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Two Decades of Growth with Limited Job Creation: What Explains Uganda's Economic Growth Paradox?[1]

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Abstract
This paper examines why Uganda's two-decade impressive economic recovery trajectory has had limited impact on employment creation. The paper argues that a combination of 'wrong' orientation of macroeconomic reforms and political patronage fuelled by a shift to multi-party democratic politics, and the desire of the NRM regime to consolidate itself in power explains the current unemployment and underemployment problem. Regression and case study analysis reveals that the increase in political patronage has crowded out private and public investment in increasing the stock of physical capital formation required to support a strong foundation for firm growth and employment creation. The paper concludes with some provocative questions on how Uganda can redirect its economic policy and politics to meet the increasing unemployment and underemployment development challenge.

Keywords: Economic growth, political economy, unemployment, Uganda

1. Introduction
Uganda's economy has performed impressively over the past two and a half decades thanks to the stabilisation policies in the 1990s that restored macroeconomic stability and increased investor confidence in the economy.[2] Economic growth expanded rapidly, averaging at 6 per cent for nearly two decades.[3] This growth in fact enormously contributed to the reduction in poverty levels from as high as 56 per cent in the mid-1990s to below 20 per

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cent in 2013. However, despite this remarkable performance, there has been increasing concern about unemployment and underemployment that have, paradoxically, become a defining feature of Uganda's economy.[4] Paradoxical because the economy has not stopped expanding – at least according to economic pundits – and yet unemployment and underemployment are relentlessly increasing. The concern about unemployment and underemployment is informed by a number of reasons.

First and most obviously, unemployment affects social-economic welfare because of its exclusionary effect on access to social services. Second, it makes the transition of young people into adulthood highly fraught and subsequently raises the threat of social instability due to a high crime rate.[5]Third, high levels of unemployment weaken the proclivity of private investment in human capital because the expected returns on further investment are discounted significantly.[6] This could further weaken the entrepreneurial and innovative capacity of the economy and further depress job creation. Fourth and most importantly, high levels of unemployment and underemployment are a threat to our democracy. Joseph Stiglitz's argument, powerfully articulated in his seminal publication on *the price of inequality*, shows that unemployment increases the spectre of inequality which weakens individual as well as collective capabilities, an essential ingredient of the proper functionality of a democracy.[7]

The writing of this paper and the interrogation of the structural explanation of Uganda's unemployment and underemployment are pursued in the spirit of the above reasons. And the main question the paper seeks to examine is: Why has unemployment and underemployment remained a pervasive feature of Uganda's economy despite impressive sustained economic growth rates over the past two and a half decades? This question is important mainly because classical economic literature advances the argument that a growing economy should be in a position to generate employment. Seen from this perspective, why then has Uganda's economy not generated the required level of employment to meet the job demands of her population?

Some have argued that the level of underemployment and unemployment is characteristic of any country at Uganda's level of development.[8] In other words, it simply reflects the phase of economic transition in which Uganda is at the moment. Others have argued, instead, that Uganda's accelerating demographic transition has resulted in the growth of a labour force that far outstrips the capacity of the economy to meet its employment demands.[9] While these arguments provide insight into understanding Uganda's development challenge, they could be seriously flawed in their conclusions. The demographic argument is not particularly convincing mainly because there is often a considerable time lag between birth and entry into the labour force – estimated at 15 years. Proper planning would, therefore, anticipate expected entrants into the labour force at any given time and economic decisions could be made to turn around the economy in a way that meets future job demands at any given time.

This paper advances the argument that Uganda's unemployment and underemployment problem is reflective of the dynamic complex political and economic processes of Uganda. Emerging out of the civil war in the late 1980s at a time when the neo-liberal economic policy stance dominated the global development paradigm. Uganda's economic reconstruction reform programme under the auspices of the World Bank and IMF placed emphasis on private sector market-oriented growth; never mind that much of what would have constituted the private sector in Uganda had been annihilated, first by Idi Amin's draconian policies that led to the expulsion of Asian businessmen and, secondly, by the two-decade civil war.

Although this policy stance contributed enormously to the stabilisation of the economy, subsequent rapid economic growth relied less on the vibrancy of the private sector (because there was not much of a private sector to speak of) and more on the increase in commodity prices, mainly primary commodities driven largely by currency devaluation. In addition, the enormous deficit of social services in Uganda by the mid-1990s, illuminated by the high levels of poverty, motivated the creation of Poverty Eradication Action Plans (PEAP) with a view to increasing the stock of social services, mainly in the provision of education, health, water and sanitation, in order to reduce poverty levels. In the subsequent years (from around 1995 to 2005), a lot of donor funding, which accounted for nearly 80 per cent of government expenditure, was allocated towards increasing the stock of social services and less towards investment in physical capital, a key ingredient in building a dynamic private sector-enabled, employment-generating economy.

