).** Government, in partnership with DFCU Bank, Stanbic Bank and Centenary Bank, established a fund of UGX 25 billion to finance viable projects proposed by young entrepreneurs (between the ages of 18 and 35), at a subsidised interest rate of 15%. The project is also intended to help the youth benefit from mentoring services provided by the participating banks and management training by Enterprise Uganda. Each business project financed is expected to provide employment to at least four individuals by the end of the loan period.

**Agricultural Credit Facility (ACF).** Established in 2009/10, the ACF aims to finance long-term investments by agribusinesses in equipment for value addition and processing, at a fixed interest rate of 10%. The facility was allocated UGX 30 billion from Government, which was matched by an equal amount from participating private financial and credit institutions.

**Investment incentives.** Government has granted tax exemptions to promote investment, private sector development and job creation. Many goods and services are exempted or zero-rated under the VAT act, particularly agricultural inputs,\textsuperscript{47} and specialised vehicles, plant and machinery. The income tax act allows for generous initial capital allowances, depreciation reductions and special regimes for exporters and agro-processors. From a fiscal perspective, tax exemptions are by far the most important intervention to support private sector development. In 2012/13, Central Government spending in the tourism, trade and industry sector and all projects related to private sector development under the accountability and ICT sectors amounted to 0.13% of GDP. Foregone revenue due to tax exemptions exceeds 1% of GDP.\textsuperscript{48}

### 2.4.4 Skills development

Supply-side interventions to improve the skills and employability of school leavers and graduates have become increasingly prominent in recent years. Universal Post-Primary Education and Training (UPPET) was introduced in 2007, leading to a significant increase in enrolment in public training institutions. Government has undertaken a number of reforms to increase the accessibility, quality and relevance of Business, Technical and Vocational Education and Training:

i. The BTVET Act (2008) provides the institutional and legal regime for the sector and defines the criteria and access requirements for BTVET programmes.

ii. The Uganda Vocational Qualifications Framework (UVQF) develops occupational standards and quality assures the assessment and certification of BTVET candidates. The framework was designed to refocus training on the practical skills demanded in the labour market, emphasising competence-based education and training (CBET). The UVQF uses Assessment and Training Packages (ATPs) to increase the flexibility of formal and non-formal training.


\textsuperscript{47} Livestock and poultry feeds, processing machinery, and packaging for milling and diary industries are VAT exempt, while seeds, fertilisers, pesticides, and agricultural machinery, tools and implements are zero-rated.

\textsuperscript{48} Joint analysis by MFPED and the IMF found that Uganda’s non-standard VAT exemptions reduce Government revenue by around 1% of GDP. This is an underestimate as the exemptions often complicate tax administration and contribute to the VAT ‘compliance gap’, which is estimated to be 6% of GDP (industries with more exemptions have lower compliance). Total tax expenditures including initial capital allowances and income tax exemptions are therefore significantly higher than 1% of GDP.
iii. The 10-year BTETV strategic plan, launched in October 2012 and titled ‘Skilling Uganda,’ emphasises a more comprehensive system of skills development to raise the quality and economic relevance of BTETV. The plan prioritises the rehabilitation and construction of public BTETV institutions before establishing incentives to expand the private provider network (such as matching grants).

These developments have been accompanied by a significant increase in funding allocated to skills development, from UGX 30 billion in 2005/06 to UGX 70 billion in 2013/14, in line with the increase in enrolment since the introduction UPPET (Figure 2.13). There remains a significant funding gap relative to the Skilling Uganda plan however, reflecting resource constraints and absorption concerns.

![Figure 2.13 Skills development budget allocation and BTETV enrolment](chart)

Sources: BTETV Strategic Plan; Approved Budget Estimates; and Education Information Management System. Note: enrollment refers to public institutions only.

Government has also worked with tertiary institutions to improve the vocational and management training opportunities available to post-secondary students. For example:

i. The Skills for Production, Employment and Development (SPEDA) project, housed at the Makerere University Faculty of Veterinary Medicine, was introduced in 2010 to increase the supply of skilled human capital in the animal industry. The programme is delivered through short modular courses, emphasising hands-on skills development through partnerships with private firms. Government has committed UGX 7.5 billion for a four-year period.

ii. The Uganda Management Institute (UMI) offers a range of training programs, workshops and consultancy services in the field of management and administration. It has helped to establish a centre to strengthen managerial practices and professional management skills.
In April 2014 Government launched a new Student Loan Scheme to increase the number of tertiary students studying science-related subjects. Government currently offers bursaries to highly qualifying students at higher institutions. However, the rapid growth in student numbers since the introduction of Universal Primary Education (UPE) and Universal Secondary Education (USE) has meant many qualifying students have missed the opportunity to join universities and other tertiary institutions with Government assistance. The new student loan scheme is intended to support Ugandan students who have qualified for higher education in recognised institutions of higher learning but are unable to support themselves financially. The scheme will start with an allocation of UGX 6 billion. This will initially benefit 1,000 Students to pursue science-related programmes in both public and private Universities, and the loan amount will be capped at UGX 4 million to cater for the pedagogical costs (tuition and functional fees) while non-pedagogical costs (accommodation, meals, transport costs etc.) will be covered by the beneficiary students.

2.4.5 Social Protection

Public social protection in Uganda has traditionally been associated with specific vulnerable groups, covering care for the elderly, orphans and other vulnerable children, special-needs education and similar interventions. Recognising that a larger section of society remains vulnerable and often unable to access economic opportunities and public services, Government has recently taken efforts to redefine and expand the social protection sector.

Public Works Programmes (PWP) s. Labour-intensive public works create jobs directly as well as promoting community and private asset accumulation. Although coordination at the national and district levels is limited, a range of PWP projects have been implemented, particularly in the northern region following the restoration of peace and stability. The largest PWP is implemented in Karamoja under NUSAF2. Over the five-year implementation period, 85 community-driven sub-projects are expected to generate 467,500 persons days of short-term employment for 77,000 beneficiaries.49 Most PWPs have focused on the completion of community infrastructure projects rather than the employment provided or the long-term impact of this on beneficiary households.

3 Evaluation findings

This chapter evaluates Government’s strategy to address Uganda’s employment challenge along four dimensions: coherence, appropriateness, effectiveness and impact. The fifth evaluation criterion – sustainability – is assessed in the final chapter. Appropriateness and coherence mainly relate to issues of policy: whether Government correctly understands the underlying challenges in the labour market, and has articulated a coordinated and feasible response that strikes an appropriate balance with other, potentially conflicting, objectives. Effectiveness and impact mainly relate to issues of implementation: whether Government’s strategy has been translated into well-designed and cost-effective projects and programmes that have improved labour market outcomes (see Section 1.2). When evaluating appropriateness and coherence, all Government’s employment-related policies, programmes and projects are considered; but when evaluating effectiveness and especially impact it is necessary to narrow the scope. These sections focus particularly on Business, Technical and Vocational Education and Training, although other employment-related projects and programmes are considered based on the available evidence.

3.1 Appropriateness

**Government’s transformation agenda acknowledges Uganda’s pressing employment challenges.** Job creation is a central theme of the NDP, recognised as “equally critical for both wealth creation and poverty reduction… the size of Uganda’s economy must not only increase significantly, but it should do so in such a way that creates adequate gainful jobs that are in tandem with the growing labour force.”\(^{50}\) The magnitude of Uganda’s employment challenge is well-reflected in the ambitious scope of the National Employment Policy (2011), which covers employment-intensive growth; labour market information; labour productivity and skills; promotion of agriculture and rural employment; improving informal sector, micro and small-scale enterprises; private sector growth and employment; improving labour administration and labour standards; externalisation of labour; employment of vulnerable groups and promotion of gender equality; promotion of youth employment.

**Most Government interventions appropriately target the demand side of the labour market.** Although supply-side interventions such as vocational training have received greater prominence, the majority of Government’s labour market interventions focus on production, household incomes, and job opportunities (Figure 3.1). Tax incentives designed to encourage investment and increase labour demand – which are not considered in Figure 3.1 – are at least as important in terms of fiscal cost. This broad focus on labour demand is appropriate given that there are far fewer regular wage jobs available than the number of individuals willing and capable of performing them. Uganda’s changing demographic structure and rapidly growing labour force requires more demand-side interventions to ensure sufficient productive employment opportunities for new workers.

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Although most public resources are allocated to address constraints to labour demand, Government needs to give more support to growth-orientated SMEs. Projects to support SMEs have had limited reach. For example, the Business Linkages Promotion Project under Enterprise Uganda was effective in ensuring participating SMEs received a steady flow of business from Transnational Corporations, increasing their demand for labour. However, the project only supported nine SMEs, which together generated only 100 additional jobs. The Technology Acquisition Fund managed by PSFU, which aimed to increase the competitiveness of Uganda’s exports, supported only 8 firms. UIRI provides facilities and common services to help ‘incubate’ SMEs, but currently only assists 30 enterprises. The Uganda Development Bank and schemes such as the Youth Venture Capital Fund and the Agricultural Credit Facility have had limited success in reaching credit-constrained SMEs (see Section 3.4). In fiscal terms, tax exemptions are the most important form of support that Government provides to formal firms, but these tend to benefit larger companies – effective tax rates usually decrease as taxpayer size increases.51

Tax exemptions to encourage investment and job creation need to be better targeted. Exemptions and investment incentives in the VAT and income tax acts apply to all firms, but in practice benefit large firms the most. The exemptions designed to encourage investment cost Government at least 1% of GDP,52 more than the combined budget of the Agriculture; Tourism, Trade and Industry; Lands, Housing and Urban Development; Social Development; and ICT sectors. The exemptions also complicate tax administration and reduce compliance – industries such as agro-processing and construction with more VAT exemptions have significantly lower compliance.53 Government has not targeted tax incentives or subsidies to explicitly encourage job creation or complement supply-side interventions.

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52 This only includes VAT exemptions and excludes the effect of exemptions in lowering compliance.
Government needs to enhance the development of professional management skills. Management capabilities are often too limited to ensure consistency in business operations, leading to costly variations in the quality and quantity of production and increasing the risk of expansion. Management practices are problematic even among large established firms, as the recent request by the Sembule Group for an UGX 11 billion Government bailout demonstrates.

Government has made limited progress in providing business management training to existing entrepreneurs, even though isolated interventions reveal very large benefits. UMI offers a number of courses aimed at developing management capacities; however, the institute requires greater financial resources to meet both its recurrent expenditures and professional staff and capital development.

