

REALITY CHECK

Employment, Entrepreneurship and Education in Uganda



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Konrad
Adenauer
Stiftung



CENTRE FOR
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ALTERNATIVES



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and Education in Uganda

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Foreword

The quest for decent employment presents a major development concern today. It would be unimaginable for a country to achieve inclusive growth and sustained peace without providing decent work opportunities for all. Having a candid conversation and generating new knowledge and ideas on employment, especially for the youth in Africa is not only timely, it is also crucial considering the fact that in most Africa countries, young people often have their labour as one of their most prized assets. In this regard, the opportunity for gainful work is the chance for them to earn a decent livelihood and contribute to their country's growth process.

In Uganda like most of Sub Saharan Africa, the recent history of positive growth did not carry with it increased employment opportunities - leading to what scholars have termed as "jobless growth." This predicament is further exacerbated by the fact that every 1 percent GDP growth increase in Uganda generates only 400 jobs which is far much below the international standard of 10,000 jobs which should be created with a corresponding 1 per cent GDP

growth rate. Yet at a glance, Uganda's unemployment statistics do not appear to be alarming – at least not according to government statistics which estimate the unemployment rate at only 9.4 percent. However, most of Uganda's work opportunities are informal, precarious and poorly remunerated. Without a sound social protection system, many people find themselves having to take on jobs simply because going without a job is an alternative they cannot afford.

A key value in this report is that it attempts to reframe the employment discourse to focus on the prevailing issues of underemployment by covering questions of precarious work, poor pay and job opportunities that fall below the qualifications of workers. The analysis and statistics used challenge some of the narratives that have been for long held about Uganda's unemployment as well as how and in what ways education and entrepreneurship can be relied upon as solutions to existing challenges.

While the question of decent employment is a matter for concern to all Ugandans, the country's youth deserve special



emphasis. With a population continuing to grow above 3 percent and 78 percent of it aged below 35, the high number of young people demands stronger development focus particularly with regard to employment opportunities. In this regard - and this report acknowledges - gainful employment has implications for fostering constructive political engagement as well as for social stability. Moreover, the major guiding strategy documents, from the Sustainable Development Goals to the Agenda 2063 of the African Union and Uganda's own National Development Plans, all put strong emphasis on decent employment as a key challenge.

The Konrad-Adenauer-Stiftung sees a contribution to decent employment promotion as a matter of promoting solidarity around the world and building confidence in the future - with the latter being the theme for KAS'

cooperation in 2017. This report raises questions of economic policy alongside existing opportunities through which the constraints to decent employment growth can be lifted. Beyond the statistics, there is always the need to understand that development depends on the nature of interactions and relationships between people as much as the process itself is about people. Therefore, our further conversations on this report with regard to employment policy, population growth, entrepreneurship, education, to mention but a few, will always have to emphasise the aspect of human interaction and improving the quality of human life.

Mathias Kamp

*Country Representative,
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National Population

The total population of Uganda



Working Age Population

The total population aged 14-64 years



Subsistence Farmers

Persons involved exclusively in subsistence production



Non-participants

Persons without work (paid or self-employment) and (i) not available for work or (ii) not seeking for work



Labour Force

Persons actively involved in the labour force i.e. working (paid or self-employment) or unemployed



Employed

Persons of working age engaged in any activity to produce goods or provide services for pay or profit. This excludes those people only involved in subsistence production



Unemployed

Persons of working age who were (i) without work (paid or self-employment), (ii) currently available for work, and (iii) seeking for work



Working Age Population 16,502,000

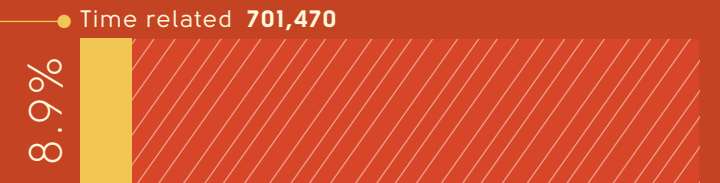
Subsistence Farmers 6,009,442

Non-participants 1,779,502

Labour Force 8,713,056

Employed 7,886,000

Persons of working age whose hours of work were below 40 / week and who wanted or sought to work additional hours



Employed persons who were not already categorised as time-related underemployed, who have at least S4 level education, and whose educational attainment was higher than the educational level required by their current main jobs



Employed persons who earned less than two-thirds of the full-time (40-48 hours / week) equivalent of the national median income (UGX 73,000 per month in 2012/13)



0 Underemployment (% of Employed) 100

Unemployed 817,245

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underemployment is a more far-reaching problem in Uganda. 1.4 million people, or **14.5 percent** of the active labour force, are subject to **time-related** or **skill-related underemployment**, meaning they either cannot find enough gainful work to be employed full-time or cannot put their skills to full productive use. **Income-related underemployment** affects 1 million people, or **13 percent** of the active labour force - these people have jobs but are earning less than two thirds of the median full-time wage. Further, according to the latest statistics available², over **90%** of those employed in non-agricultural activities are in **informal employment**.

These figures demonstrate that Uganda's labour force is to a large degree excluded, informal and therefore precariously

employed, and underemployed. There is a serious shortage in the quantity as well as quality of available employment.

In recent years, the rhetoric around the causes and solutions of youth unemployment has revolved around entrepreneurship and education. But entrepreneurship and education targeted measures have failed to ease the pervasive problem. The purpose of this report is to provide a deeper analysis of Uganda's employment challenge. It focuses on identifying the proximate causes of underemployment whilst interrogating the role of entrepreneurship and education in responding to the constraints on job expansion.