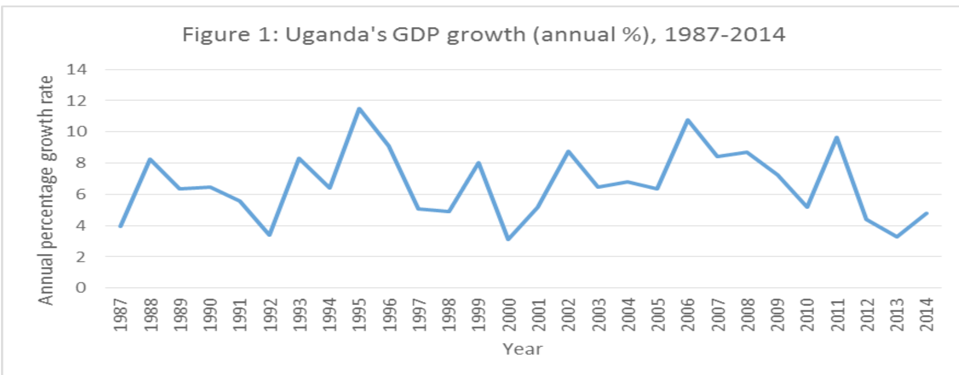
However, in the early 2000s, the pressure to embrace a multi-party democratic dispensation from the donors threatened the survival of the NRM regime. And in a desperate attempt to stifle opposition contestation for political power and ultimately the desire to consolidate his regime, President Museveni unleashed the decentralisation programme which, in essence, was the proliferation of district creation. According to Green (2008), the decentralisation programme was frontloaded as an effective instrument for dispensing political patronage in order to weaken the ability of the opposition to wage an effective counteroffensive to the regime's entrenchment in power. The consequence of political patronage has been the expansion of government consumption expenditure, which has further crowded out public investment in physical capital. But more deleteriously, the proliferation of political patronage through an explosive increase in the number of districts has significantly fueled corruption within the public sector and weakened its capacity to deliver public goods and services. The sheer malfeasance and incompetence of the public sector have compounded what the World Bank (2007) called 'a syndrome of an underinvesting state', subsequently undermining the capacity of the economy to support a vibrant private sector. Firm growth has remained low, mainly stifled by significantly high costs of doing business underpinned by pervasive infrastructure constraints. The low growth of firms has weakened the growth and diversification of different sectors of the economy, resulting in high levels of unemployment and underemployment. The changing demographic conditions have simply compounded this status quo rather than accounting for it.

The rest of the paper is structured as follows: Section 2 reviews Uganda's post-war economic recovery macroeconomic policies and their impact on economic growth. This section also discusses the employment patterns as well as the job dynamics in Uganda. Section 3 examines the paradox of Uganda's rapid economic growth rate and high unemployment and underemployment, while Section 4 explores what civil society organisations can do to raise the importance of prioritising employment issues in national discussions. The last section concludes the paper.

2. Uganda's Economic Recovery and Growth Process: Why has it Generated Less-than-expected Employment Growth?

Prior to the 1990s, Uganda's economy had been completely decimated. Nearly two decades of economic mismanagement and civil war during the 1970s and 80s had completely wiped out, in the words of President Museveni, the 'colonial enclave economy'. Physical infrastructure had completely been destroyed, agricultural activity reverted to subsistence, with the largest share of cash crops such as coffee smuggled to neighbouring countries such as Kenya. Manufacturing output had also fallen significantly by 50 per cent, following the expulsion of the Asian business class during the Amin regime, and since their businesses had been taken over by politically connected Ugandans who refused to pay taxes, the tax base had also become hugely eroded.[10] Di John and Putzel (2005) observe that per capita income in the period 1971-1986 declined by 40 per cent, exports nearly disappeared, capital flight increased significantly (by 1986, nearly 60 per cent of Ugandan wealth was held abroad), and state revenue collapsed, partly as the degree of informal economic activity increased dramatically. Subsistence activities (excluding livestock production and construction) increased from 21 to 36 per cent.

However, beginning with 1990, the Museveni-led NRM government embarked on an economic recovery plan, primarily characterised by the adoption of neo-liberal stabilisation policy programmes.[11] These included the devaluation of the Ugandan currency, the privatisation of state enterprises, the removal of price and exchange rate controls and, most importantly, the introduction of the Medium-Term Expenditure Framework (MTEF) that restored fiscal discipline.[12] As a result, inflation was significantly curtailed and Uganda restored macroeconomic stability that laid the foundation for rapid economic growth in the subsequent years. The economy managed to expand at an average rate of 6 per cent for nearly two decades from 1991 to 2012 (see Figure 1).



Source: **World development indicators**

This impressive economic growth resulted from the recovery of productivity in the agricultural, industrial and services sectors. Productivity in the agricultural sector improved to 53 per cent between 1987 and 1995 while productivity in the industrial sector rose from 12.1 per cent between 1987 and 1995 to 19.5 per cent between 1996 and 2003 (see Table 1). In fact, largely as a result of this productivity growth, Uganda successfully managed to reduce poverty levels from 56 per cent in the mid-1990s to 19.6 per cent in 2014.[13]