Government's BTVET reforms respond to the large unmet demand for technical and vocational training but targets for BTVET enrolment are too low. Most BTVET institutions are located in urban areas, and the rural majority are often unaware of the courses available or find it too costly to access the training services, despite high demand for the courses on offer. Each privately sponsored student must pay tuition fees and buy equipment before reporting to a BTVET institution, which is a barrier to access for disadvantaged sections of the population. Annual training costs per student in public BTVET institutions are between UGX 1.5 million and UGX 3.5 million, and at least 45% of the training costs are currently borne by private households. The NDP asserts that the BTVET sub-sector should account for 30% of total post-primary enrolment. In the public education sector, this ratio is currently just 3%. Rather than prioritising higher enrolment, Skilling Uganda plans to more than double spending per student. The NDP target will not be achieved without a substantial increase in enrolment in private training institutions, non-formal training and apprenticeship schemes; but plans to establish incentives for private training providers (such as matching grants) have been put on hold until public BTVET institutions have been rehabilitated.

Interventions targeting the youth have responded to some of the challenges of un- and underemployment, but access remains limited. A number of projects and programmes have specifically targeted the youth, usually focusing on the provision of cash or credit and skills for self-employment. But equal access to such programmes, as promoted in the National Youth Policy (NYP), is lacking. Many Government programmes appropriately target relatively poor regions of the country, such as the Youth Opportunities Programme under NUSAF, but others are often only accessible to the urban and not the rural youth.

For example, a three-day training course implemented by international researchers in collaboration with the Makerere University Business School which aimed to increase the personal initiative of business managers in Kampala was found to increase employment growth by 60 percentage points. Glaub, M. (2009), 'Training Personal Initiative to Business Owners in Developing Countries: A theoretically derived intervention and its evaluation', Justus-Liebig-Universität Gießen.


Youth groups given unconditional grants averaging over UGX 7,000 under the Youth Opportunities Programme (under NUSAF) spent a large share of the grants on skills training fees. Blattman et al. (2013), 'Generating Skilled Self-Employment in Developing Countries: Experimental Evidence from Uganda', Quarterly Journal of Economics 57.


Young Leaders Think Tank for Policy Alternatives (December 2011), 'Employment Policies for Uganda: Young Leaders' Perspectives'.


According to the Uganda National Household Survey 2012/13, there were around 1.2 million individuals aged between 18 and 35 whose main activity in the previous 12 months was to manage a non-agricultural enterprise.
in business for at least four years, limiting access to funds for recent school leavers with less practical experience.

The recently introduced Youth Livelihoods Programme promises to benefit a greater number of youths. Since the official launch of the YLP in January 2014, significant progress has been registered in setting up systems and implementing the programme, which provides vocational skills and interest-free loans for self-employment generation. It is being introduced in a phased manner and is now operational in 27 districts out of the 112 planned. Stakeholders within these districts have been sensitised on the programme and its implementation arrangements; a total of 150 technical staff among the district and Kampala Capital City Authority (KCCA) teams have been trained as trainers of trainers; and an estimated 1,000 youth projects (approximately 13,000 youth) will be financed by the end of FY2013/14. Timely disbursement of programme resources and the enhancement of human resources at the Local Government level (to respond to existing technical capacity staffing gaps) is recognised as important to ensuring effective implementation.

The newly launched Student Loans Scheme is much needed, but will require sufficient funds, appropriate operational mechanisms and broader coverage to have a significant effect on job creation. The initial UGX 6 billion allocated to the scheme is unlikely to benefit a sufficient number of students after disbursement, loan recovery and other administrative costs are taken care of. Government intends to gradually increase funds allocated to the scheme with the phasing out of the State House Scholarship Scheme; however this entails a trade-off and will exclude individuals who are unable to cover non-pedagogical costs from higher education. The focus on science may be valuable given the subject’s important role in Uganda’s development, but support for other areas such as professional management programmes would likely have larger benefits for job creation.

3.2 Coherence

Government’s employment-related projects and programmes require better coordination and alignment to stated policy objectives. Despite largely appropriate policies in most areas, small-scale projects – with inevitably limited benefits – have proliferated under multiple sectors with limited coordination across Government. For example, interventions providing non-formal vocational training, often combined with cheap credit or cash injections and business management skills, have benefitted the youth and other disadvantaged sections of the population. But these projects have been implemented in a disjointed manner outside of Government’s regular BTVET programme, which remains focused on less flexible formal training and hardware investments that can only benefit a relatively small number of students. Objectives emphasised in the NDP and NEP that cut across different sectors – such as expanding access to BTVET and supporting informal self-employment opportunities – have received comparatively little attention in practice.

Implementation of the National Employment Policy exceeds the mandate of a single sector but across-Government coordination is inadequate. The need for a Government-wide approach to integrate polices and interventions for employment creation across sectors is acknowledged in the NEP, but in practice there has been limited coordination between key stakeholders – the envisioned National Employment Council has not been established as MLGSD lacks the capacity to provide the necessary technical support. The impact on the labour market is often not a primary consideration during the formulation of many policies in areas that are critical
for job creation, such as the macroeconomic framework, public investment strategy and resource mobilisation. This partly reflects a lack of consensus on the appropriate position on important tradeoffs between employment and other objectives. Employment considerations are also often overlooked due to inadequate information.

**Infrastructure investments are required to ease constraints to firm growth but many high-return projects may not be funded under the current macroeconomic framework.** Improvements in the transport and electricity networks over recent years have helped to reduce production and distribution costs, increasing firm competitiveness and making expansion more profitable. Job growth has been concentrated along major transport corridors (see Figure 2.7 in Section 2.2.3). Rural electrification is a critical step in expanding productive employment opportunities outside of urban centres. But the pace of infrastructure investment has been slower than planned and it will not be possible for Government to implement its investment plans under the current medium-term expenditure framework (MTEF). To fund the current transport, energy and water sector plans – including large projects such as the standard-gauge railway, the Karuma and Isimba hydropower plants and the oil refinery – will require the fiscal deficit to increase to around 8% of GDP by 2016/17. The current MTEF projects a fiscal deficit of only 2.1% of GDP in the same year.61 This inconsistency results from Government’s fiscal framework overlooking the linkages between public spending and economic performance, including the effects of public investment on the labour market. It is possible to finance Government’s investment plans without jeopardising debt sustainability or macroeconomic stability. This will help to accelerate structural change of the labour market and economic growth, and ultimately strengthen Government’s long-run financial position.62

**There is a tradeoff between the NEP’s emphasis on labour-intensive public works and on-going efforts to improve the efficiency of public investment.** The NEP posits that employment creation should be ‘mainstreamed’ in the National Core Projects of the NDP and used as a key criterion in selecting between alternative public investment projects. This is desirable in theory but in practice the highest-return investment projects have economy-wide benefits, generating employment across many sectors – making it impossible to isolate the effects of a particular project. These longer-term economy-wide benefits are often overlooked in favour of the jobs created directly – the NEP promotes the use of labour-based methods in the construction and maintenance of rural feeder roads and other infrastructure. Since capital-intensive construction techniques are often quicker and more efficient, this approach is inconsistent with on-going efforts to eliminate costly delays in the implementation of public investment projects. The direct employment creation benefits of labour-intensive public works in northern Uganda have been sporadic and short-term.63 Government could consider establishing a coordinated large-scale public works programme, but this should be primarily motivated in terms of social protection – as a guaranteed source of employment for those most in need of work – rather than as a solution to Uganda’s infrastructure deficit.

61 The IMF expect the fiscal deficit to be 5.1% of GDP.
62 The paragraph draws on the findings of a recent comprehensive analysis of public spending and revenue projections and the impact of public spending and financing choices on economic performance over the next 30 years. MFPED (2014), Uganda’s medium and long-term fiscal strategy for socioeconomic transformation.
63 The design of the PWP program under NUSAF 2 provides assistance dependent on the approval of community proposed projects which will provide employment. The programme does not guarantee social protection or a minimum number of days of employment.
A coordinated response to the employment challenge has been undermined by inadequate labour market information. There has been no unified approach to monitoring and evaluating implementation of the NEP across integral MDAs. Most labour market interventions have not captured data on beneficiary outcomes, and there is limited capacity or resources for labour market information management at the macro level. In the absence of quality and high-frequency labour market information, the employment impact of macro-fiscal and monetary policy decisions is needs to be considered. Information to identify skill gaps and guide skills development is particularly scarce, with no national manpower survey conducted since 1987. The Poverty Eradication Action Plan firmly established poverty reduction as the central objective of Government's development strategy in the late 1990s and early 2000s, institutionalising the measurement and reporting of progress, through the biennial Poverty Status Report for example. Employment has become a central theme of Government's strategy under the NDP but is yet to achieve the same level of prominence in the national development framework.

A bias towards short-term results often undermines longer-term sustainable progress in addressing the employment challenge. Interventions in the agricultural sector have increasingly focused on the provision of inputs such as seeds or livestock. NAADS officers spend more of their time managing logistics than their core work of providing extension advice, and the cumbersome procurement process is undermining the development of efficient private input suppliers. Implementation of repeated reform efforts has been inadequate because the short-term political benefits of distributing agricultural inputs exceed the uncertain long-term efficiency gains that a competitive market would produce.64 A similar logic explains the proliferation of tax exemptions – which promise short-term investment and job creation but have significantly weakened domestic resource mobilisation and Government’s ability to invest in physical infrastructure, which will have a much greater impact on employment in the long-term. High-profile credit schemes such as the Youth Venture Capital Fund and the Agricultural Credit Facility bring immediate results in terms of funds disbursed, but have usually benefited firms that are not credit-constrained and have had limited long-term benefits for financial sector development.

Private Sector Development is hindered by the weak regulatory environment and the lack of appropriate channels for SMEs to constructively engage the public sector. Corruption and regulatory requirements are major constraints for SMEs, but not larger firms. Only 8% of large firms (with more than 100 employees) identify corruption as a major constraint, but this is as high as 28% among medium-sized firms (with between 20 and 99 employees).65 Medium firms are almost twice as likely as large firms to be visited by tax officials, and much more likely to be expected to give gifts in these meetings.66 Furthermore, medium-sized firms typically wait 28 days to obtain an import license and 33 hours for imports to clear customs; compared to 8 days and 19 hours for larger firms. Corruption acts as additional tax on SMEs, but more importantly the weak regulatory environment militates against constructive Government-private sector relations. SMEs lack appropriate channels to coordinate and demand effective Government support, making policy less responsive to the constraints they face. Inadequate and inappropriate Government support has contributed to the ‘missing middle’, restricting competition and positive market selection among large firms.

66 It is possible that this reflects lower compliance among smaller firms, but medium-sized firms are more likely than large firms to use external auditors to review their financial statements. World Bank Enterprise Survey 2013.
3.3 Effectiveness

Weak implementation capacity has undermined the effectiveness of Government’s labour market interventions more than the availability of funds. Almost UGX 500 billion was allocated in the FY2012/13 Central Government budget to implement projects and programmes to support smallholder farmers; enhance household livelihoods, private sector development and skills development; or protect vulnerable households (see Section 2.4 for more details). But only UGX 300 billion – or 61% of the budgeted amount – was actually spent on these interventions, mainly reflecting limited absorptive capacity among the implementing MDAs (Table 3.1). Absorption was lowest in the BTVT sub-sector – less than 40% of the funds released were spent. Capital investment and maintenance has performed particularly poorly; in 2012/13 only one new BTVT institution was established out of the planned eight; only three workshops were constructed out of the planned 42; only two libraries were constructed out of the planned eight; and no workshops or libraries were rehabilitated. Similarly poor performance is typical in sectors where officials tend to lack experience and the necessary skills to supervise engineering works, including Agriculture and Tourism, Trade and Industry. Furthermore, a significant share of spending is not in accordance with the planned budget, most notably in the Agriculture sector – an indication of poor planning which likely undermines intervention effectiveness (see Table 3.1).67 Capacity gaps within Government were the most common implementation barrier cited by project managers in the Agriculture Sector.