Putting Decent Employment at the Centre

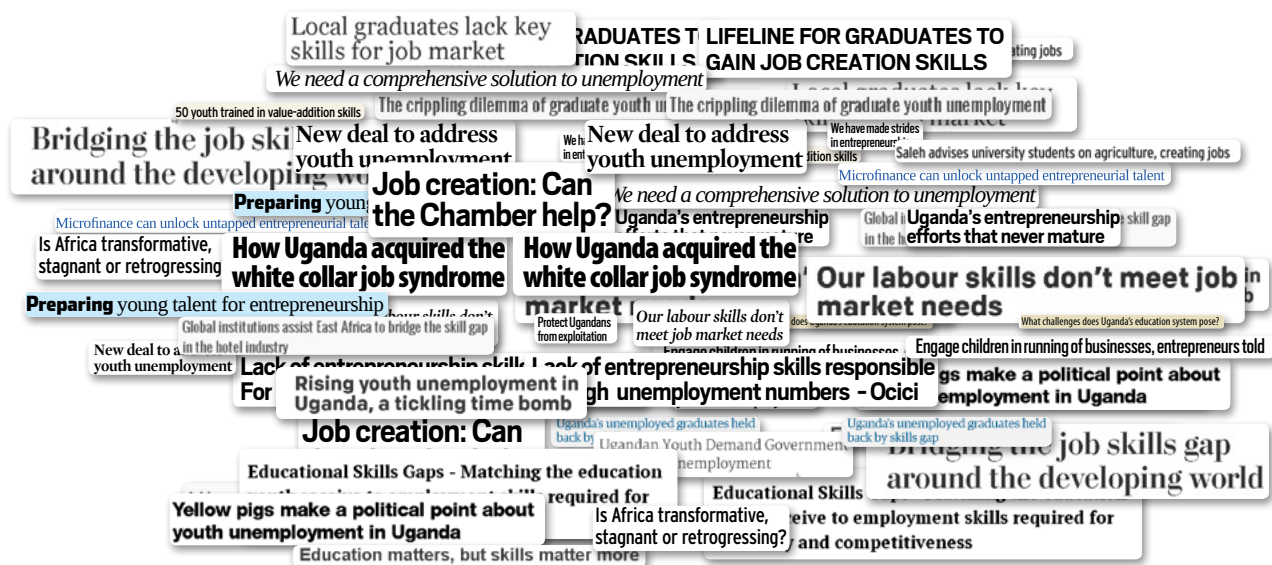
Expanding decent employment in the immediate and long term will be an important factor in Uganda's ability to achieve the Sustainable Development Goals (SDGs), particularly on decent work and economic growth. It also has implications for ending poverty, reducing inequality and fostering peace.

Uganda's own development ambitions as outlined in Vision 2040 and the National Development Plans (NDPs) will also be contingent on the possibility of a significant proportion of the population contributing towards the growth process. This demands more opportunities for modern wage employment as well as increased productivity and growth of household enterprises (HEs).

² UBOS (2013). *National Labour Force Survey Report 2011/12*.

Recent experiences from the Arab Spring now confirm that without meaningful work opportunities, a growing youth population can be a recipe for social and political instability. Uganda's population continues to grow rapidly at an annual rate of 3 per cent. Improving health conditions have reduced mortality rates but the most recent population census shows fertility rates remain high at 5.8 children per woman. This has led to an explosion of the young population, resulting in around 7 million youth. Uganda's Ministry of Finance, Planning and Economic Development (MoFPED) recognised in 2014 that the labour force registers some 700,000 new entrants each year.³ However, available figures show that only around 12,000 modern wage jobs are advertised annually.⁴

While the available evidence suggests that Uganda's unemployment and underemployment stem from limited jobs in the economy, the discourse has mostly treated the problem as a labour supply issue. This focus on a skills mismatch presupposes two things: one, that jobs exist in the economy and that the workforce simply lacks the skills to take up existing positions or two, that the lack of relevant skills have disincentivised investors from investing in Uganda in preference for other countries. This has, unfortunately, given primacy to skills-building, including entrepreneurship training, as the silver bullet for addressing youth unemployment and underemployment. The problem, nevertheless, remains pervasive.



3 MFPE (2014).
4 UBOS (2012).

Clarifying Uganda's Employment Challenge

Uganda's employment challenge has been largely misconstrued in the public discourse. This begins with the nature and amplitude of the problem. The Wikipedia page on 'Youth in Uganda' states that "The unemployment rate for young people ages 15–24 is 83%"⁵. Similarly, a top news article on employment in Uganda, published in the globally acclaimed Guardian, states that Uganda's youth unemployment rate is at least 60%, and maybe as high as 83%. Both claims make reference to the African Development Bank's African Economic Brief Volume 4, Number 1, 2013.

However, the referenced brief by the African Development Bank states that "the share of unemployed youth among the total unemployed can be as high as 83% in Uganda"⁶, and makes no other mention of youth unemployment statistics in Uganda. This statistic has thus been flagrantly misinterpreted in the most visible contributions to the public discourse on employment in Uganda.

The lower figure of 60% in the Guardian article is obtained from an Action Aid⁷ survey of just over 1,000 youths in certain districts who were asked whether they were employed. A 2014 ACODE briefing paper claims that "youth unemployment stands at between 64% and 70%"⁸, without any reference to evidence. In fact, there is extremely little reliable data on youth-specific employment rates in Uganda. Official UBOS statistics put the national unemployment rate at 9.4%.

But not only has the nature and amplitude of Uganda's employment challenge been misconstrued; its causes too have been misdiagnosed. Again, the Wikipedia page on youth in Uganda explains that the urban youth unemployment rate, which it claims is even higher than 83% (The Brookings Institution puts urban youth unemployment at 12%)⁹, is "due to the disconnect between the degree achieved and the vocational skills needed for the jobs that are in demand for workers"¹⁰.

⁵ Wikipedia (2017)

⁶ African Development Bank (2013)

⁷ Action Aid International Uganda (2012)

⁸ Advocates Coalition for Development and Environment (2014)

⁹ Brookings (2014)

¹⁰ Wikipedia (2017)

It goes on to state that “those without a degree are also not able to obtain jobs because they lack the skills needed for the position... some youth also have negative views on certain jobs so they are unwilling to take them if offered a position”¹¹. The implication of this explanation is that jobs are available but young Ugandans are not able to fill the positions due to a lack of relevant skills or appropriate attitude.

The dominant narrative in the Ugandan, and arguably African, discourse on youth unemployment pitches skills mismatch and a lack of youth entrepreneurship as the binding constraints. This report argues that this narrative is narrow and misses crucial structural economic barriers on the labour demand side.