Table 1: Uganda's Macroeconomic Performance Indicators 1987-2014

Indicator	1987-2003	1987-1995	1996-2003	2003-2010	2003-2014

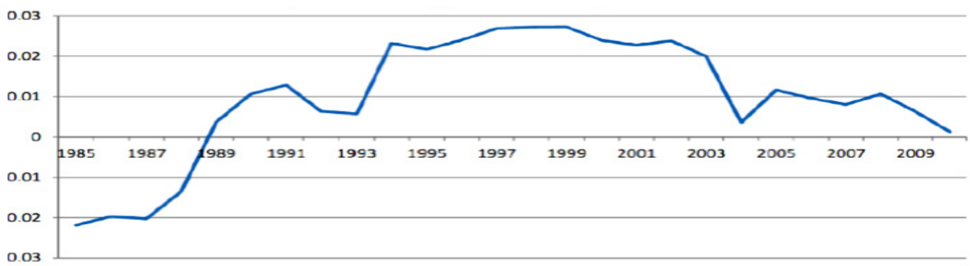
GDP growth (annual %)	6.4	6.7	6.1	7.5	6.8
Sectoral growth (values added)					
Agriculture (annual % growth)	4.0	4.2	3.7	1.7	1.9
Industry (annual % growth)	10.3	11.3	9.3	9.4	8.2
Services (annual % growth)	7.3	7.4	7.1	6.1	6.3
Economic structure					
Agriculture, value added (% of GDP)	46.3	53.5	38.3	25.5	26.1
Industry, value added (% of GDP)	15.6	12.1	19.5	23.6	23.2
Services, value added (% of GDP)	38.1	34.3	42.2	50.9	50.7
Inflation, consumer prices (annual %)	37.0	66.2	4.1	7.9	8.8
Investment rates					
Gross fixed capital formation (% of GDP)	16.0	13.4	18.9	22.8	24.3
Gross domestic savings (% of GDP)	4.3	1.8	7.1	11.5	12.8
Poverty data					
Headline poverty, national (% of the population)	49.5	55.0	44.0	24.5	19.5

***Source:* World development indicators**

However, beginning around 2008, the growth momentum started to wane (see Figure 1) as the concerns about unemployment as an underlying feature of Uganda's economy started to make headlines in public discourse. In fact, it had also become increasingly noticeable that productivity in the agriculture sector had stagnated despite the increasing employment of Uganda's labour force within the sector. Equally, productivity in the industrial sector was in irreversible decline despite continuous emphasis of the private sector-led growth approach that had been expected to stimulate the increased flow of foreign direct investment. In addition, the main driver of economic growth during the late 2000s (i.e., the service sector) was running out of steam as the share of telecommunications subscribers began to plateau.[14]

Analysts posited that the reduction in sectoral productivity resulted from the growing infrastructure constraints that, in turn, contributed to the fall in the competitiveness of Uganda's economy. Empirical evidence suggests that inadequate infrastructure was increasingly shrinking the productive base of Uganda's economy. Corroboratively, Escribano *et al.* (2010), using evidence from firm-level surveys, observe that as much as 58 per cent of the 'productivity handicap' faced by Ugandan firms could be attributed to infrastructural constraints (see Figure 2).[15] This led the World Bank to attribute the slow pace of Uganda's structural change to what it called 'a syndrome of an underinvesting state'.[16]

Figure 2: Total Factor Productivity Growth in Uganda



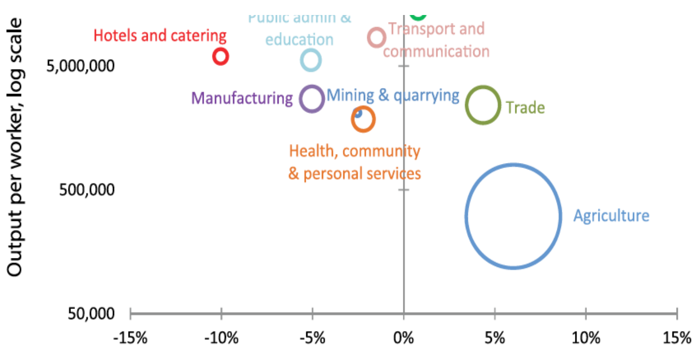
Source: Hassler et al. (2013). Note:Total factor productivity growth measures the contribution of technology and efficiency in overall economic growth (rather than the growth of labour and capital inputs)

However, to be fair, we ought to recognise that in the early years of the economic recovery reform, there was enormous pressure to address the dire shortage of social services that was powerfully illuminated by the poverty levels. Since Uganda was just emerging from an almost two-decade-long civil war, the need to increase the stock of social services, mainly in education, health, water and sanitation exerted primacy over any other development priorities.[17] As a result, the government launched the Poverty Eradication Action Plans (PEAPs) with a view to redressing this desperate shortage of social services. Perhaps the government rationalised that prioritising macroeconomic stabilisation would in the long term stimulate private sector growth, which would eventually address the unemployment issues.[18] But as the infrastructure investment deficit groundswell started attenuating private sector expansion, the government shifted its focus towards scaling up infrastructure investment and the implementation of specific labour market interventions (a detailed discussion is provided in Section 4) encapsulated in the National Development Plan (NDP).[19] The central approach of the NDP is to foster structural change by addressing structural constraints on private sector growth and development. Despite policy and investment efforts that have been devoted towards NDP implementation – now in its second phase – little impact has been realised regarding improvement in the investment climate as well as expansion in job creation.