<table>
<thead>
<tr>
<th></th>
<th>Approved budget</th>
<th>Releases</th>
<th>Expenditure</th>
<th>Share of budget released</th>
<th>Absorption</th>
<th>Share of expenditure unplanned</th>
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<tr>
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<td>168</td>
<td>149</td>
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<td>88%</td>
<td>17%</td>
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<td>Household livelihoods</td>
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<td>44</td>
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<td>78%</td>
<td>3%</td>
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<td>72</td>
<td>79%</td>
<td>63%</td>
<td>11%</td>
</tr>
<tr>
<td>Skills development</td>
<td>39</td>
<td>35</td>
<td>14</td>
<td>90%</td>
<td>39%</td>
<td>2%</td>
</tr>
<tr>
<td>Social protection</td>
<td>23</td>
<td>23</td>
<td>22</td>
<td>99%</td>
<td>94%</td>
<td>8%</td>
</tr>
<tr>
<td>All</td>
<td>494</td>
<td>398</td>
<td>300</td>
<td>81%</td>
<td>75%</td>
<td>12%</td>
</tr>
</tbody>
</table>

Source: Integrated Financial Management System. Notes: Refers to Central Government budget operations only. Labour market interventions are classified as in Figure 2.12 in section 2.4. Unplanned expenditure refers to spending that was not planned for in the approved annual budget – financed either through in-year reallocations or from unspent balances accumulated in previous years.

There is significant variation in the effectiveness of interventions to support household livelihoods, private sector development and smallholder agriculture. Interventions that have performed best relative to their objectives tend to have been demand-driven, often narrowly targeted to address the needs of a specific group or geographic area. Examples include the Support to Fisheries Development and the Vegetable Oil Development Projects. Currently there are 1600 oil palm growers, with about 450 already harvesting fruit. OPUL has provided a ready market for the fresh fruit bunches (FFB). On average, FFB harvested from 5 acres fetches UGX 1.5 million per month. The harvesting is done every month so provides a stable income throughout the year.

67 This is problematic in several sectors: 36% of spending by the Ministry of Trade, Industry and Cooperatives in FY2012/13 was financed either through in-year reallocations or from unspent balances accumulated in previous years. This was 22% in the case of NAADS.
Interventions that have targeted broader and longer-term outcomes such as Private Sector Development have usually been less effective. Examples include the Technology Acquisition Fund, which only supported eight enterprises; and the Business Linkage Promotion programme, which only worked with six Transnational Companies (TNCs) and nine SMEs, mainly due to scepticism on the part of TNCs and reluctance on the part of SMEs to embrace formalisation. Large-scale interventions in the agricultural sector have sometimes failed to meet expectations. The use of the Local Government financing architecture reduces the effectiveness of NAADS. Inputs take too long to reach their intended recipients, decreasing subsequent yields and increasing the probability of crop failure. Public provision is not always aligned to market demands, leading to a limited selection of poor quality and/or inappropriate inputs.

**Lessons from past experience are not being fully exploited to improve intervention effectiveness.** Deficient Monitoring and Evaluation (M&E) processes limit the quantity and quality of knowledge to inform intervention design and implementation improvements, mainly due to inadequate resources and under appreciation of the potential benefits. The majority of interventions do not capture any data on beneficiary outcomes, and this is particularly common for projects without direct involvement of a development partner. In many instances project managers view M&E as the responsibility of external agencies such as MFPED or OPM; there is no acknowledgement of the need to learn from past experience and better respond to beneficiary needs. Project documentation rarely explains the underlying assumptions made about the labour market or why the intervention is expected to achieve its objectives.

**Top-down project design is often unresponsive to beneficiary needs.** One of the most common implementation challenges cited by project managers is ‘poor attitude’ among beneficiaries. For instance, many participants of the Strengthening Women Entrepreneurs project demanded to be paid an allowance to attend the training workshops. This indicates demand for the workshops was weak – the training provided was not perceived to be valuable or relevant by the intended beneficiaries. Many projects targeting SMEs have also struggled to find willing participants. Most participating enterprises in the BUDS Energy for Rural Transformation programme under PSFU – which aimed to develop private sector capacities in rural-electrification-related businesses – failed to implement their projects beyond the feasibility study stage. The project manager cited poor financial capacity among the participating firms, suggesting that the project design did not respond to their most-pressing needs.

**The quality of public BTVET services is often unsatisfactory but is gradually improving.** The BTVET sub-sector faces a number of challenges including significant technological lags, with many institutions using out-of-date equipment not relevant for today’s market; staffing gaps; negative attitudes among staff and students; rigid courses with inadequate emphasis on practical training; and poor monitoring of service providers. There has been noticeable improvement in these areas over recent years however. Stakeholders attribute this to increased funding for training materials and infrastructure; the introduction of the new BTVET curriculum, which emphasises competence-based training; increased involvement of employers and the private sector, although this is still limited; and new bodies such as the Uganda Business and Technical Examinations Board (UBTEB) and the Uganda Allied Health Examinations Board (UAHEB), which provide specialised and standardised assessments. The impact of increased funding for public BTVET institutions has been seen in continuous improvements in the stock of workshops and training materials, although progress has been slower-than-planned and some institutions still have limited equipment for practical work.
Staffing challenges in the BTVET sub-sector remain significant. Many BTVET institutions have fewer than 60% of staffing positions filled. To address staff shortages, it is common to recruit part-time instructors who are paid on an hourly basis. This is significantly cheaper than recruiting permanent instructors, but a lack of staff motivation and out-of-date skills remain key challenges to quality service delivery. Public BTVET teachers received a 30% salary increase in FY2011/12, but most instructors consider the enhancement insufficient and are demanding further pay rises.

Implementation of policies to encourage industrial placements and practical training has been limited. The BTVET Act (2008) stipulates that all students should complete three months supervised industrial training or apprenticeship. Implementation of these schemes has been limited; employers are reluctant to take on many students due to the high costs of facilitation and supervision and the challenge of limited space. This has weakened institution-employer interaction, reducing employer contribution to the training process and the relevance of graduates’ skills, although a few traditionally high-quality public institutions (such as Elgon Technical College) have more established relationships with employers, who often headhunt their top graduates. Despite the introduction of the Competence-Based Education and Training (CBET) curriculum, the majority of formal BTVET institutions still attach more emphasis to theory than to practical learning, compromising the effectiveness of formal BTVET and the competence of its graduates. Non-formal training providers have often been more successful in providing hands-on experience and practical skills, resulting in higher employer satisfaction. Yet many institutions are unaware of the new standardised training modules for non-formal BTVET, and only offer long-term courses that are inflexible and expensive, deterring enrolment and causing unnecessary dropout.

3.4 Impact

BTVET graduates are more likely to find wage jobs and are making use of their skills. Quantitative analysis of the Uganda National Panel Survey (UNPS) suggests that completing formal technical or vocational training on average increases consumption by around 7%. The returns to BTVET in most cases exceed the returns to formal education. This is supported by qualitative evidence on the experience of BTVET graduates. Formal vocational training is perceived to increase employability and the likelihood of finding wage employment, even if BTVET graduates do not earn higher wages. Since wage employment generally pays more than self-employment, BTVET increases average incomes amongst its graduates. Once recruited, BTVET graduates are perceived to be more productive, indicating proficiency in the utilisation of skills acquired. Stakeholders mainly attribute this to the Competence-Based Education Training (CBET) approach which emphasises vocational skills relevant to the needs of the labour market. Non-formal BTVET is thought to have larger productivity benefits due to a stronger emphasis on CBET, and greater exposure to the tools-of-trade, soft skills and market realities. Since many non-formal training programmes target the informal sector, beneficiaries are less likely find wage employment but training often increases earnings from self-employment. The returns to training are particularly high when combined with cash injections to increase business assets – one-off grants disbursed under the Youth Opportunities Programme component of NUSAf, which recipients used for vocational training, tools and materials, increased earnings after four years by around 40%.
Few graduates from formal BTVET institutions create jobs for themselves or others due to insufficient emphasis on business and entrepreneurial skills. Although Government has prioritised vocational training to create ‘job makers’ rather than ‘job seekers’, job creation among formal BTVET graduates has been far less than expected. For example, only one of the 24 graduates from Elgon Technical College interviewed was self-employed. Lack of start-up capital is the most common constraint to enterprise creation identified by formal BTVET graduates, but the rate of self-employment among non-formal BTVET graduates – who are typically less well-off – is much higher. This suggests entrepreneurial and business skills are being overlooked by formal training institutions. Many non-formal training providers specifically target microbusiness managers and entrepreneurs who want to develop specialised skills to expand their initiatives, and the beneficiaries are consequently more likely to create jobs for themselves and others.

Efforts to standardise the assessment and certification of BTVET candidates have helped job seekers and employers, but coverage remains low. Certificates issued by formal BTVET institutions are increasingly recognised, reducing search costs for both job seekers and employers. But efforts to extend standardised assessment to shorter non-formal courses have so far made little headway. A large share of job appointments are still made on the basis of trust and personal connections (e.g. plumbers and mechanics), leaving some individuals with relevant skills unable to access productive employment.

Technical and vocational training have significant benefits but cannot overcome major constraints to labour demand. In the context of Uganda’s segmented labour market, vocational training may affect who is employed and not the number of jobs available – if BTVET graduates find jobs at the expense of non-BTVET graduates. This is unlikely given that the inadequate supply of practical skills among the labour force is a binding constraint to the growth of many firms (see Section 2.3.4), and that BTVET graduates are viewed as more productive once in employment – it is likely that many firms have hired BTVET graduates, and would not have expanded employment otherwise. On the other hand, the position of many BTVET graduates remains unstable – the majority of those traced were employed informally with no appointment letters or official contracts. Job insecurity is not confined to BTVET graduates but stems from the excess of supply over demand that characterises the labour market. Vocational training is unlikely to generate the number of jobs Uganda requires unless other constraints to employment creation are addressed – such as inadequate physical infrastructure, limited competition among large firms, poor management practices and access to credit for growth-orientated SMEs.