To illustrate the current narrative, a popular article in *The Independent* says that “upon recognizing that youth lack employable skills or possess skills that are irrelevant in the current job market, government should continuously focus on a phased curriculum review at all levels of education with a focus on business, technical, vocational education and industrial training”. The above mentioned article in *The Guardian* cites a senior economic consultant who “believes the

problem lies in the education system. He says the country is stuck with the colonial education system that trains students to be clerks, teachers and lawyers. Times have changed... and the country needs metal fabricators, carpenters and mechanics. Foreign investors also bemoan the lack of skilled workers in Uganda.”¹³

A major contribution of this report is to re-frame the debate on youth unemployment in Uganda and revisit the place of entrepreneurship and education in that debate. From highlighting underemployment as the main challenge, to articulating how the interaction between labour demand and supply explains present circumstances, the report presents a starting point for shifting towards evidence based interventions.

The research approach underpinning this report takes stock of existing empirical and theoretical literature and data as well as stakeholders’ perspectives on Uganda’s employment challenges. The report provides deeper insights on the employment problem by using a diagnostic approach that (a) clarifies the causal logic behind employment creation in Uganda, (b) defines the interrelations

¹¹ *ibid*

¹² Nantaba, A. (2015)

¹³ Mwesigwa, A. (2014)



between education, entrepreneurship and employment, and (c) helps prioritise action by providing a framework for analysing binding constraints and opportunities.

Therefore, the first task covered in this report has been the development of an analytical framework for employment in an economy. A concept of neoclassical economics where employment is seen as a function of labour demand, labour supply, and the interaction between

the two is applied. But this report acknowledges the limits to a market focused analysis in economies like Uganda with a high concentration of economic activity in both on-farm and off-farm household enterprises, where most work opportunities are based outside the frame of modern wage employment. This premise has enabled the report to centralise labour demand as a key factor, while provoking inquiry to go beyond jobs in modern wage firms to consider work opportunities in HEs.

A Glance into the Details

Section 2 lays out the socio-economic and political context. It shows that Uganda's economy has had three growth episodes, with each producing different implications for employment. The post-independence period, starting around 1962, was characterised by productivity growth in agriculture and manufacturing and promised greater growth and employment dividends. It, however, lasted only eight years when it was interrupted by the political crisis from around 1971, followed by a civil war in the 1980s. The war era produced economic destruction and remarkably reversed growth as employment opportunities haemorrhaged. The third episode from around 1987 delivered sustained economic growth for the next two decades, with employment expansion mostly in the services sector. However, this growth trajectory started to wane from around 2008 as productivity in the agriculture, manufacturing and services sectors started to irreversibly recede, given structural constraints on firm growth. Increasing population growth and labour supply in the face of several constraints has progressively attenuated opportunities for economic growth and employment opportunities, thereby producing a situation of increasing underemployment and unemployment.

Uganda's major employment challenge is articulated in section 3. The evidence presented illuminates the often conflicting low official headline unemployment figures vis-à-vis widespread rhetoric on high unemployment rates. The central argument in this section is that Uganda's employment challenge is primarily an underemployment problem exhibited in three strands: skills-related, time-related and poor pay. The second critical clarification is that underemployment in Uganda stems from low labour demand growth. This challenges long held and often essentialist perspectives that unemployment is due to a skills mismatch. Limited labour demand growth is attributed to low firm growth as well as low productivity and growth of household enterprises. A number of constraints to firm growth are discussed, among which are infrastructural bottlenecks, poor management practices and lack of appropriate skills, with some having a clear link to entrepreneurship and education. It is observed that a high population growth rate continues to exacerbate the jobs challenge as labour force growth increases pressure on already limited demand.

The analysis of entrepreneurship in section 4 confirms that Uganda is indeed a very entrepreneurial society.



However, the entrepreneurship is predominantly necessity-driven (meaning people start a business only because they have nothing else to do) and not opportunity-driven – where people start a business on the premise of clearly identified opportunities in the economy. Therefore, while many Ugandan entrepreneurs have the ambition to start businesses, many start-ups do not live to see their first birthday while others simply do not grow. When firms fail to expand, so does wage employment. This report, therefore, suggests that there is need to foster opportunity-driven entrepreneurs and firm growth. Two assumptions, however, make this a daunting task: (a) that opportunity-driven entrepreneurship is contingent on the ability of entrepreneurs to identify viable business opportunities; and (b) that firm growth requires the former plus the availability of effective business managers. However, the report observes that the above two crucially depend on a dynamically growing economy. Hence, the report recommends that designing a targeted foreign direct investment (FDI) policy regime that strategically aims to stimulate investment in Uganda's growth potential sectors could be the promising solution. It would support a shift from the vicious circle of necessity-driven entrepreneurship (often characterised by lacklustre growth, low firm growth and low labour demand growth) to a virtuous circle of opportunity-driven

entrepreneurship that would eventually produce high firm growth and increased labour demand growth.

The analysis of education in section 5 confirms that education in Uganda has registered some marked improvements, particularly regarding access. However, significant gaps remain concerning quality and the relevance of education. Education is not found to be the immediate structural constraint on employment expansion. Nonetheless, there is a clear link between education and other factors proximate to job growth – e.g. the supply of appropriate skills and management practices. This report, furthermore, argues that the general quality of education has implications for entrepreneurship. For these and other reasons, it is considered in this report that the challenges in education matter to the employment expansion agenda. This study, however, did not explore all attributes of education which have implications for employment; for example, the view that education embedded with the building of national values and a sense of citizenry could contribute towards mitigating iniquities like corruption which have negative implications for the business environment and, for that matter, firm growth and job expansion. Caution is encouraged to avoid perceiving education as a panacea that will solve the country's underemployment challenge. Education

reform needs to be pursued hand in hand with other critical interventions, such as improving the business environment and the rule of law. But the study does not find intentional efforts in Uganda to tailor education and skills development towards specific sectors where the country finds a reasonable opportunity to excel and have a market advantage, i.e. growth potential sectors.

It has not been in the scope of this study to evaluate existing labour market interventions in Uganda. A couple of these exist, among them skills development measures such as the Skilling Uganda programme, financing and credit schemes like the Youth Livelihoods Programme (YLP) and initiatives to modernise agriculture such as National Agriculture Advisory Services (NAADS) and Operation Wealth Creation (OWC). However, the report cautiously observes that underemployment is not easing despite these measures. While the analysis in this report focuses on understanding the constraints and opportunities for the

growth of firms, household enterprises and employment, further analysis is necessary to understand why existing labour market interventions are not yielding the expected results regarding decent employment.