A 2014 report by Uganda's Ministry of Finance on the evaluation of Uganda's employment strategy observes that 'Uganda's impressive macroeconomic performance over the last 20 years has had a relatively limited impact on the structure of the labour market'.[20] Although headline unemployment, according to the Uganda Bureau of Statistics (UBS) is estimated at 9.4 per cent, underemployment remains significantly high. This is because the number of wage employees in registered firms over the past 20 years has increased less than the rate of growth in the labour force. Currently, it is estimated that each year 700,000 new entrants join the labour market, fuelled mainly by the country's demographic transition which has been triggered by a relative reduction in mortality rates while fertility rates remain at relatively higher levels. The problem of unemployment and underemployment has been further compounded by limited firm growth. Evidence suggests that a 35-year-old Ugandan firm is twice the size it was at its establishment. By comparison, in Ghana the same firm is five times the size it was at its inception.[21]

As a result, economic growth has been largely 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 jobs have been created in less productive sectors such as petty trade and subsistence agriculture (see Figure 3).

Figure 3: Productivity and Employment Growth by Sector, 2009/10-2012/2013



Source: UBOS (National Accounts); Uganda National Household Survey 2009/10 and 2012/13. Note: The area of each bubble is proportional to primary employment in each sector in 2012/13. Output per worker is measured in 2002 shillings.

The share of the labour force engaged in low-productivity agricultural activities is high and has recently increased. In 2012/13, 72 per cent of the labour force was primarily working in agriculture, forestry or fishing, up from 69 per cent in 2009/10. This increase in agricultural employment reflects higher food prices, which have increased the relative attractiveness of subsistence activities. Over the last five years agricultural output grew at just 1.2 per cent per year, despite a 6.0 per cent 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.

Underemployment is common, particularly in the agricultural sector. In 2012/13, 8.9 per cent of the labour force was classified as time-rated 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 per cent of the labour force was working less than 40 hours a week, with as high as 83 per cent of these primarily engaged in subsistence agriculture. Many do not want to work more hours because the rewards from their current activities are low and other opportunities are limited. Those engaged in non-agricultural household enterprises usually work significantly longer hours. Although 72 per cent of the labour force is primarily engaged in agriculture, only 54 per cent of the total hours engaged 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 (see Table 2).

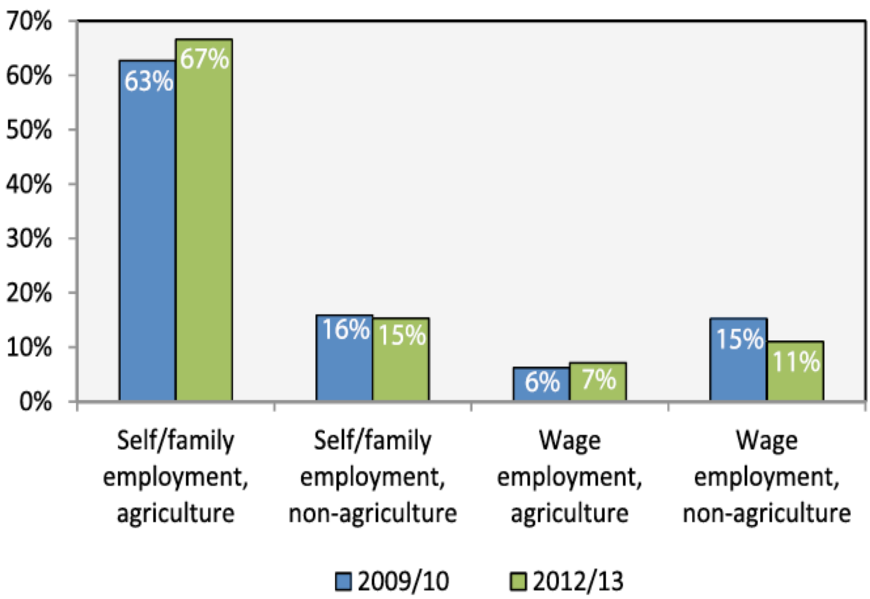
Table 2: Average Hours of Work by Activity

		Average hours worked per week	**(%)Share working fewer than 40 hours**
Agriculture	Self/family employment	26.3	83.3
	Wage employment	29.1	68.1
Non-Agriculture	Self/family employment	46.7	41.6
	Wage employment	51.8	26.3

Source: MPFED (2014); Uganda National Household Survey 2012/13. Note: Excludes those who are in the labour force but also in Education

The most common types of employment are own-account work and unpaid-family work. However, classifying the employment status of the labour force can be misleading as a large share of workers engage in multiple activities. Eighty per cent of the labour force work primarily for themselves or their families, mainly in the agricultural sector, but 15 per cent 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 per cent 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 per cent of the labour force are primarily engaged in non-agricultural wage employment, down from 15 per cent in 2009/10 (see Figure 4).

Figure 4: Employment Status of the Working Population (Main Activity)



Source: Uganda National Household Survey 2009/10 and 2012/13

Regular wage jobs are the most desirable form of employment, particularly those outside the agricultural sector. Around 2.5 million working adults are living below the national poverty line. Almost 90 per cent 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. Agricultural wage jobs in contrast are usually on a short-term casual basis, and are often the last resort for the landless. Twenty-seven per cent of wage agricultural workers are below the poverty line – 10 percentage points above the national average (see Table 3).

Table 3: Welfare by Employment Status

		Working Poor		Average monthly consumption		
		Number	**Rate**	**2009/10**	**2012/13**	**Growth p.a**
Agriculture	Self/family employment	1,948,335	19.7%	102,064	118,184	5.0%
	Wage employment	288,354	27.2%	108,134	109,754	0.5%
Non-Agriculture	Self/family employment	244,280	10.7%	197,744	208,504	1.8%
	Wage employment	87,582	5.3%	280,362	264,052	-2.0%
All		2,568,551	17.3%	144,695	147,411	0.6%

Source: MFPED (2014); Uganda National Household Survey 2009/10 and 2012/13. Note: Consumption is in constant 2012/13 prices.