Entrepreneurship and business training targeting established firms and professional entrepreneurs have had large job-creation effects. Interventions targeting micro-enterprises have had only marginal effects on job creation – these types of enterprises rarely grow to employ non-family members and are often shutdown when more attractive opportunities emerge. On the other hand, business training targeting larger established firms has shown greater potential to increase employment growth. For example, SME owners from Kampala that participated in a three-day course focused on personal initiative and pro-activeness on average hired an additional three employees over the following year – a 30% increase in employment. Specialised training for potential entrepreneurs has been proven effective in improving business professionalism and the growth prospects of new firms. For instance,
a 12-week action-orientated entrepreneurship training programme administered to final-year Ugandan undergraduates was found to increase the likelihood of starting a business by 50%, and significantly improved opportunity identification and professional business skills.

**Government interventions to reduce the cost of credit have had a limited impact on job creation.** Most Government credit schemes have fixed interest rates artificially low – at 15% in the case of the Youth Venture Capital Fund and 10% in the cases of the Agricultural Credit Facility and Uganda Development Bank, compared to prevailing market lending rates between 20% and 25%. Participating private financial institutions have found it unattractive to lend to higher-risk clients at these rates. Most public funds have been disbursed to larger, more established borrowers. The ACF has supported viable on-going agribusinesses, but almost no start-up ventures. The YVCF has mainly supported more experienced entrepreneurs – almost all lending has occurred without the mentoring services or management training that was intended to support those with less experience. Subsidising credit to low-risk borrowers is unlikely to have a significant impact on job creation, as the beneficiaries of Government support are often not credit-constrained and would have invested to some degree in any case. More effective credit market interventions – such as the Agricultural Business Initiative Trust and United States Agency for International Development (USAID) funded Development Credit Authority – do not fix interest rates or lend out funds directly, but instead provide partial guarantees to protect financial institutions in the event of default. This approach takes account of the higher risks of lending to credit-constrained clients, and incentivises financial institutions to upgrade their lending capacity.

**Broad tax exemptions have had limited impact on investment and job creation.** In practice, tax exemptions and investment incentives benefit large firms the most – effective tax rates tend to decrease as taxpayer size increases. Large firms have tended not to generate additional employment (See Box 1 in Section 2.3.3). The incentives are not viewed as necessary to attract investment by independent analysts or investment advisors, and are often exploited by larger firms for aggressive tax planning and avoidance. A recent survey found that 93% of investors said they would have invested even if they did not receive any tax incentives. Even if some tax incentives have a positive impact on job creation, given the large fiscal cost the broad exemptions currently in place would not represent value for money. Government revenue forgone to tax incentives would have larger benefits for employment generation if it was instead used to ease the binding constraints to job creation, such as inadequate physical infrastructure.
4 Refocusing Government’s strategy to address the employment challenge

4.1 Future challenges and opportunities

Uganda’s employment challenge is not static. The changing domestic and international context poses both challenges and opportunities to generate productive jobs. These developments need to be considered and incorporated into the future direction of Government’s development strategy.

Uganda’s development prospects have been greatly enhanced by the confirmation of commercially viable oil deposits. Oil revenues are expected from around 2017/18, and will peak at approximately 7% of GDP in the mid-2020s. Although the oil industry requires significant capital investments and is not labour intensive, it has the potential to create a large number of jobs indirectly by increasing aggregate demand generally, and in areas that support the oil industry, such as construction, transport, hospitality and trade. The planned refinery will enable Uganda to reduce its fuel imports and oil revenue will be used to finance the backlog of large-scale infrastructure projects. This is likely to help accelerate the growth (and employment) of Ugandan firms, who are currently constrained by deficient physical infrastructure – particularly electricity and internal transport networks. The inflow of foreign exchange from oil exports runs the risk of appreciating the Ugandan shilling and reducing the competitiveness of the country’s non-oil tradables – which are important sources of employment. Government will also need to manage the inevitable volatility in oil incomes. These risks can be mitigated by sound macroeconomic management – relative to the size of the economy, oil inflows are likely to be significantly less than aid inflows during the late 1990s and early 2000s, particularly if a significant share is saved.

East African Monetary Union offers opportunities for job creation but also the risk of greater instability in employment. East African Community (EAC) heads of state signed the Monetary Union Protocol in November 2013. The protocol outlines the process and legal and institutional framework for the establishment of the East African single currency, including a set of macroeconomic convergence criteria. The larger regional market associated with the monetary union (and the EAC more broadly) presents opportunities for economies of scale; lower transaction costs; greater competition; and increased Foreign Direct Investment (FDI). Deeper regional integration will help to accelerate employment and productivity growth as more productive firms will expand at the expense of those that are less able to compete. However, participation in the monetary union will impose important constraints on both monetary and fiscal policy. From 2021, it will not be possible for Government to undertake additional borrowing if this increases the fiscal deficit or level of public debt beyond the ceilings imposed by the monetary union convergence criteria – making it even more important for Uganda to complete large infrastructure projects before then. Under the common currency, Uganda will surrender its independent monetary policy. If the Ugandan economy is experiencing weak demand, Government will no longer be able to compensate by loosening monetary policy. A negative shock – such as a drought or weak international demand for Uganda’s exports – may therefore have a significant negative impact on growth and employment. To reduce exposure to these external shocks Uganda must further diversify its economy; the country will reap greater benefits from monetary union if it continues to reduce its reliance on agriculture and a small number of commodity exports.
Emerging land constraints mean the agricultural sector must transition from extensive to intensive growth, driven by smallholder farmers. Since 2000, growth of Uganda's agricultural sector has slowed to below 2% per year on average, below the rate of population growth. The majority of this growth stems from the extension of land under cultivation rather than productivity improvements – agricultural land has increased from around 60% of Uganda's total land area in 2000 to over 70% currently. With limited scope to further increase land under cultivation, farmers will have to adapt traditional agricultural practices to use land more intensively – by increasing the use of inputs - including labour, improved seeds and inorganic fertilisers – or using inputs more productively through new methods and technologies. To supply the growing urban population and expand exports Uganda must increase agricultural yields substantially. Large mechanised farms have higher labour productivity but often lower yields per hectare than smallholder farmers, who dominate the agricultural sector – 96% of farms are smaller than 5 hectares, 58% are smaller than one hectare. To use Uganda's limited land resources more productively it will be critical to reduce underemployment and increase market-orientation among smallholder farmers.

Uganda's urban population is increasing significantly, and labour demand in urban areas may not keep pace. The urbanisation rate increased to 23% in 2012/13, from 14% in 2002/3. Structural change is likely to further increase urbanisation in the future. More effective and wider-reaching interventions to support labour demand will be needed to ensure urban areas can productively employ the rapidly expanding labour force. The majority of migrants are currently absorbed into informal employment, associated with low productivity and poor remuneration. Lapses in regulation in urban administration have contributed to this phenomenon. Among other factors, such as higher food prices, increased urbanisation may have contributed to the recent stagnation in the urban poverty rate. However, urbanisation, if appropriately managed, also offers significant opportunities for development and productive employment. With productive clusters concentrated in urban areas, incomes are on average higher than those in rural areas and the growing urban workforce can provide a source of demand for agricultural products which can feed through to increased incomes and employment for agricultural workers as well.

Developments in the global arena offer opportunities for Uganda to enhance its export-led development strategy. Recent wage hikes in the world's largest exporter of labour-intensive manufactures, China, have created incentives to offshore production of more labour-intensive activities to countries with lower labour costs, providing an opportunity for labour abundant Uganda to capture some of this manufacturing activity. This opportunity can be best harnessed by integrating domestic firms into global value chains, for instance by promoting FDI and Special Economic Zones, increasing physical access to global markets and improving compliance with international standards. The majority of advanced economies are beginning to recover from the Great Recession; this will increase the demand for Uganda's exports but also provide an impetus for further diversification and a shift towards higher-value-added tradables. Lower trade costs from enhanced regional integration (through EAC and COMESA) will also help to further stimulate Uganda's external economy and offer opportunities to further develop more complex exports such as construction materials and food products.
4.2 The sustainability of Government’s strategy

Recent economic and labour market trends raise concerns about the sustainability of Government’s employment-related policies.

The number of regular wage jobs grew at around 12% per year in the first half of the 2000s, but fell by 3% between 2009/10 and 2012/13 (see Table 2.3 in Section 2.2.3). The unemployment rate now stands at 9.4%. The slowdown in job creation is closely linked to deterioration in Uganda’s macroeconomic performance – economic growth averaged close to 8% per year between 2002/03 and 2007/08, but since then has averaged below 6%. The restoration of peace and economic reforms in the 1990s significantly improved overall allocative efficiency and provided the impetus for rapid growth and job creation, but these one-off benefits are now waning. Overall productivity growth has slowed since the early 2000s (Figure 4.1). Unless new drivers of productivity emerge, there is a risk that Uganda will shift to a slower growth path, reducing job creation as the number of labour market entrants continues to expand.

The inadequate creation of productive jobs is holding back Uganda’s economic and social development. Uganda’s dramatic improvement in macroeconomic management since the 1990s has brought rapid economic growth, but has been mainly driven by a few skill-intensive service sectors. At the same time, households have dramatically diversified their income portfolios away from agriculture. This important change has mitigated underemployment and helped to reduce poverty, but the majority of households continue to straddle the agricultural and non-agricultural sectors. Activities such as petty trade and informal manufacturing have helped to supplement the income of poor households, but have not yet made a significant contribution to Uganda’s economic growth. A large section of the population will continue to rely on these types of activity, but most will remain reluctant entrepreneurs until more attractive opportunities emerge, particularly a large number of regular wage jobs in the non-agricultural sector.

The creation of productive employment opportunities for the rapidly growing labour force is a critical means to sustain growth. Job creation should not be viewed simply as the outcome of economic growth – the reallocation of labour from low to high-productivity sectors can significantly increase average incomes. McMillan and Rodrik (2011) estimate that aggregate labour productivity in sub-Saharan African economies would increase up to elevenfold if the intersectoral distribution of employment matched that of the advanced economies, even without any productivity improvements within sectors. A sustainable employment strategy must target structural economic transformation – jobs must be a central focus of Uganda’s overarching development strategy.
Oil revenue and regional integration will further increase the importance of structural change in the labour market. Future oil revenues provide Uganda with the opportunity to dramatically improve its physical infrastructure – one of the most important constraints to employment growth. The associated investment boom can create a significant number of jobs – but if the private sector (particularly the construction industry) is unable to respond to the surge in demand, costs and prices may be forced up, reducing competitiveness across the economy. Greater integration into the regional and global economies will sharpen competition and facilitate the diffusion of more efficient technologies, but the Ugandan economy will require a broader and more diversified productive base to mitigate exposure to external shocks.

Box 2: An economy-wide perspective on growth, structural change and job creation

Government interventions are required to enhance productivity, rather than increase employment directly. NAADS for instance disseminates knowledge on modern agronomic practices, which often enable farmers to increase their yields while economising on the use of labour. These types of interventions do not only affect individual households or enterprises – they have economy-wide consequences that can generate more and better-quality jobs. For example, higher agricultural productivity can create jobs in agro-processing and trade. Most of the employment benefits of a successful intervention are typically felt outside of the sector targeted. One way to evaluate these issues is through policy simulations and economy-wide modelling techniques.