Overall, this report concludes with a recommendation that there is need for more granular analysis to: (a) identify the sectors with high growth potential; and (b) to establish sector-specific binding constraints on the growth of firms in these sectors. Such an analysis will be crucial in informing interventions to spur firm growth in the formal wage sector which presents the most promising opportunity for the expansion of decent employment in the long run. In the short term, however, both on-farm and off-farm household enterprises will remain a large and leading employer. Therefore, measures that increase the productivity and growth of household enterprises can go a long way in promoting decent work and incomes as well as facilitating the transition to modern wage employment.





1.
Reframing
the 3 Es

In Brief:

- *Employment at scale means getting a higher proportion of the working age population into decent employment.*
- *Employment needs to be 'decent' in that it is adequately remunerated, safe, secure, meaningful and dignified.*
- *Employment is a product of labour supply, labour demand and the functioning of the labour market.*

1.1 In Quest of Employment at Scale

The overarching debate to which this study contributes is how the Ugandan economy can get a higher number of the working-age population into decent employment. Employment is instrumental towards: (1) achieving income and thus a decent living standard in a market economy; (2) ensuring that one is a productive member of society, thus promoting

self-worth and social cohesion; and (3) giving youth an alternative to violence which, in turn, promotes social order. In order to be a valuable instrument for the achievement of these ends, employment needs to be 'decent' in that it is adequately remunerated, safe, secure, meaningful and dignified.

1.2 Analytical Framework

The analytical framework applied in this study begins with the basic concept of neo-classical economics that employment can be seen as a function of labour demand, labour supply and the interaction of the two. Under this framework, employment at scale is achieved when the economy demands a large amount of labour and the population meets a large proportion of that demand. In other words, labour

demand is high and labour supply largely meets that demand. However, in order for labour supply to meet labour demand, the labour market must function well.

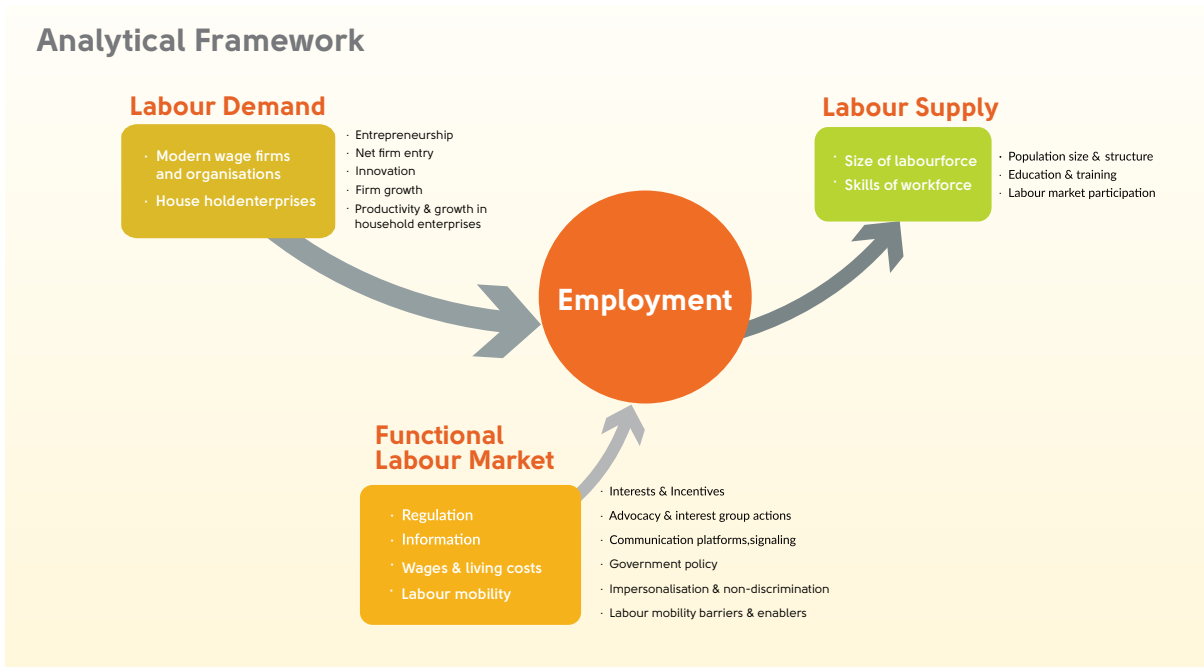
Thus the three proximate variables contributing to employment outcomes are: (1) labour demand; (2) labour supply; and (3) the functioning of the labour market.



In the simplest traditional model of a labour market, formal capitalist firms employ wage workers – thus, the firms seeking labour represent labour demand, and the workers seeking employment represent labour supply.

However, two factors challenge this traditional view in the Ugandan context: (1) the high prevalence and importance

of informal household enterprises in the economy; and (2) the reality that household incomes come from a portfolio of several economic activities. The conceptual separation of labour supply and demand remains useful under the broad definitions provided below, which take into account these contextual challenges to the traditional labour market framework.



1.3 Labour Supply

Labour supply can be seen as the availability of labour for productive economic activity, which could be put to use across a number of activities and under any organisational form, including formal and informal firms, the public sector, non-profit organisations and household enterprises.

A strong labour supply means that the workforce offers employers the right skills at the right scale, in the right places and at the right price, to meet labour demand. Factors shaping the labour supply include the size of the population, the rate of workforce participation, skills (imparted largely through the education

system), the physical location of people, the opportunity cost to people of accepting a job at the market rate and cultural factors, to mention a few.

The education system, while also playing a much broader role in society, can be seen as the engine that must provide the right number of people in the right places with the right skills (by sector, job type and level as well as soft transferable skills) and at the right price.