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 per cent in Greater Kampala, Jinja, Mbale and Mbarara – the last decade has seen significant job growth across many areas of the country, particularly along the major transport corridors. Over more recent years, the number of regular wage jobs has stagnated, and declined in the non-agriculture sector (see Table 4). 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.

Table 4: Number of Regular and Casual Wage Jobs

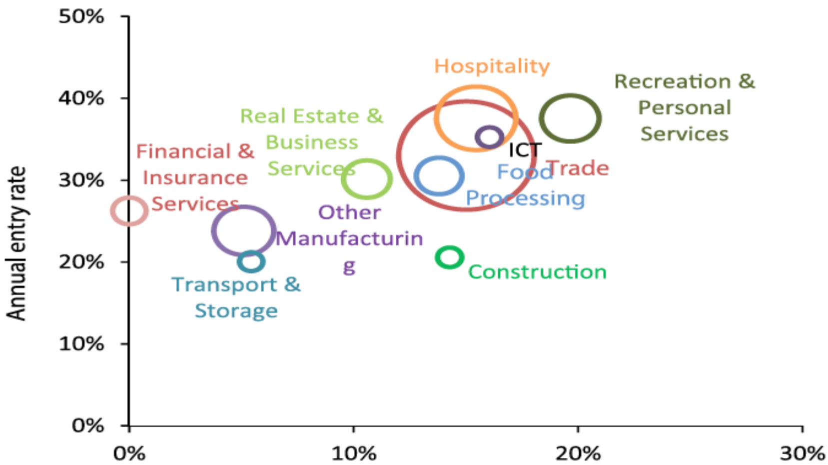
	2009/10	2012/13	Growth p.a.
Regular wage jobs (main activity)			
Agriculture	803,909	1,060,051	9.7%
Non-agriculture	1,984,133	1,639,996	-6.2%
All	2,788,042	2,700,047	-1.1%
Casual wage jobs (secondary activity)			
Agriculture	547,412	952,121	20.3%
Non-agriculture	203,546	340,263	18.7%
All	750,958	1,292,384	19.8%
All wage jobs			
Agriculture	1,351,321	2,012,172	14.2%
Non-agriculture	2,187,679	1,980,259	-3.3%
All	3,539,000	3,992,431	4.1%

Source: MFPED (2014); Uganda National Household Survey 2009/10 and 2012/13. Note: Regular wage jobs are defined as wage jobs that are reported as the main activity in the previous 12 months. Casual wage jobs are jobs that were reported as secondary or tertiary activities in the previous 12 months.

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 per cent to 60 per cent – and a decrease in the average number of workers among firms with employees (from 5.9 to 4.3). While 52 per cent of employees were working in businesses with five or more workers in 2001/02, this had fallen to 36 per cent by 2010/11.

Figure 5: Firm entry and exit rate 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 rate of entry of new firms is high but such entry 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 (see Figure 5). 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 the 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). Firm growth that has happened in a small number of formal firms (around 5 per cent), with the remaining 95 per cent expanding marginally since establishment. Almost all large firms are born large; only 12 per cent 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 per cent of Ugandan business managers expected at least double their number of employees in the following five years.[22]

Box 1: The binding constraint on 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.

Evidence suggests that there are five main binding constraints on labour demand:

1. *Inadequate infrastructure*. As much as 58 per cent of the productivity handicap faced by Ugandan firms can be attributed to infrastructure constraints. The high cost of electricity is a significant constraint on 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.
2. *An inadequate supply of practical skills among the labour force*. Skill-intensive manufacturing industries (e.g. manufacturing 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 employment in Ugandan firms in these sectors has expanded much more slowly than average.
3. *Poor management practices*. A lack of professional management expertise means that many businesses in Uganda operate on 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.
4. *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.

5. *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 to an additional barrier to entry of SMEs and reduces competition among large incumbent firms. High interest rates mean that firms use retained earning rather than credit to finance investment.

Therefore, the lacklustre pattern of firm growth has undermined the dynamism of Uganda's economy. In fact, this appears to have been compounded by the recent collapse of the global commodity prices which, according to the report by the IMF, portends difficult days ahead for Uganda's economy whose major export earnings rely almost entirely on the export of primary commodities. The anticipated contraction in the economy further threatens to exacerbate the risk of unemployment and underemployment. But the most interesting question that forms the crux of the argument advanced in this paper is: Why have Uganda's macroeconomic interventions generated a lower-than-expected increase in employment?