Different types of growth – for example growth driven by agricultural productivity or growth driven by higher FDI – have different implications for the labour market (see simulation results below). In all cases income growth eventually leads to higher levels of educational attainment among the labour force. As households become richer they also disproportionately demand more non-agricultural products. This explains why in most scenarios there is a reduction in employment of less-educated workers and the number of jobs in the agricultural sector. There is a risk that the increased supply of better-educated workers and those moving out of the agricultural sector will not be absorbed into new activities. The aggregate impact of highly unbalanced growth could be growing un- and under-employment: ‘jobless growth’. The growth of capital or skill-intensive sectors tends to increase the potential returns to education and the number of households that can afford higher education, but does not necessarily generate sufficient labour demand to absorb the increased supply of better-educated workers. Productivity growth in the manufacturing sector may actually reduce the number of manufacturing jobs.

The long-term impact of growth on job creation

<table>
<thead>
<tr>
<th>Growth driven by</th>
<th>Impact on jobs</th>
<th>Primary education</th>
<th>Secondary &amp; tertiary education</th>
<th>Agriculture</th>
<th>Manufacturing</th>
<th>Construction</th>
<th>Services</th>
<th>Net job creation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural productivity</td>
<td>-273,689</td>
<td>817,872</td>
<td>-422,340</td>
<td>35,221</td>
<td>193,214</td>
<td>633,197</td>
<td>544,183</td>
<td></td>
</tr>
<tr>
<td>Manufacturing productivity</td>
<td>-332,671</td>
<td>619,775</td>
<td>-804,623</td>
<td>-856,523</td>
<td>158,961</td>
<td>1,260,317</td>
<td>-215,007</td>
<td></td>
</tr>
<tr>
<td>Construction productivity</td>
<td>429,765</td>
<td>642,606</td>
<td>-565,423</td>
<td>1,437,488</td>
<td>-555,681</td>
<td>246,711</td>
<td>606,461</td>
<td></td>
</tr>
<tr>
<td>Services productivity</td>
<td>-2,731,056</td>
<td>855,937</td>
<td>-4,850,229</td>
<td>999,022</td>
<td>565,916</td>
<td>1,550,604</td>
<td>-1,639,037</td>
<td></td>
</tr>
<tr>
<td>FDI</td>
<td>192,882</td>
<td>621,680</td>
<td>-515,417</td>
<td>291,862</td>
<td>74,067</td>
<td>502,108</td>
<td>377,235</td>
<td></td>
</tr>
</tbody>
</table>

Source: MAMS simulation results. Note: Annual total-factor productivity growth of each sector is increased by 2 percentage points; FDI is increased by 3% of GDP. Reports additional jobs in 2040 relative to the baseline scenario.

The simulations indicate that growth driven by the agricultural sector, construction and FDI is more balanced. Under these scenarios, more jobs are created to employ the less-educated workers that continue to make up the large majority of the labour force. The demand for skilled labour grows at a comparable rate, but there is not such a rapid increase in the supply, and the unemployment rate does not increase. The quantitative results suggest that feasible productivity improvements of Uganda’s existing economic activities are unlikely to be sufficient to absorb the projected number of labour market entrants. New industries will also have to emerge and existing industries must become more labour-intensive and re-orientate towards the larger regional and global markets.
Employment growth will not be sustainable without productivity improvements across the economy – particularly in agriculture and construction – and the emergence of new employment-intensive and outward-looking industries. Economy-wide simulations suggest that unbalanced growth, driven by a narrow range of high-value activities, will not be sufficient to ensure sustainable employment growth (see Box 2). Without broad-based income and productivity growth, employment growth in the manufacturing sector for instance will be constrained by the limited size of the domestic market and bottlenecks in other sectors – such as the demand for construction materials or the quantity and quality of agricultural commodities for processing. Simulations also reveal that feasible improvement in the productivity of Uganda’s existing economic activities will not be sufficient to prevent rising unemployment given the projected growth of the labour force – it will also be necessary for entirely new industries to emerge. Exploiting the linkages between agriculture, manufacturing and construction will balance the desire to increase the diversification, complexity and value of production, while not over-stretching existing capabilities, making the development of new products faster and less risky.68

Constraints to the growth of existing and new industries are constantly evolving and cannot be addressed by a static set of interventions. Even if Government successfully addresses the current constraints to labour demand, employment growth will only be sustained if Government policies and support are constantly re-evaluated and adapted to fit the ever-changing needs of the private sector. Institutional mechanisms to guide this process are currently inadequate. Forums such as the Presidential Investors Roundtable, the National Competitiveness Forum, and the Private Sector Forum are unable to execute reforms or supply public inputs, and there is no institutionalised process to review input from the private sector or coordinate Government action to address firm constraints. These forums have tended to focus on high-level strategic issues, which has encouraged firms to lobby for broad Government aid – such as tax holidays – rather than industry-specific public inputs important for employment growth.

It may not be fiscally sustainable to maintain broad tax exemptions and investment incentives while scaling up public investment. Financing Government’s current infrastructure plans such as the Karuma and Isimba hydroelectric power plants, the standard-gauge railway, the oil refinery, and clearing the investment backlog in the road and water sectors, will require public infrastructure spending to roughly double, from around 4% of GDP currently to around 8% of GDP in the late 2010s. If the current tax exemptions are streamlined, there will be a significant but manageable increase in public debt. But the long-term level of public debt will be approximately 20% of GDP higher if the tax exemptions are maintained.69 Government would be significantly more reliant on expensive non-concessional borrowing – which would increase debt-servicing requirements, and potentially crowd-out private investment, complicate macroeconomic management and reduce fiscal space to respond to unexpected shocks.

4.3 Policy recommendations

Drawing together the preceding evaluation findings, this section provides recommendations to inform the development and implementation of policy reforms and interventions that are:

i. Required to overcome Uganda’s employment challenges;

ii. Within the technical and financial capacity of Government ministries and other stakeholders to implement; and

iii. Consistent with the national development planning framework.

68 Hausmann et al. (2014), ‘How should Uganda grow?’
69 MFPED (2014), Uganda’s medium and long-term fiscal strategy for socioeconomic transformation.
4.3.1 Placing jobs at the centre of the structural transformation agenda

Efforts need to be concentrated to realise the NDP and Vision 2040 employment-related targets. Government’s policy framework has refocused on the productive capacity and employment potential of economic sectors, but further coordination efforts are needed to ensure that this new view of employment is appropriately reflected in Government’s policies and programmes. The generation of productive employment opportunities will determine whether Uganda’s impressive growth and poverty reduction performance can be sustained in the coming years. Focus will have to be put on expanding the number of jobs and encouraging the movement of the labour force into high-value sectors.

Government’s macroeconomic framework must accommodate more rapid infrastructure investment to drive employment growth and structural change. Government’s investment plans have large potential to accelerate job creation and can be financed in a fiscally sustainable manner without jeopardising macroeconomic stability. Given the prospect of oil revenue, it is particularly important to strengthen the linkages between the annual budget and Uganda’s longer-term strategic plans:

i. The budget preparation process must shift focus from simple revenue projections to more comprehensive analysis of Government’s inter-temporal tradeoffs and the linkages between expenditure, economic growth, job creation, and future Government revenue.

ii. Tax policy reforms should be pursued to reduce reliance on non-concessional borrowing. VAT exemptions should be streamlined and initial capital allowances and special income tax regimes for agro-processors and exporters urgently reviewed.

iii. A more credible long-term financing strategy to guide sector planning and the annual budget is required.

iv. The selection of infrastructure projects should be based on the expected economy-wide returns, rather than the short-term benefits or the number of jobs created directly.70

Structural transformation must be enhanced in the agricultural sector. Agriculture currently employs 72% of the labour force and there is potential for significant productivity improvements. Mechanisation and greater capital intensity will increase productivity and release labour to find employment in higher-value sectors. Yields can be increased by using labour more intensively (reducing underemployment), along with other inputs such as improved seeds and fertiliser. A shift from subsistence to market-oriented agriculture and food production for export will help to increase earnings for those employed in the sector. This will increase the demand for non-agricultural products and the supply of inputs for the agro-processing industry, and lower the relative price of food, increasing the competitiveness of Uganda’s tradable sectors. Agricultural productivity growth has the potential to create almost 1 million additional non-agricultural jobs by 2040,71 while growth driven by services or manufacturing without corresponding improvements in the agricultural sector has limited job creation potential (see Box 2). To enhance agricultural productivity Government should:

70 For the majority of high-return public infrastructure projects, the number of jobs created indirectly will outweigh the number of jobs created directly (see Section 3.2).
71 This is assuming on a 2 percentage point increase in agricultural total factor productivity growth, which is in line with the performance of developing Asia since the 1970s. Fuglie (2010), ‘Total Factor Productivity in the Global Agricultural Economy: Evidence from FAO Data’, in The Shifting Patterns of Agricultural Production and Productivity Worldwide, Midwest Agribusiness Trade Research and Information Center: 63-95.
i. Address the design and implementation weaknesses in the provision of advisory services and agricultural inputs. Establishing an electronic voucher system could improve efficiency and help to develop input markets.\(^2\)

ii. Allocate efficiency savings from NAADS to areas with large effects on production and productivity in the sector, such as pest and disease control.

iii. Partner private actors to promote the integration of smallholder farmers into larger value chains. For instance, the successful Vegetable Oil Development Project in Kalangala could be replicated in other regions and commodity value chains. Smallholder farmers benefiting from such arrangements enjoy stronger and more stable demand for their products; and often training, credit and other inputs provided by agribusinesses.

iv. Support farmer and producer associations, particularly those that have emerged organically and assigned clear rights and responsibilities to a loyal membership.\(^3\) Strengthening the Warehouse Receipt System or establishing a loan scheme to support farmer associations would enable them to purchase large volumes of members’ produce for bulk sale on a cash-payment basis, helping to lower operational costs and increase the prices paid to members.\(^4\)

v. Develop new mechanisms to facilitate loans to commercially orientated farmers (see Section 4.3.2).

**Addressing bottlenecks in the construction sector, particularly housing, will be critical to help absorb workers released from agriculture.** Construction costs have outpaced general inflation over recent years and are accelerating, reflecting a number of constraints including high transport costs, inadequate skills, inappropriate building regulations, and limited access to land and finance. Addressing these bottlenecks will have far-reaching consequences for employment growth, particularly in manufacturing given the close linkages between the two sectors. Feasible productivity improvement in construction would create an estimated 1.4 million additional manufacturing jobs by 2040 – in comparison a substantial increase in FDI would only create around 300,000 manufacturing jobs (see Box 2). If the construction sector can respond to growing demand in the context of rapid urban growth, increased Government investment and the upcoming oil boom, it will become a significant source of job growth and have a large impact on competitiveness and growth across the economy. The construction of affordable formal housing on a large scale could greatly expand employment opportunities for the urban youth, particularly if driven by small construction firms using labour-intensive techniques.\(^5\) Construction-related crafts are the most common technical skills held by males. Unleashing this potential will require a number of reforms, which can only be guaranteed by high-level political support to coordinate efforts across several Government sectors, for instance:

i. Building regulations need to be reviewed to ensure unit costs of construction in the formal sector are affordable to ordinary households.