While education is instrumental in contributing to the supply side of labour, a number of questions surround any conclusions on its deterministic effect. The important ones among these are: To what extent are skills in the labour supply a binding constraint on employment at scale? Which factors affecting the

labour supply represent the most binding constraints on employment at scale and the biggest opportunities for progress? What factors affect the ability of an education system to lift those constraints? On the other hand, the possession of the right skills only means that a worker has the technical ability to perform a given task or job. However, the willingness to take up a given job is contingent on factors beyond the worker's ability to perform the tasks involved. As rational beings, workers aim to maximise their welfare. Therefore, the availability of decent jobs in a given sector will, for example, determine how many people are willing to train and acquire skills in that sector as well as how many will decide to take up or decline jobs even if they had the necessary skills.

1.4 Labour Demand

Labour demand is understood here as the ability and willingness of economic actors to employ labour, part-time or full-time, under any organisational form, including formal and informal firms, the public sector, non-profit organisations and household enterprises. Under this definition, an economic actor could be an individual running an own-account firm who is able and willing to employ their own labour.

Labour demand has quantitative and qualitative aspects. An increase in the quantity of labour demand comes from labour-intensive growth drivers, including the ability and willingness of organisations to grow. An improvement in the quality of labour demand constitutes a movement towards demand for: (1) the types of employees who are realistically available (e.g. low-skilled labour); or (2) the types of jobs that are decent as previously defined.



Labour demand growth is driven by the growth or net entry of organisations or individual ventures that use labour. Labour demand growth can come from public sector (government) organisations (e.g. the public health/education system, public works programmes), civil society organisations (e.g. NGOs/CBOs), household enterprises (including own-account workers, e.g. petty traders, family enterprises using paid or unpaid family labour contributions) and firms (including formal/informal micro-enterprises, SMEs and large firms).

Entrepreneurship and organisational management shapes labour demand

because entrepreneurs and managers are, respectively, responsible for starting and growing successful organisations and individual ventures that employ labour. Thus, the rate of creation and success of organisations depends not only on the number of entrepreneurs and the entrepreneurs' ability to identify and exploit opportunities and start organisations but also on the availability of capable managers to build strong organisations. This ability is, in turn, shaped by a host of contextual factors as well as by the motivations and skills of the entrepreneurs and managers.

1.5 Functioning of the Labour Market

A well-functioning labour market successfully facilitates the exchange of labour supply and labour demand. It is comprised of mechanisms that allow organisations to find the labour they need and vice versa. A starting hypothesis is that a functioning labour market depends on five conditions:

- 1. Information** – Information about labour demand is available to the workforce and information on the workforce is available to employers.

- 2. Signaling** – The workforce can effectively signal their value to potential employers, giving the workforce the right incentives to gain qualifications.

- 3. Non-discrimination** – Employers choose employees based on merit and not on personal connection, ethnicity, gender, age etc.

- 4. Mobility** – The workforce is able to reach jobs they qualify for; this depends on geographical development, connectivity and affordable housing, among others.

5. Legal framework – An incentive-compatible legal framework effectively and efficiently governs employer-employee relations.

To what extent is the functioning of the labour market a binding constraint on employment at scale in Uganda? How does Uganda score against these aspects of a functioning labour market? Which

factors represent the most binding constraints and the biggest opportunities for progress? These questions will remain unexplored in this report, which focuses on labour demand and labour supply. In order to paint a more complete picture of the employment challenge, future research should examine the functioning of the labour market in Uganda much more closely.





2. Context

In Brief:

- *Uganda's economy has maintained economic growth at an average annual rate of 6 per cent but with limited increase in job growth.*
- *The resumption of economic growth after the pre-1990 economic collapse resulted from economic reforms that restored macro-economic stability and promoted private sector led growth.*
- *The economic policies of the past two decades that supported the private sector-led growth approach had limited impact on the structural constraints.*
- *Pervasive structural constraints have affected productivity growth in all sectors, mainly agriculture and manufacturing.*
- *Social sector spending in education, health, water and sanitation increased dramatically over the past two decades, improving child survival and triggering a rapid population increase.*
- *An increasing population growth rate has produced an oversupply of labour, further exacerbating the scarcity of jobs, especially in the face of declining job growth.*

2.1 The Socio-economic and Political Context of Uganda's Current Unemployment Situation

Uganda's economy has undergone three main growth episodes with serious implications on employment growth and socioeconomic welfare. During 1962-66, the economy expanded at an annual average rate of 6.7 percent per annum.¹⁴ Real GDP expanded at an annual rate of 4.8 percent of GDP whereas GDP per capita grew at 3 percent per annum.¹⁵

Manufacturing growth was the main driver of the economy such that, by 1971, industrial output accounted for 14 percent of GDP. In addition, the balance of payments was in surplus during most of this period and inflation was low.¹⁶ This optimistic episode of rapid economic expansion promised greater dividends for job creation.

¹⁴ see <http://unstats.un.org/unsd/demographic/sources/census/wphc/Uganda/UGA-2016-05-23.pdf>

¹⁵ Kuteesa, F., Magona, I., Wanyera, M., & Wokadala, J. (2007).

¹⁶ Ibid.



However, by the mid-1980s, Uganda's economy had been decimated. Nearly two decades of economic mismanagement and civil war during the 1970s and 80s had completely reversed the growth dividends of the immediate post-independence period. Physical infrastructure had been destroyed and agricultural activity reverted to subsistence, with the largest share of cash crops such as coffee smuggled to neighbouring countries such as Kenya.¹⁷ Manufacturing output had fallen by 50 per cent, following the expulsion of the Asian business class during the Amin regime, and the tax base had become hugely eroded.¹⁸ 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 of the total GDP.

Beginning in 1990, the Museveni-led National Resistance Movement (NRM) government embarked on an economic recovery plan, primarily characterised by the adoption of neo-liberal stabilisation policy programmes.¹⁹ 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.²⁰ As a result, inflation was significantly curtailed and Uganda restored macro-economic stability, laying the foundation for rapid economic growth in the subsequent years.²¹ The economy managed to expand at an annual average rate of 6 per cent for nearly two decades from 1991 to 2012 (see Figure 1).

¹⁷ Kayizzi-Mugerwa, S., & Bigsten, A. (1992)

¹⁸ Jamal, V. (1976); Kayizzi-Mugerwa, S., & Bigsten, A. (1992); Bigsten, A., & Kayizzi-Mugerwa, S. (1995).

¹⁹ Di John, J., & Putzel, J. (2005).

²⁰ MFPED (2014); Musisi and Richens (2013).

²¹ MFPED. (2014).