We argue in the subsequent section that the earlier years of macroeconomic reforms that stimulated economic growth did not specifically target employment growth as the ultimate driver of economic growth.[23] In addition, political economy analysis reveals that the desire by the NRM-dominant political class to entrench themselves in power resulted in the adoption of measures that significantly undermined efforts to scale up investment in the economy. Specifically, the expansion of patronage as an instrument of political consolidation and control has meant that government consumption expenditure has increased over the years, thus crowding out public sector investment in the economy.[24] Perhaps more deleteriously, the expansion of patronage has undermined the effectiveness of the implementation of public sector investment programmes, resulting in low absorption of funds and, in some egregious cases, non-implementation of plan programmes due to fraught procurement.[25]

3. The Paradox of High Economic Growth and High Underemployment and Unemployment: The Political

Economy Explanation

As earlier pointed out, Uganda's economic recovery programme was informed by the dominant neo-liberal economic policies of the international financial institutions (IFIs) – notably the IMF and the World Bank – which placed the private sector as the central engine of growth. This development paradigm has been strongly informed by the consensus at that time that state-led development generated economic disasters in developing countries. This was mainly because the underlying political conditions implied that those who controlled the state apparatus used it to realise their own personal interests, subsequently creating higher levels of inefficiencies, unproductive monopolies and incompetence, and hence leading to fiscal and economic crises. To redress this economic malaise, the World Bank and neo-liberal advocates argued that the development approach had to shift from the state to enabling the market to play the leading role in the allocation of resources and the organisation of production and distribution of goods and services within the economy.[26]

However, the advocates of this argument ignored the fact that, unlike states in other parts of the world, the state in many African countries played a central role in organising production and distribution within the economy, primarily because there was no developed private sector on which to rely. In fact, in the case of the Uganda, even the modicum of the private sector that the post-independence government had inherited in the form of small Asian businesses had been wiped out with the rise of Idi Amin and his draconian economic policies that involved the expulsion of the Asians. The civil war further compounded this predicament by completely annihilating any relic of the productive capacity that had survived in the wake of the Amin and Obote II regimes.[27]

Therefore, liberalising in the 1990s in such a context in fact meant both further weakening of the state and also reducing opportunities for the building of a vibrant private sector. Rather than liberalise, the private sector needed to be constructed because it was almost non-existent. Privatisation in fact implied 'killing' of the productive capabilities rather 'freeing' them. Within this context, the macroeconomic reforms such as devaluation eventually reflected growth not in real terms but in nominal terms. In addition, the concerns about deplorable social and economic conditions illuminated by the nearly half of the population living in abject poverty brought to light the importance of increasing investment in raising the stock of social services rather than the stock of physical capital. In the end, the bulk of donor aid (which by the way was the main source of government revenue for nearly the first post-reconstruction decade) was invested in reducing poverty levels by investing in education, health, water and sanitation.

In the early 2000s, the pressure on the NRM government to embrace multi-party democracy fundamentally shifted investment priorities within the economy, with far-reaching consequences for growth and employment creation in the economy. Particularly, such pressure created fractures within the NRM political class and led to the rise of the opposition, further exacerbating the threat of the potential loss of political power. To neutralise this threat, the Museveni regime responded with an instrument that has perhaps had the most attenuating effect on the growth of the economy and ultimately employment creation within the economy: political patronage. Scaling up of political patronage was strongly reflected in the implementation of the decentralisation policy.

Although decentralisation was initially motivated by the need to take public goods and services closer to the people, the proliferation of districts across the entire country was motivated by the need to stifle the capacity of the opposition to gain traction in the countryside.[28] In his seminal piece on district creation and decentralisation in Uganda, Green (2008) observes that the 'explosive' increase in the number of districts from as low as 39 in 1994 to 112 to-date was strongly motivated by the need to win elections through the expansion of political patronage. In a related study, Tangri and Mwenda (2013) argue that political patronage fuelled corruption in Uganda and weakened public sector accountability as well as the delivery of public goods and services. The regression analysis carried out during the writing of this paper further corroborates the observations of Green, Tangri and Mwenda.

Table 5: Drivers of Uganda's Growth between 2000 and 2014

Variable	**(1) GDP per capita (%) 2000-2014**
Government consumption expenditure	6.139 (3.742)
Gross capital formation	0.0242 (5.576)
Gross domestic savings	-0.0304 (0.890)
Exports of goods and services (% of GDP)	2.492 (3.818)

FDI inflows (% of GDP)	3.418 (4.925)
Health spending (% of GDP)	-10.22 (15.78)
Inflation	-1.264 (1.989)
Military spending (% of GDP)	3.676 (9.472)
Net enrolment in secondary school	-2.01e-08 (0.000000214)
Population size	0.0840 (0.166)
Current account balance	0.0840 (0.166)
_cons	-51.04 (27.48)
R squared	0.9433

Standard errors are in parentheses, *P<0.05, **P<0.01; ***P<0.001

Table 5 analyses the main drivers of Uganda's growth between 2000 and 2014.[29] The results are striking. Government consumption expenditure accounted for the largest share of Uganda's percentage growth in per capita GDP between 2000 and 2014, followed by military spending. Again, this is perhaps better explained by Museveni's desire to consolidate his political power in the wake of multi-party democracy that engendered the threat by the opposition to usurp his political power. Government spending on the expanded scope and scale of political patronage has been the most effective explanation for increased government spending. The resulting effect of this shifting in spending priorities has been the crowding out of public investment in increasing the stock of physical capital. Again, the regression estimation suggests that gross capital formation and domestic savings have had the most limited effect on the increase in the percentage of per capita GDP during the same period.