\(^2\) For more details see MFPED (2013), Accelerating Rural Development through better Rural Financing Mechanisms.

\(^3\) Farmers groups must be viewed as economic structures for the producers rather than instruments for rural development controlled by Government like the old agricultural cooperatives. Farmers associations that have emerged organically are more likely to take account of local conditions, respond to the needs of their members, and to build the organisational cohesion and management capacity in financial and business planning required to successfully integrate into agricultural supply chains.


ii. Government needs to play a more active role in the housing finance market to ensure credit is widely available for both small construction firms and for mortgages.

iii. Urban planning processes must ensure the necessary infrastructure is provided in advance of settlement.

iv. Competing claims to land need to be resolved transparently, perhaps by a special ad-hoc court.76 Higher land taxes will also make ownership less important, helping to establish clear marketable rights.

v. Access to occupational training in construction-related trades needs to be expanded to increase the supply of skilled labour.

vi. Regional cooperation in trade, investment and immigration reform should aim to regionalise the market in construction services, materials and skilled labour. Joint infrastructure projects such as the standard-gauge railway will help to reduce transportation costs for construction materials.

4.3.2 Reviewing the relationship between Government and the private sector

Over the last 25 years Government has withdrawn state intervention and enabled the private sector to take advantage of significant investment opportunities, with less attention to the constraints faced by SMEs. This has contributed to the ‘missing middle’, restricting competition and positive market selection among large firms, who can often maintain their market share without developing supply chains with smaller firms or adopting more efficient technologies and management practices. For instance:

i. SMEs report corruption and regulatory requirements as major constraints, but larger firms do not.

ii. Effective tax rates decrease with taxpayer size, in part due to the exploitation of exemptions and investment incentives for aggressive tax planning and avoidance.77

iii. The weak regulatory environment means the benefits of entering the formal sector are low for most informal enterprises. This contributes to intense competition in the informal sector, characterised by destructive imitation rather than learning and innovation.

iv. Government projects to support SMEs have remained small-scale and require better coordination both within the public sector and among SMEs.

v. Subsidised loans have benefited large firms more often than credit-constrained SMEs.

These issues are at the heart of relatively low employment growth among Uganda’s formal firm compared to those in other African countries such as Ghana (see Box 1 in Section 2.3.3). To realise the potential of SMEs as an engine of job creation, Government needs to revise its relationship with the private sector, particularly to strengthen the regulatory environment and formal systems of coordination and structured dialogue among private and public stakeholders on the formulation and implementation of policy.

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76 This approach was successful in resolving the property claims of returning Asian Ugandans in the early 1990s.
The regulatory and legal environment needs to enable less established firms to compete with larger incumbents on a level playing field. Regulatory requirements currently place a disproportionate burden on new and small firms; mainly due to uneven practical application rather than the regulations themselves. Contract enforcement is a critical area in which less established firms are placed at a disadvantage, mitigating against strong inter-firm linkages. Supportive measures could include the rolling out of small claims courts nationally, adaption of arbitration procedures to the needs of SMEs, and training of a specialised team of judges to handle commercial enforcement cases. Support could also be provided to business associations to facilitate negotiation and conciliation.

The VAT and income tax regimes should be simplified. Streamlining tax exemptions and investment incentives would reduce the scope for tax planning and avoidance and significantly improve compliance – industries such as agro-processing and construction with more exemptions currently have much lower compliance. Government should also consider raising the VAT threshold. This would encourage more enterprises to embrace formalisation, reduce the opportunities for noncompliance and compliance costs for both taxpayers and URA.

Government needs to take an active role to encourage coordination across private firms. The establishment of Special Economic Zones and Industrial and Business Parks must be expedited to facilitate clustering of activities in areas where all the essential public inputs are available. Government needs to increase support for organised industrial bodies and firm associations. Private sector associations with greater depth and diversity will facilitate learning, coordination, trust and the efficient division of production processes across firms; as well as more effective dialogue with Government.

The institutional structures for firms to work with Government need to be strengthened. Private sector firms are best positioned to identify the most important opportunities and obstacles they face. Existing forums such as the Presidential Investors Roundtable, the National Competitiveness Forum, and the Private Sector Forum have tended to focus on high-level strategic issues. Working at a high level of aggregation encourages firms to lobby for broad Government aid – such as tax holidays – rather than focusing on industry-specific public inputs. The forums have had only limited and indirect input from SMEs, and on their own are unable to execute reforms or supply public inputs. Responding to identified constraints requires public resources and institutions with the sole purpose of coordinating Government action in identifying and acting on firm constraints. Self-organised business groups should be encouraged and supported to identify common public inputs required and propose regulatory and institutional changes. An annual process should be established to review these suggestions, decide which ones qualify action and coordinate Government’s response. This should involve:

1. Permanent self-organised working groups at the industry level, with representatives from firms of all sizes.

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78 In November 2012 Government rolled out the Small Claims Procedure in the Chief Magistrates courts of Mengo, Arua, Masaka, Kabala, Mbale and Lira to effectively resolve disputes of claims that do not exceed UGX 10 million.
81 Hausmann et al. (2014), ‘How should Uganda grow?’
ii. A technical secretariat within Government to assess the public interest of proposals made by the working groups. The proposals and the secretariat’s assessment should be public knowledge.

iii. An annual competitiveness bill to include regulatory and institutional changes identified by the working groups.

iv. Co-financing with the private sector to reduce pressure on Government resources. Firm willingness to pay can also be used as a screening device for potential investments.

v. A coordinating council involving a consortium of MDAs and other stakeholders to ensure the implementation of required investment projects through the Public Investment Plan.

vi. A process to monitor implementation of the resulting reforms and projects and provide systematic feedback. This should be governed independently and properly resourced.

**Government should consider expanding development banking and credit allocation policies.** Credit to certain sectors and activities – such as agriculture and SMEs – can have a large impact on job creation, but Government currently has few policy instruments to influence the allocation of lending. In 2013, the Uganda Development Bank’s advanced loans totalling UGX 30 billion – equivalent to only 0.2% of gross capital formation.82 Government could consider recapitalising UDB to expand the amount of subsidised credit for social priority activities – which might include commercially orientated smallholder farmers; SMEs (particularly agribusinesses and small construction firms); farmer collectives and business associations. SMEs should be prioritised but larger borrowers could also be considered for subsidised credit provided they can demonstrate the proposed projects will have large positive employment effects.83 Given the limited role played by Development Banks in the Ugandan economy, it will be difficult to scale up lending substantially without a drastic reorganisation of current organisational structures. In the short term it may be more feasible and cost-effective to leverage private sector credit for social priority lending – this can be achieved through a combination of asset reserve requirements and credit guarantees.

**Asset reserve requirements can be used to incentivise social priority lending.** Government could set requirements for private financial institutions to hold a minimum percentage of their loan portfolio – say 20% – in social priority sectors, such as small-scale agriculture, or else hold the same proportion of their assets in a sterile cash reserve.84 This would provide an incentive to lend to firms in the targeted industries, as they will forgo any interest income on their assets held in the cash reserve. To increase flexibility, rather than holding the required assets in the cash reserve, banks could lend to priority sectors indirectly through other banks that may be more specialised in a particular niche such as agriculture or SMEs. An auction system to allocate social priority lending across financial institutions – rather than a fixed quota for each individual bank – would be more flexible still.85

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82 Subsidised credit in many developing countries amounts to at least a quarter of total private investment – the target proposed for South Africa by Pollin et al. (2006), ‘An Employment-Targeted Economic Program for South Africa. United National Development Programme.

83 For instance, applicants could provide an Employment Impact Statement indicating the direct and indirect employment effects of the proposed project (i.e. the up- and downstream impact when the firm receiving the loan purchases inputs from other Ugandan firms). This type of programme would have greater monitoring requirements however, to ensure that funds are used towards their primary intended aim of employment creation.

84 Priority sector lending has been implemented successfully India. The Reserve Bank of India operates a scheme of priority sector lending which covers small loans to farmers, micro and small enterprises, poor people for housing, students for education and other low-income groups. Domestic commercial banks and foreign banks with 20 or more branches must divert 40% of their lending to “priority sectors”, 18% to agriculture and 10% as advances to weaker sections of the population. Priority sector guidelines do not lay down any preferential rate of interest for priority sector loans. While many lessons can be taken from the Indian experience, Uganda may wish to implement a more flexible system of sector-specific asset reserve requirements that allows banks to lend to priority sectors indirectly.

Government should scale up partial loan guarantees to extend financial access to higher-risk borrowers. Many firms that would be willing to borrow at the prevailing market rates are unable to do so, as commercial banks have limited capacity to screen and monitor their clients and prefer safer investments. These firms typically have high-return projects and significant growth and job creation potential. Schemes such as the Agricultural Credit Facility and the Youth Venture Capital Fund have lent out significant public funds at a subsidised interest rate, but usually not to these types of firm or entrepreneur. On a smaller scale, Government – through the Agricultural Business Initiative Trust – also provides partial guarantees to protect financial institutions in the event of default.\textsuperscript{86} This approach has proved more successful in incentivising financial institutions to upgrade their lending capacity, reducing the risks and costs associated with lending to SMEs, and therefore the interest rates charged.

By leveraging private sector credit, partial guarantees are more cost-effective than lending public funds directly. SMEs that have gained access to credit through these schemes have seen very rapid employment growth.\textsuperscript{87} Government should significantly scale up credit guarantee schemes to benefit more SMEs, particularly in priority sectors such as agriculture, agro-processing and construction.

4.3.3 Skills development

Skills development has an important role to play in expanding productive employment opportunities in Uganda. Skills enable individuals to increase productivity and raise incomes and allow enterprises to increase productivity and profits, making expansion more attractive. The economy currently faces a number of skill deficiencies that threaten to limit the growth of key sectors and productive employment opportunities; including a lack of quality technical-vocational skills, professional management skills, and financial literacy.

Government should prioritise expanding BTVET enrolment, including by providing incentives for private providers. Despite a number of service delivery challenges, BTVET is having a positive impact on productivity, earnings and to some extent job creation. But enrolment is only at around 10% of NDP targets and there is a large unmet demand for BTVET courses among more disadvantaged sections of the population.\textsuperscript{88} Public funds should be used more efficiently and equitably to benefit a larger section of the population. The quality of training in private institutions often exceeds that of public institutions, particularly in rural areas. Rather than competing with well-functioning private institutions, Government should place more emphasis on reaching underserved groups, such as those who cannot afford to access BTVET services or females who suffer from gender biases and stereotypes. These groups particularly need non-formal BTVET, with a stronger emphasis on entrepreneurship training, financial literacy and more practical and flexible modes of instruction. Provision of non-formal BTVET services in the most strategic institutions should be increased. Funds could be used to expand and improve awareness of BTVET sponsorship schemes. Rather than constructing more public institutions, public resources can be used more cost effectively by providing incentives to expand the network of private providers, such as matching grants or voucher programmes. These schemes have been delayed until the second phase of the Skilling Uganda plan, but

\textsuperscript{86} The guarantees are partial – 50% of the outstanding principal and accrued interest – to avoid moral hazard problems.