Table 1: **Uganda's macro-economic 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

This impressive economic growth resulted from the recovery of productivity in the agricultural, industrial and services sectors. Table 1, for instance, indicates a resumption in growth across all sectors during 1987 and 2003. Agricultural sector output rebounded to 46.3 per cent of the total GDP between 1987 and 2003, before increasing slightly to 53 per cent of total

GDP between 1987 and 1995. Industrial sector output also rose from 12.1 per cent between 1987 and 1995 to 19.5 per cent of total GDP between 1996 and 2003 (see Table 1).



Figure 1: **Uganda's GDP growth (annual %), 1987-2014**



Source: IMF data.

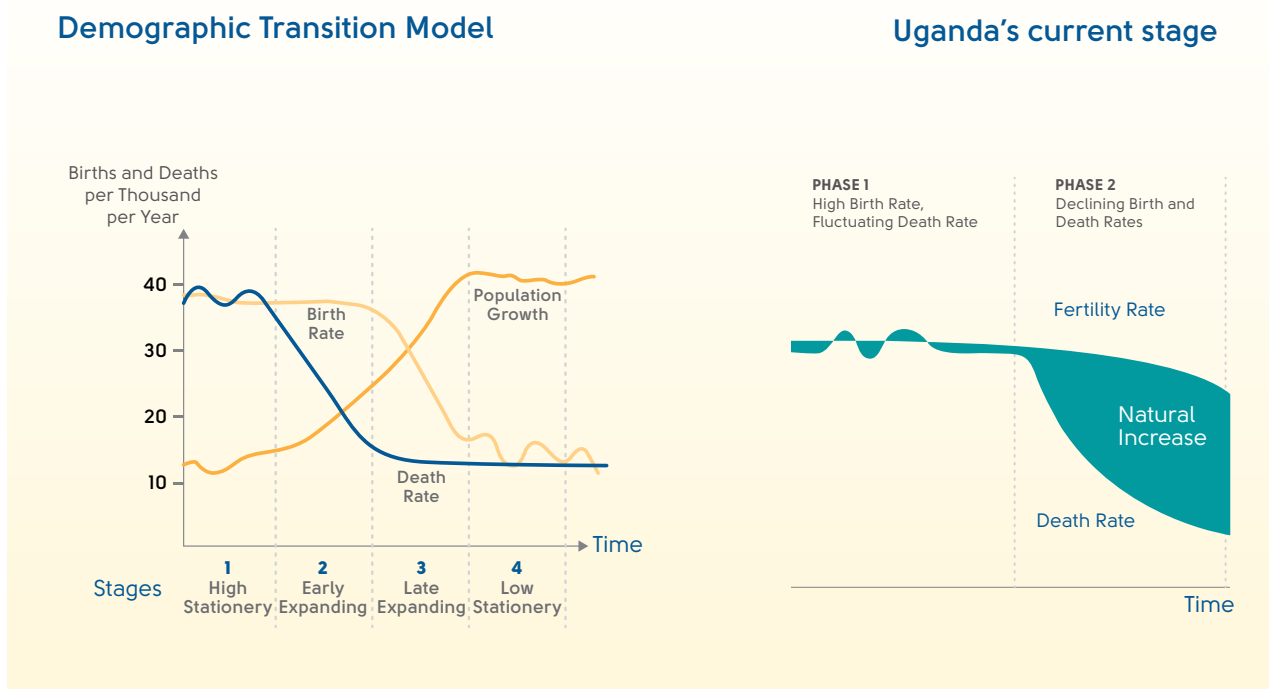
In order to sustain the momentum of this economic recovery, the Government of Uganda introduced a comprehensive development plan in a series of Poverty Eradication Action Plans (PEAP) that were introduced in 1997. As a result, in the subsequent decade, social sector expenditure supported by both donor aid and domestic revenue increased astronomically, mainly in expanding access to education, health, water and sanitation.²² Increased social sector investment eventually contributed to a

reduction in mortality rates from 180 deaths in the early 1990s to 90 deaths per 1,000 live births in 2011 whereas fertility rates remained relatively high and unchanged at six children per woman during this period.²³ This imbalance between mortality and fertility rates induced a demographic transition characterised by an expanding rate of natural population increase (see Figure 2), with specific consequences for labour market dynamics.

²² *Ibid.*

²³ UBOS (1995, 2011).

Figure 2: **Demographic Transition and the Source of Uganda’s Recent Population Expansion**



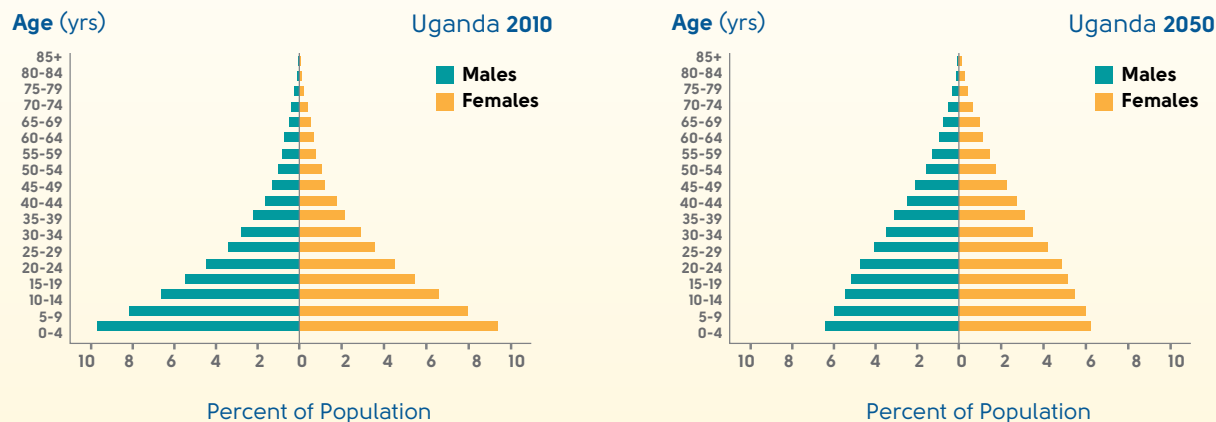
Uganda’s population increased from 16 million in 1991 to 24 million in 2002 to 34.7 million in 2014 and grew at an annual rate of 3 per cent per annum.²⁴ This expansion in Uganda’s population has resulted in an inevitable increase in the country’s labour supply. Over half of the labour force is under the age of 30, and over half of the population is still under the age of

15, suggesting that the number of labour market entrants is increasing rapidly (see Figure 3 below).²⁵ Between 2009 and 2014, it is estimated that the labour force grew at an average rate of 4.8 per cent 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.