However, the effect of political patronage and corruption has been most damaging on the economy and, subsequently, on employment creation through weakening of public sector accountability and the capacity to deliver public goods and services. A capacity absorption study by the Ministry of Finance in 2011 revealed that in many districts, ministries and agencies of the government, there was a glaring malfeasance in terms of the capacity and capability to spend annual budgets. In many districts visited by the ministry's research team, it was discovered that procurement committees very rarely met according to schedule or even adhered to procurement rules; annual work plans existed but were seldom followed in the implementation of government projects and programmes; and, for most of the public investment assets delivered through the implementation of government programmes, there were no budget allocations for maintenance after the project phase, which resulted in faster breakdown and dilapidation.

These internal weaknesses within the public sector resulted in frequently spending less money than allocated during each financial year and yet many districts and, indeed, regions remain in desperate need of public goods and services. Therefore, weak public sector accountability, characterised mainly by weak internal supervision, has been the greatest impediment to the effective public service delivery that is required to lay a strong foundation for an employment-generating economy. This implies that, even though in the last five years the Government of Uganda has expressed interest in addressing underemployment and unemployment through a plethora of labour market interventions, which are indicated in the next section, the underlying structural weaknesses within the public sector, underpinned by the nature of Ugandan politics, have meant that many of these programmes have very rarely been implemented in a way that can revolutionise the economy.

4. Conclusion

Uganda's unemployment and underemployment will remain the most serious economic and political problem of the next decade, not least because of the increasing number of new entrants into the labour market each year. There are arguments that the unemployment and underemployment problem reflects the development challenge of any country at Uganda's level of economic development largely because of the changing demographic structure and subsequently high dependency ratio. While this cannot completely be discarded, analysis in this paper reveals that the unemployment and underemployment problem is more an outcome of a shift in political priorities which has had important implications for the economic allocation decision-making process and has less to do with the demographic factors. The paper has shown that the shift to the multi-party political dispensation created the threat of loss of political power to Museveni regime. As a result, the desire to consolidate political power by the regime resulted in the adoption of political instruments that significantly attenuated the investment capacity of the economy and its ability to generate employment. Specifically, political patronage proliferated mainly through district creation and untramelled government consumption expenditure. This eventually crowded out public investment in the expansion of physical capital, an essential element in building an economy that can improve conditions for employment generation. In addition, the expansion of political patronage has fuelled corruption and malfeasance within the public sector, weakening accountability and the capacity of the public sector to deliver goods and services. This, therefore, implies that even in the wake of the increasing recognition of the need to redirect government priorities towards investment in infrastructure reflected in the implementation of the NDPs, the public sector, undermined by corruption and political patronage, has been incapable of effective service delivery. This has perpetually hamstrung the expansion capacity of the economy to meet the employment needs of Uganda's growing population. The emerging conclusion raises a number of serious questions about whether and how Uganda should rethink its politics and economic policy to address the growing unemployment and underemployment problem.