\textsuperscript{87} For example, Ugandan SMEs that borrowed with the support of the USAID-funded Development Credit Authority – which uses a similar approach to the aBi Trust – almost tripled their employment, on average creating 13 full-time jobs. USAID Uganda (2007), ‘Evaluation of DCA Guarantee Programs & Impact: 2002-2007’.

\textsuperscript{88} Public providers accommodate only around 1% of P7 completers, 3% of O-Level and 7% of A-Level graduates. Even when also accounting for private providers, enrolment levels are significantly short of the NDP targets which envisage the sub-sector enrolling 10% of all P7 completers and 30% of O-Level graduates.
The Directorate of Industrial Training needs to strengthen coordination with other MDAs and LGs in the delivery of non-formal BTWET. A number of MDAs provide valuable non-formal vocational training, often combined with credit or cash grants and start-up kits. These interventions – such as the Youth Livelihoods Programme (YLP) – have greater emphasis on practical entrepreneurship skills and strong employment-generation potential. The YLP is set to increase the effective demand for vocational training significantly, which could strain the capacity of existing training providers. The programme is expected to benefit 13,000 youths in just the first six months of the programme – this is a significant proportion of enrollment in public BTWET institutions, currently at 42,000.\(^{89}\) To ensure this increase in demand can be met effectively, the Directorate of Industrial Training (DIT) needs to work closely with MLDSD and LGs to integrate Government’s non-formal BTWET programme with the YLP. More generally, regular training needs assessments and a National Manpower Survey are required to assess the progress made by non-formal BTWET service providers and to identify remaining skill gaps.\(^ {90}\)

An autonomous National Training Authority giving employers a major stake in the skills development system would help to match training to employment needs. Employers are represented in the Industrial Training Council (ITC), but the ITC’s current mandate is limited to the implementation of the UVQF. An autonomous National Training Authority – as envisaged in the Skilling Uganda plan – would enable greater employer involvement in all aspects of the design, management and delivery of training, allowing greater flexibility and responsiveness as labour market needs inevitably change. The private sector will only take skills development seriously if they have a major stake in the system and sufficient decision-making power. Employers should be equal partners in designing the new authority, which should be governed by a board comprised predominantly of private sector representatives. There must be a clear division of responsibilities between the training authority and residual ministerial functions.

BTWET institutions should be incentivised to increase industrial placements. The Skilling Uganda plan emphasises employable skills and competencies relevant to the Ugandan labour market, but key initiatives to realise this – such as mandatory industrial training – have not been implemented. To address this, a proportion of funding for BTWET institutions could be made conditional on the number of students that participate in industrial training placements. Since private firms are only willing to take on well-trained interns, this will increase the incentive for BTWET institutions to build relationships with employers and to provide high-quality relevant training. This would serve as a results-based method of financing public BTWET institutions – which could also be extended to private institutions – and provide local businesses and industries an opportunity to contribute to the design of BTWET courses to guarantee skill relevance.

The externalisation of Ugandan labour and skilled immigration must be further encouraged and coordinated. Technical training is only one component of skills development. The skills most demanded by employers are socio-emotional skills (social skills and personality traits) and higher-order cognitive skills (logical and abstract thinking).\(^{91}\) These skills are typically learnt or refined by doing (on the job) or in secondary and tertiary education. With many young Ugandans unable to gain work experience in Uganda, temporary migration to other countries

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89 Total enrollment in BTWET including private institutions and non-formal training providers is slightly over 200,000.

90 It is particularly important to identify the skills in short supply that are required by oil-related industries, and other social priority sectors such agro-processing, construction, building and industrial materials.

can play a significant role in developing the labour force. The External Employment Unit in MLGSD should work with the Ministry of Foreign Affairs to expand opportunities for Ugandans to work abroad – both relatively low-skilled workers (in areas such as construction and domestic service) and tertiary graduates who currently struggle to find gainful employment in Uganda. As the Ugandan economy diversifies, industries will demand a wider range of productive capabilities but training the workforce to master new skills is impossible without an existing cadre of experts. Facilitating the inflow of skilled workers, including Ugandans currently working abroad, will therefore remain an important strategy to overcoming the skills constraint.

**Specialised training for potential professional entrepreneurs should be expanded.** Entrepreneurship training targeting university and school leavers has proven effective in improving financial literacy, opportunity identification, firm formation and business professionalism. Such schemes must be scaled up to have a larger impact on employment growth, and could particularly target A-level graduates waiting to enrol in tertiary education – who have a 10-month gap between completing their exams and the start of their first university semester. A number of agencies – such as the Private Sector Foundation Uganda and Enterprise Uganda – could be facilitated to manage these programmes, which should include internship schemes to link potential entrepreneurs with established firms. Entrepreneurship training should also be better integrated into the BTVE curriculum to increase the number of graduates from formal training institutions that go on to create jobs for themselves and others, which is currently very low.

**Management practices are a more important constraint to job creation than inadequate technical or scientific knowledge and demand at least as much policy attention as Science, Technology and Innovation.** Managerial skills and business professionalism are critical drivers of firm productivity and growth. Effective human resource management, quality control, branding and well-maintained distribution channels are critical for businesses to operate successfully on a large scale. Most firms have been able to pick up sufficient technical knowledge through learning by doing, but the required management capabilities are unlikely to accumulate without Government support. Funding should be increased for institutions providing management training, such as UMI. Government could also create a scholarship scheme for management-oriented degree programmes, and provide matching grants to help firms equip their staff with professional management expertise, particularly targeting established SMEs.

**4.3.4 Improving efficiency and coordination within Government**

Capacity constraints are a cross-cutting problem in Government, but particularly affect labour market interventions – up to 40% of available funds are not being spent, while a significant share of spending is not in accordance with the annual budget and workplans (see Section 3.3). Most projects are designed in a top-down manner and have proved unresponsive to beneficiary needs. Limited coordination also undermines Government’s ability to deliver results; many employment-related objectives necessarily cut across sectors, but these areas have received comparatively little attention. To improve efficiency and coordination, Government must strengthen national frameworks to oversee the implementation and adaptation of its employment policies, and objectively monitor and report on employment-related objectives. It is recommended that Government proceeds in three steps:

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i. Improve the monitoring of labour market interventions and design feedback loops to help implementing agencies learn and improve their performance.

ii. Establish explicit targets to elevate the profile of employment within Government’s overall development strategy, and enhance capacity to generate and report high-quality and high-frequency labour market information.

iii. Adopt a time-bound plan with high-level political support to drive coordinated action across Government.

Structured experiential learning should be integrated into Monitoring and Evaluation (M&E) systems to improve implementation and compliment top-down accountability. Responding to disappointing implementation results across many sectors, coordinating agencies such as OPM and MFPED have stepped up supervision, performance monitoring and evaluations across all Government activities. But this has been resisted by many implementing agencies, and most labour market interventions do not monitor data on beneficiary outcomes, undermining opportunities to improve implementation performance (see Section 3.3). Project managers do not value M&E because monitoring data is only used for organisational accountability, and evaluation findings tend to come too late – after the project has closed.

To improve the effectiveness of M&E, Government should encourage implementing agencies to test out different approaches within projects and programmes to see what works best. Project managers should monitor inputs, outputs and outcomes under the different approaches to see which is most efficient. Self-evaluation is important for helping project managers to understand and learn from their projects’ implementation, and to incorporate this understanding into their future operations. On-going self-evaluation complements external evaluation which usually focuses on assessments of project efficiency and effectiveness in the delivery of programme objectives, and also provides evidence that is of direct and immediate help to feed into project design and implementation improvements. Compared to traditional mid-term or end-of-project assessments, this approach lowers evaluation cost and shortens feedback loops – lessons can be used to continually adjust the project design during implementation. Once managers see the value of monitoring data in improving implementation performance, they will collect it more conscientiously – making it easier for coordinating agencies to track performance across projects and sectors. For this shift in the perception and use of M&E systems to materialise, coordinating and funding agencies such as OPM and MFPED need to:

i. Train civil servants and frontline managers in experiential learning approaches to project design, performance monitoring and management.

ii. Allow greater flexibility in ex-ante project design for implementing agencies to build in room for experimentation and learning. This is particularly important for interventions addressing critical but complex and context-specific problems – such as increasing agricultural productivity or employment growth among SMEs.

Government should institute relevant and realistic employment-related targets. Employment is at the centre of Uganda’s development agenda, but explicit employment-related targets are not integrated into the NEP. In some countries, high-level political commitment


94 The NEP envisioned targets for employment generation would be included in a five-year multi-sectoral National Programme of Action, but this has not
to achieving specific labour market outcomes within set timelines have helped to galvanise action and monitor implementation of employment-related policies. High-profile targets can put employment at the focus of Uganda’s policymaking and resource allocation decisions – with a similar level of prominence as poverty reduction under the PEAP or macroeconomic stability during the structural reforms – helping to bridge the gap between policy priorities and Government action. Indicative targets, aligned to the priorities identified in this chapter, that Government could adopt are presented in Table 4.1. These targets are only provisional, and should be refined through inclusive dialogue within Government and with external stakeholders to ensure broad buy in – but it will be important to focus on a relatively small number of realistic objectives.

**Employment targets will improve Government coordination by enhancing the generation and reporting of high-quality and high-frequency labour market information.** Table 4.1 reveals that many important indicators are not readily available. Inadequate labour market information prevents a coordinated and coherent response to Uganda’s employment challenge – for instance, the employment impact of macro-fiscal, monetary and financial policy decisions is rarely considered. It is important for UBOS to conduct a National Manpower Survey, and to fully exploit the annual panel survey to provide more regular employment estimates than allowed by the national household survey (which is only conducted every three years). Higher frequency information on formal employment could be gleaned from tax and financial supervision data, but this is currently not collected or reported routinely. A large amount of administrative data – from public BTVEET institutions for instance – is collected but not fully exploited. There is need to also work with private sector bodies to regularly collect information from their members.