²⁴ UBOS (2015).
²⁵ Ibid.



Figure 3: Population Pyramids for Uganda, 2010 and 2050



Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, *World Population Prospects: the 2012 Revision*, <http://esa.un.org/unpd/index.htm>

The growth momentum of the 1990s started to wane in the late 2000s (see Figure 3). It had become increasingly noticeable that productivity in the agriculture sector had stagnated despite the increasing employment of Uganda’s labour force within the sector. Similarly, productivity in the industrial and service sectors was in decline²⁶ despite the continuous emphasis of the private

sector-led growth approach that had been expected to stimulate an increased flow of FDI. It is against this backdrop of a more rapidly growing population and a slowdown in economic growth and productivity that unemployment and underemployment began to feature in the public discourse as specific characteristics of Uganda’s economy.

²⁶ MFPEd (2014).

The background is a complex, abstract composition of various shades of blue. It features numerous overlapping geometric shapes, including triangles, polygons, and long, thin arrows pointing in different directions. The overall effect is one of dynamic movement and depth. A large, white circle is centered on the page, containing the text.

3.
Uganda's
Employment
Challenge

In Brief:

- *The employment problem encompasses non-participation, unemployment and underemployment (time-, skill- and wage-related).*
- *The proximate binding constraint on Uganda's employment problem is lack of labour demand growth.*
- *Impressive macro-economic performance has had a relatively limited impact on the structure of the labour market.*
- *Labour demand growth will be driven by modern wage labour through SMEs displacing or replacing indecent work, and by household enterprise work becoming more skill-intensive, more time-intensive and better-remunerated.*
- *Existing analyses show a number of binding constraints that hold back the entry, survival and growth of SMEs and household enterprises.*
- *A number of product and service sectors are showing high potential for labour demand growth in Uganda.*
- *More rigorous and granular research is needed to shed light on the specific binding constraints on labour demand growth in high potential sectors.*

3.1 Describing the Employment Challenge

A 2014 report by Uganda's Ministry of Finance (MFPED) evaluating the performance of Uganda's employment strategy observes that 'Uganda's impressive macro-economic performance over the last 20 years has had a relatively limited impact on the structure of the labour market.'²⁷

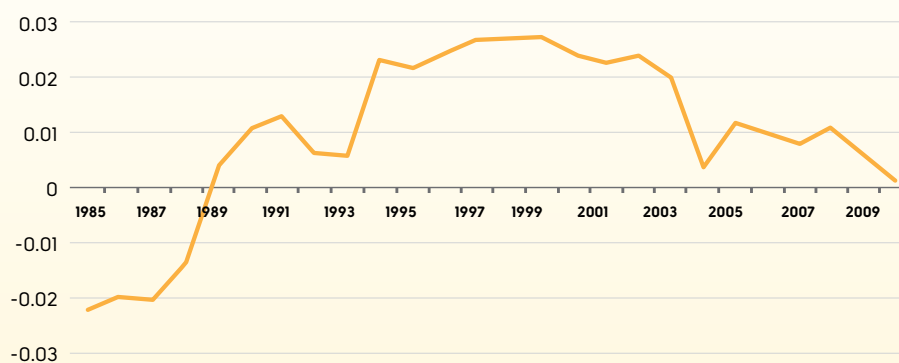
Although headline unemployment, according to the Uganda Bureau of Statistics (UBOS), is estimated at 9.4 per cent, underemployment remains very high. This underemployment is concentrated in the informal economy. Currently, it is estimated that each year 700,000 new entrants join the labour market, fuelled mainly by the country's

²⁷ MFPED (2015), p.viii.

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, on average, only twice the size it was at its establishment, whereas in Ghana the same firm is five times the size it was at its inception.²⁸ 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.²⁹

Analysts posited that the reduction in sectoral productivity resulted from growing infrastructure constraints which weakened the competitiveness of Uganda’s economy. Empirical evidence suggests that inadequate infrastructure was increasingly shrinking the productive base of Uganda’s economy. Escribano et al. (2010), using evidence from firm-level surveys, corroborates this by observing that as much as 58 per cent of the ‘productivity handicap’ faced by Ugandan firms could be attributed to infrastructural constraints (see Figure 4).³⁰ This led the World Bank to call the slow pace of Uganda’s structural change ‘a syndrome of an underinvesting state.’³¹

Figure 4: **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).

²⁸ Ibid.