Appendix 1

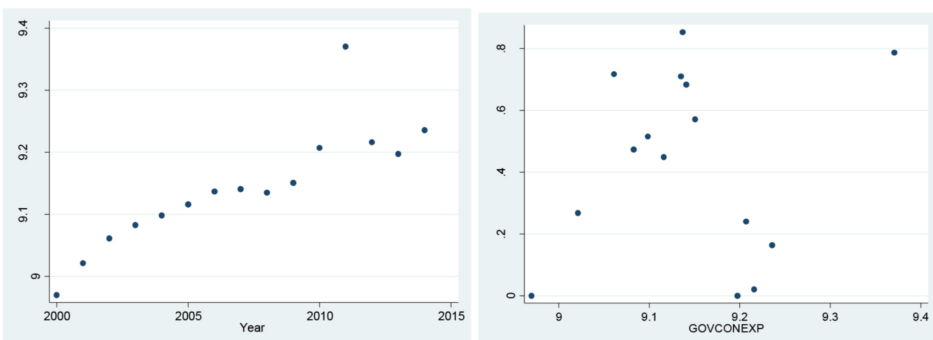


Figure 2

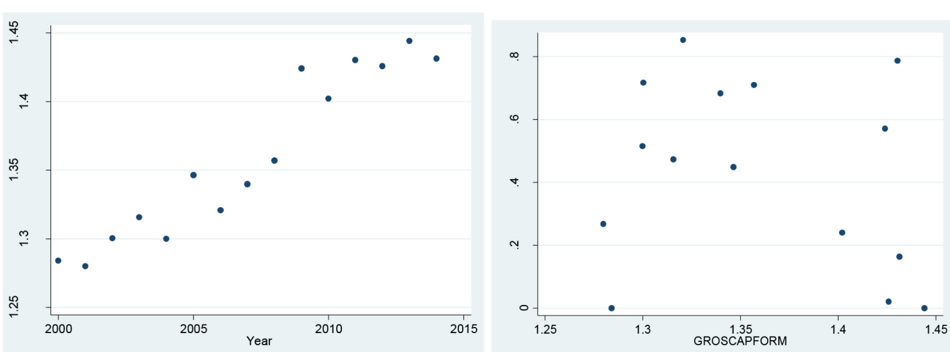
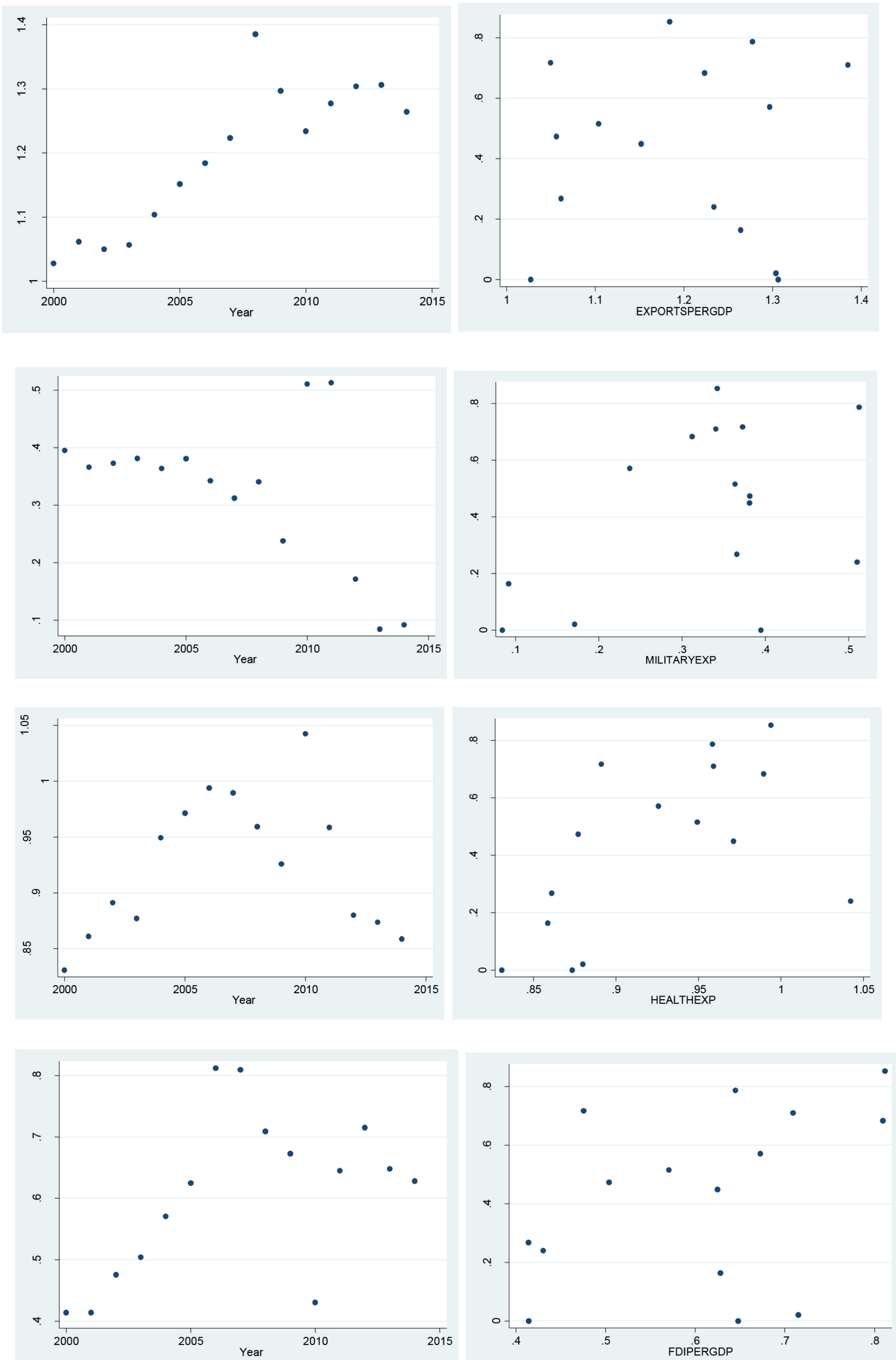


Figure 3



Year
EXPORTSPERGDP
Year
MILITARYEXP
Year
HEALTHEXP
Year
FDIPERGDP

Notes

1. This paper was first prepared for a political analysis project of Uganda Youth Network and International Republican Institute.
2. Di John, J., & Putzel, J. (2005).
3. IMF data analysis.
4. See MFPED (2014).
5. Ibid.
6. Nelson, R. R., & Phelps, E. S. (1966).
7. Stiglitz, J. (2012).
8. Svejnar, J. (2002).
9. MPFED (2014).
10. Jamal, V. (1976); Kayizzi-Mugerwa, S., & Bigsten, A. (1992); Bigsten, A., & Kayizzi-Mugerwa, S. (1995).
11. Di John, J., & Putzel, J. (2005).
12. MFPED (2014); Musisi and Richens (2013).
13. MFPED (2014)
14. MFPED (2014).
15. Musisi & Richens (2013); John Hassler, J., Krusell, P., Shifa,A., & Spiro, D. (2013).
16. World Bank (2007); Escribano, A., Guasch, J.L. & Pena, J. (2010).
17. Musisi & Richens (2013).
18. Ibid.
19. MPFED (2014).
20. MFPED (2014), p.viii.
21. Ibid.
22. Global Entrepreneurship Survey 2004.
23. MFPED (2014).
24. Tangri, R., & Andrew, M. M. (2013); Also see, Green, E. (2008).
25. Svensson, J. (2006); MFPED (2011).
26. Kohli, A. (2004).
27. Jamal, V. (1976).
28. Green, E. (2008). *District Creation and Decentralisation in Uganda*. Crisis States Research Centre.
29. This period was selected because it was considered as better suited for effectively capturing the impact of multi-party democracy on government consumption expenditure.

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