<table>
<thead>
<tr>
<th>Objective</th>
<th>Indicator</th>
<th>Baseline*</th>
<th>Target (2019/20)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OBJECTIVE 1:</strong> Integrate employment in Government programming at the macro and sectoral levels</td>
<td>Number of regular wage jobs in the non-agricultural sector</td>
<td>1,639,996</td>
<td>3,000,000</td>
</tr>
<tr>
<td></td>
<td>Average number of hours worked a week by non-wage agricultural workers</td>
<td>26.3</td>
<td>35</td>
</tr>
<tr>
<td><strong>OBJECTIVE 2:</strong> Improve the business environment for Small and Medium Enterprises</td>
<td>Number of SMEs (with fewer than 50 employees) registered for VAT / CIT</td>
<td>n/a</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Number of SMEs that are members of business associations</td>
<td>n/a</td>
<td></td>
</tr>
<tr>
<td><strong>OBJECTIVE 3:</strong> Increase financial flows to social priority sectors</td>
<td>Share of credit to the agricultural sector</td>
<td>8.1% (March 2014)</td>
<td>14%</td>
</tr>
<tr>
<td></td>
<td>Share of credit to SMEs (with fewer than 50 employees)</td>
<td>n/a</td>
<td></td>
</tr>
<tr>
<td><strong>OBJECTIVE 4:</strong> Improve access to relevant skills training</td>
<td>Share of the labour force to have completed a technical or vocational training course</td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td></td>
<td>Share of BTVEET students to complete an industrial placement/apprenticeship</td>
<td>n/a</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Share of undergraduate students to complete entrepreneurship/business management training</td>
<td>n/a</td>
<td></td>
</tr>
</tbody>
</table>

+2012/13 unless stated otherwise.

95 Materialised more than three years after the NEP was launched.

A time-bound Jobs Action Plan with high-level political support can help to achieve Uganda’s employment targets. Achieving the objectives illustrated in Table 4.1 will require coordinated action across Government – the action matrix in the annex summarises what is required by various stakeholders to implement the main recommendations made in this report. These objectives should be integrated into Government’s overall development framework, including the next National Development Plan and the international Post-2015 development agenda, but a separate Jobs Action Plan would help to ensure employment issues remain prominent amongst Government’s highest priorities. One option would be to launch a 100-day plan to accompany the second National Development Plan, beginning in July 2015, or at the start of the next presidential term in 2016. The precise length of the plan is not important – a 200-day or one-year plan could also be effective – but setting concrete targets to be achieved in a relatively short period will help to focus Government action under extra pressure and scrutiny; and unify the Government, civil society and public behind the plan’s implementation. Although the plan would be short-lived, it would help to build credibility, create momentum, and set a precedent for Government to improve its future performance. This approach has worked in other countries, particularly in kick starting priority projects or stalled initiatives.96 To be successful, the action plan should involve:

i. A group of Government bodies focused on the plan and working together with clearly defined roles, rather than a single coordinating agency pushing others to implement.

ii. A relatively small number of actions that are realistically achievable in the timeline set and clearly assigned to particular agencies. Some of the actions outlined in the annex are only achievable in the longer term, but all actions included in the plan should be aligned to and symbolic of these broader objectives.

iii. Civil society playing a constructive role by monitoring implementation of the plan, facilitated by Government sharing information and data.

iv. No financing delays – it may be necessary to establish special funding mechanisms for the plan’s implementation.

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96 In Liberia, for example, the government used a 150-day action plan to successfully overcome long delays to the renovation of several roads and the rehabilitation of Monrovia’s port. The government achieved 63 out of 85 actions set out in the plan.

97 For more details and lessons from other countries that have implemented 100-day plans see Africa Growth Initiative (2013), ‘Seizing the moment: Liberia’s 150 day plan’, AGI case study 01.
Annex: Action matrix for implementation of main recommendations

<table>
<thead>
<tr>
<th>Objective</th>
<th>Actions</th>
<th>Responsible actors</th>
</tr>
</thead>
</table>
| 1. Concentrate efforts to achieve NDP and Vision 2040 employment-related targets | Integrate explicit employment targets within the national development framework and launch a time-bound Jobs Action Plan  
Enhance capacity to generate and report high-quality and high-frequency labour market information | Cabinet  
UBOS; URA; BOU; DIT; PSFU                                                                                     |
| 2. Resolve inconsistencies between sector investment plans and macroeconomic framework | Develop a credible medium and long-term financing strategy to guide sector planning and formulation of the annual budget  
Streamline VAT exemptions, initial capital allowances and special income tax regimes | MFPED; BOU  
MFPED; URA                                                                                                     |
| 3. Improve the efficiency of interventions to support smallholder farmers | Reduce the provision of agricultural inputs through NAADS and establish an electronic voucher system to strengthen input markets  
Replicate the Kalangala vegetable oil project in other regions and commodity value chains | NAADS Secretariat; MAAIF; Districts  
MAAIF; private agribusiness                                                                                   |
| 4. Address constraints in the construction sector, particularly low-cost formal housing | Review building regulations to ensure the feasibility of affordable formal housing  
Strengthen urban planning processes to facilitate private provision of low-cost formal housing  
Resolve competing claims to land in urban areas  
Cooperate with East African Partner States to regionalise the market in construction services, materials and skilled labour | MLHUD  
MLHUD; KCCA; Municipal Authorities  
MLHUD; MJCA  
MEACA                                                                                                           |
| 5. Strengthen the institutional structures and regulatory environment for private sector development | Establish permanent industry-level working groups to identify missing public inputs  
Establish a coordinating council and technical secretariat to manage annual process to solicit, assess and act on private sector recommendations  
Establish annual competitiveness bill process  
Establish an independent mechanism to monitor and provide systematic feedback on Government’s response to private sector recommendations  
Accelerate construction of Special Economic Zones/Industrial and Business Parks  
Simplify VAT and CIT regimes; consider raising VAT threshold  
Roll out small claims courts; adapt arbitration procedures to the needs of SMEs; and train specialised judges to handle commercial enforcement cases | Private sector bodies and MDAs with oversight of particular industries  
MFPED  
OPM; Parliament  
OPM  
UIA  
MFPED; URA  
MJCA                                                                                                           |
| 6. Increase the flow of credit to SMEs and social priority sectors | Recapitalise and strengthen the mandate of the Uganda Development Bank for lending to priority sectors and SMEs  
Establish sector-specific asset reserve requirements to incentivise social priority lending by commercial banks  
Establish and expand loan guarantee schemes for priority sectors and SMEs | MFPED; UDB  
MFPED; BOU  
MFPED; BOU; UDB; aBi Trust                                                                                     |
<table>
<thead>
<tr>
<th>Objective</th>
<th>Actions</th>
<th>Responsible actors</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>7. Expand access to BTVET, particularly non-formal courses</strong></td>
<td>Expand the provision of non-formal courses in public BTVET institutions in coordination with the Youth Livelihood Programme</td>
<td>DIT; MLGSD</td>
</tr>
<tr>
<td></td>
<td>Review funding mechanisms for BTVET institutions to encourage greater enrolment and industrial placements/apprenticeships</td>
<td>DIT; MFPED</td>
</tr>
<tr>
<td></td>
<td>Establish incentives for private training providers, through matching grants or a voucher scheme</td>
<td>DIT; MFPED</td>
</tr>
<tr>
<td><strong>8. Establish an autonomous National Training Authority</strong></td>
<td>Design and establish an autonomous agency to oversee the BTVET sector</td>
<td>DIT; private sector bodies</td>
</tr>
<tr>
<td><strong>9. Scale up specialised entrepreneurship and business management training</strong></td>
<td>Establish a large-scale entrepreneurship and business management training programme targeting secondary school leavers and undergraduates</td>
<td>PSFU; Enterprise Uganda; Tertiary institutions</td>
</tr>
<tr>
<td></td>
<td>Expand resources for professional management training; consider a scholarship scheme for management-oriented degree programmes; and matching grants to help firms train their managers</td>
<td>MFPED; UMI</td>
</tr>
<tr>
<td><strong>10. Facilitate and coordinate the externalisation of Ugandan labour</strong></td>
<td>Negotiate temporary migration programmes with foreign governments</td>
<td>MFA</td>
</tr>
<tr>
<td></td>
<td>Register, regulate and facilitate private recruitment agencies</td>
<td>MLGSD</td>
</tr>
<tr>
<td><strong>11. Integrate structured experiential learning into Government’s M&amp;E systems</strong></td>
<td>Train civil servants and frontline managers in experiential learning approaches to project design, performance monitoring and management.</td>
<td>OPM; MFPED; MPS</td>
</tr>
<tr>
<td></td>
<td>Allow greater flexibility in the design of labour market interventions for structured experimentation and learning by implementing agencies.</td>
<td>OPM; MFPED</td>
</tr>
</tbody>
</table>
Glossary

**Employment**

Persons of working age are in employment if during a short reference period they are engaged in any activity to produce goods or services for pay or profit. Remuneration can be in cash or in kind, and may be payable directly to the person performing the work or indirectly to a household or family member. Under the new definition adopted by UBOS in 2013, those engaged in subsistence agriculture as their only economic activity are considered to be own-use production workers, but not in employment.

**Household enterprises**

Household enterprises are non-farm enterprises producing goods or services for sale, and operated by a single individual or with the help of family members, but with no paid employees.

**Informal employment**

Informal employment comprises own-use production work (such as subsistence agriculture), workers in household enterprises (own-account workers and contributing family workers); and paid employees in jobs that are not subject to labour legislation, income taxation, social protection or other entitlements.

**Informal sector**

The informal sector covers enterprises that are not incorporated under the Companies Act; do not have complete books of account; do not separate the legal entity independently from the owners; or operate without a fixed location.

**Labour force**

The Labour Force refers to the current supply of labour for the production of goods and services in exchange for pay or profit. The labour force comprises individuals who are working and individuals who are looking for work (unemployed). Those not working and not actively looking for work, such as retired people and those in full-time education, are not included.

**Labour productivity**

Labour productivity is defined as total output by a worker in production per unit of labour time, and reflects the efficiency of labour. Labour productivity growth can result from a greater use of capital and technologies.

**Micro, small and medium enterprises**

In Uganda, a micro enterprise is an enterprise employing up to four people, with annual turnover and/or total assets up to UGX 12 million. A small enterprise is defined as an enterprise employing between 5 and 50 people, with annual sales turnover and/or total assets of up to UGX 360 million. A medium enterprise employs between 51 and 100 people with an annual sales turnover or assets of between UGX 360 million and UGX 30 billion.
Skill-related underemployment

Skill-related underemployment includes employed persons who during a reference week are not categorised as time-related under-employed and whose educational attainment is higher than the educational level required by their current main jobs. Only individuals who have completed S4 or above can be categorised as skill-related underemployed.

Time-related underemployment

Time-related underemployment is a situation where the actual hours worked is insufficient in relation to an alternative employment situation in which the person is willing and available to engage. The national statistical indicator for time-related underemployment covers persons working fewer than 40 hours a week and who want or sought to work additional hours.

Unemployment

In line with the International Labour Organisation definition, persons in unemployment are those of working age who are not in employment, carried out activities to seek employment during a specified recent period and were currently available to take up employment given a job opportunity.

Working-age population

The working-age population is a measure of the total number of potential workers within an economy. In Uganda the working-age range is 14 to 64 years.

Working poor

The working poor are individuals who are working but whose consumption falls below the official poverty line.