

UGANDA



About the **SECOND** ECONOMIC UPDATE



THE WORLD BANK

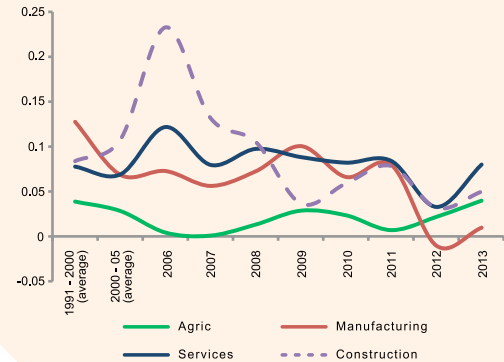
What is the Uganda Economic Update ?



Why is the Uganda Economic Update important?

The UEU combines Uganda-specific analysis with the World Bank's experience and lessons, to provide up-to-date information on the Uganda economy, which may serve as significant input for policymakers, supporting them to formulate and implement policies to foster healthy, inclusive growth.

The Uganda Economic Update (UEU) takes stock of the country's economy, by identifying challenges and proposing solutions to facilitate more inclusive economic development. The UEU is published regularly by the World Bank on a six-monthly basis. The second update was published in August 2013.



What specific issues does the second Uganda Economic Update explore ?

The second Update focuses on the importance of jobs in the context of Uganda's economic growth. Like for other countries around the world, jobs are essential for Uganda's development because they determine the living standards of individuals and households, support economic transformation, and promote social cohesion. While Uganda's economy has grown significantly over recent years and will continue to do so into the future, at present, a significant proportion of the country's population are not benefiting optimally from this growth. Rather, the vast majority of Uganda's labor force remains employed in low productivity activities. This is largely because the most productive, rapidly expanding economic sectors are often more capital intensive than labor-intensive and employ only a small proportion of the

workforce. In particular, the bulk of the population continues to work in the agricultural sector, often engaged in subsistence activities, with only a small proportion of agricultural workers engaged in the cultivation of high-value, commercialized crops. In the urban areas, a significant proportion of the population works in the informal sector, which faces particular constraints that prevent it from achieving high levels of productivity, including limited access to capital, limited support and recognition by the authorities, and limited access to workspaces and other facilities. The challenge for the Ugandan Government is to ensure ongoing economic growth in a manner that enables a higher proportion of the population to be engaged in higher productivity activities that reward them with higher wages or incomes.

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What are the **key findings and recommendations** of the Uganda Economic Update?

In order to ensure that a greater proportion of the Ugandan population has access to good, productive jobs, the Government should implement a number of measures to achieve the following:



1

Raise farm productivity :

While the transformation of the Ugandan economy will continue to see an increase in the significance of the services and industrial sectors relative to the agricultural sector, the agricultural sector will continue to employ the largest proportion of the working force for some time into the future. Therefore, the Government must implement measures to raise productivity and, subsequently, incomes on the farm. Such measures should aim at reducing transport costs to connect producers to markets, reforming land laws to provide more security of tenure, and bringing higher productivity inputs and advisory services closer to the farmer.

2

Raise the productivity of the formal sector:

While the formal sector today employs only a small proportion of the workforce, this sector has great potential to foster innovation and overall transformation of the economy. A large proportion of workers within this sector are amongst Uganda's most qualified and skilled workers. In order to enable the formal sector to become a major source of transformative employment, the Ugandan Government must reduce barriers such as high infrastructure costs, lack of access to finance (capital) and the limited availability of skilled workers. In particular, it must address barriers facing small and medium-sized firms, as these are the major provider of employment within the sector.



3 Raise the productivity of the informal sector:

This sector is a major provider of employment in urban areas, absorbing large numbers of school leavers, migrants from rural areas, and others who cannot find employment within the formal sector. The informal sector has potential to continue to generate more jobs, but the Government must implement measures to overcome obstacles to their productivity growth.

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4

Improve the level of skills of the labor force:

A skilled labor force is a vital foundation for the creation of a greater number of better jobs - better skills will contribute to the growth in productivity across sectors, thereby generating employment and empowering the labor force to participate in higher productivity jobs. Therefore, the Government must implement measures to encourage the acquisition of these skills, whether through extensions and improvements to the formal educational system or through technical skills training programs, apprenticeships and other means.

5

Support the efficient development of urban areas:

As they do almost everywhere in the world, firms in Uganda concentrate in urban areas because they value the agglomeration benefits that this location provides. At the same time, while the bulk of Uganda's population continues to live in rural areas, a rapidly increasing proportion is migrating from rural areas to urban areas to get jobs. The Government must ensure that the appropriate facilities exist to support firm growth and job creation. Amongst other means, this implies the need to ensure the availability of policies and institutions to allow more flexible land use and a well-functioning transportation system. At the same time, the Government must take measures to ensure that migrants to urban areas migrate with realistic prospects of obtaining productive work, rather than merely being drawn to the cities by the prospect of better social services than exist in rural areas.



Scramble for some quick wins amidst a complex agenda :



This policy agenda is complex, implying creating jobs in not a one-off action within a single sector or area. Moreover, the impact of some of the actions will likely mainly be realized in the medium-to-long run. Nonetheless, action has to start now and to continue as Uganda's production structure changes, the workforce increases, and people and firms increasingly move to urban areas. The highest priority lies in ensuring the increased productivity of the agricultural sector, as this is where the bulk of the population works. However, people are also moving off the farm and even the school leavers are finding it increasingly difficult to find jobs. Therefore, short term actions that might help achieve more rapid impact on job creation are:

- i. A deliberate effort to support the growth of large firms by supporting the development of clusters and full value chains for strategic sectors, in particular light manufacturing, exportable products, building and construction, and the oil industry;
- ii. Faster targeted improvement in the business environment by industrial zoning and innovative financial solutions;
- iii. Create linkages between large industries and small and mainly informal manufacturers;
- iv. Create a matching grant for the informal sector operators;
- v. Build urban infrastructure to better facilitate the movement of people and products.

- Less than a quarter of Uganda's GDP comes directly from agriculture, but almost three quarters of its working population is engaged in this sector.

- The manufacturing sector contributes only 3.3 percent of all jobs, after its rate of growth declined from 13.8 percent in the 1990s to 6.6 percent during the 2000s.

- Subsistence agriculture employs 16 times more workers than the commercialized agricultural sector, yet a worker in non-monetary agriculture produced 4 percent of output by those in the commercialized agriculture.

- The non-agriculture informal sector currently employs 2.1 million people or 14 percent of the labor force, of which 86 percent of the informal sector jobs are household based.

- In the financial sector, output per worker increased by 37 percent, but the sector's contribution to number of jobs in the economy declined by 34 percent.

- Informal manufacturing employs 3 times more workers than the formal manufacturing sector, yet a worker in the informal manufacturing sector produces 11 percent of output by those in the formal manufacturing sector.

- Only 15 percent of informal enterprises in the trade sector operate in specialized fixed locations, most commonly urban market stalls, but 31 percent of informal sector workers do not receive cash payment for their labor.

- Only 2.6 percent of household enterprises in urban areas and 1.5 percent of such businesses in rural areas gained access to credit facilities offered by microfinance institutions as sources of capital.


- Only the communications sector increased its output per worker while increasing share in employment.

- 37 percent of the workers in urban areas are engaged in agriculture, but 82 percent of workers in rural areas are farmers.

- 92 percent of all new jobs in the formal sector are service based.

- 74 percent of current jobs are found in new establishments set up not earlier than 2001.

<ul style="list-style-type: none"> ■ The non-agricultural wage sector is growing fast, at 7.3 percent per annum, and currently holds about 2 million jobs or 14 percent of the labor force but has been able to absorb only 2 percent of new entrants onto the labor market. 	<ul style="list-style-type: none"> ■ Firms with over 100 employees reduced the number of workers they employ from approximately 400 employees in 2001 to about 260 employees in 2010. 	<ul style="list-style-type: none"> ■ Rural areas also employ wage workers - 8 percent of rural laborers work for a wage, but almost similar percentage is in the non-agricultural informal sector. 	<ul style="list-style-type: none"> ■ The proportion of manufacturing firms located within urban areas has increased from 70 percent in 2001 to 74 percent in 2010.
<ul style="list-style-type: none"> ■ 60 percent of jobs are in micro-enterprises, employing less than 5 people; 18 percent of jobs are in small enterprises, employing between 5 and 20 people, and 12 percent of jobs are in large enterprises, employing more than 20 people. 	<ul style="list-style-type: none"> ■ Three quarters of the new formal jobs were created in the most urbanized districts, Kampala, Wakiso, Mukono, Mbarara, Jinja and Arua. 	<ul style="list-style-type: none"> ■ Even those who are commercialized are still at a very low level - by 2005/06, the most commercialized quintile sold no more than 50 percent of their output. Only 5 percent of those employed in agriculture work for a wage. 	<ul style="list-style-type: none"> ■ Uganda's labor force, estimated at 15 million today, will most likely more than double to at least 36 million by 2040 (based on UN medium variant population projection).
<ul style="list-style-type: none"> ■ Firms producing tradeable goods accounted for 38 percent of the new jobs. 	<ul style="list-style-type: none"> ■ 68 percent of the working population are youths (15 to 34 years), yet their participation in job market amounts to only 58 percent of all jobs. 	<ul style="list-style-type: none"> ■ Real value added per worker within formal firms declined by 19 percent over the 2000s. 	<ul style="list-style-type: none"> ■ The number of the workforce employed in the services sector and in the manufacturing sector could quadruple by 2040, but it will contribute only ... percent of total jobs available.



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