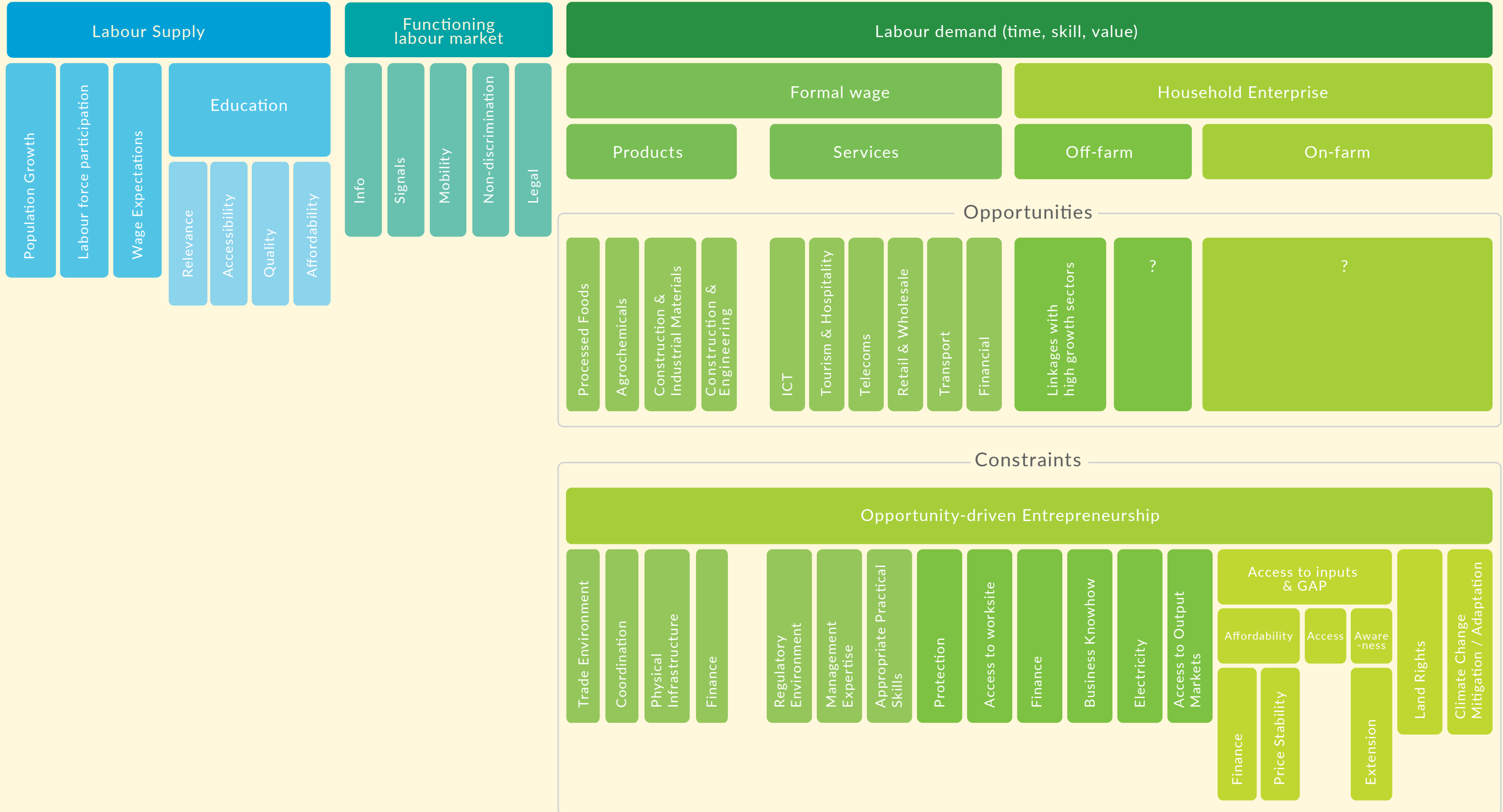
²⁹ MoFPED (2014).

³⁰ Musisi & Richens (2013); John Hassler, J., Krusell, P., Shifa, A., & Spiro, D. (2013).

³¹ World Bank (2007); Escribano, A., Guasch, J.L. & Pena, J. (2010).



EMPLOYMENT



According to UBOS statistics, about 15% of the workforce in employment (engaged in economic activity for pay or profit) is either working less than full-time and unable to find additional gainful work or overqualified for the work they are currently doing. But the proportion of the labour force working less than full-time is much higher when those not currently looking for extra work are included - 67%

according to MFPED. As MFPED notes, many people do not want to work more because the rewards on their current activity are low and other opportunities are limited. Further, 13% of the employed labour force are considered to be inadequately remunerated as they earn less than two thirds of the national median income.

3.2 Diagnosing Opportunities and Constraints

The labour market statistics show that while unemployment is a growing problem, especially among tertiary education graduates (11.8 percent among those holding a degree and above³² compared to national average of 9.4 percent), underemployment presents a more far-reaching challenge. Uganda's labour force is subject to high rates of time-related, skill-related, and wage-related *underemployment*.

In line with the report's analytical framework, this underemployment problem can be interpreted from two perspectives: on the one hand it could be seen as the result of an oversupply of labour (too many people in the workforce), or on the other hand as the result of a shortage of demand for labour (too few opportunities for the workforce to productively use its skills and energy).

3.2.1 Is Uganda's underemployment a labour oversupply challenge?

It can be argued that rapid population growth in an economy with low levels

of job growth leads to an oversupply of labour; in other words, labour supply outmatches labour demand. Too many

³² According to the 2011/2012 National Labour Force and Child Activities Survey. UBOS, 2013

workers with too few jobs results in a high number becoming unemployed. Or employers may choose to engage more workers but only on a part-time basis; people may take up tasks for which they are overqualified or simply accept low pay. These circumstances can in part explain the three strands of underemployment highlighted in this report.

The above scenario appears to suggest that Uganda's unemployment problem is an issue of high population growth and, consequently, labour oversupply. The strain that rapid population expansion puts on an economy can be significant and the implications for employment are discernible. This report, however, suggests that while rapid population growth remains an acknowledged challenge in Uganda, it does not provide the overarching explanation for underemployment. Secondly, population control measures may not have to emphasise contraceptive expansion but rather foster income rise (potentially through employment) to increase incentives for fertility reduction.

Some experts are inclined to argue that the pervasive forms of underemployment in Uganda are largely a manifestation of an oversupply of labour (rather than a lack of labour demand) driven by the rapid population growth recently triggered by an imbalance between fertility and mortality rates. Their prescriptive solution

very often is to increase the effort and investment in scaling up contraceptive use in order to speed up fertility reduction. This argument is not without empirical justification.

Too often authors who defend the above position have referred to the demographic and economic transformation of the East Asian countries to draw lessons for Uganda. They consistently (and correctly) observe that before 1970, per capita income growth in East Asia was suppressed by a high dependency ratio (caused by the large youth population compared to the working-age population).³³ They further assert that since about 1970, per capita income growth resulted from a shrinking dependency burden.³⁴ It is these empirical correlations between dependency ratios and per capita income growth that have been used as a basis to make a strong case for scaling up contraceptive use in Uganda, particularly in rural areas where fertility remains higher, by arguing that for Uganda to see its income per capita grow, there is need to control its population.

Without dismissing the importance of population control, the above reading of empirical facts can obscure the search for the most effective ways to control population growth. For instance, there is no clear evidence in the literature on East Asia's demographic and economic

³³ See Williamson, J. G. (1998) and Bloom, D. E., & Williamson, J. G. (1998)

³⁴ *Ibid.*



transitions³⁵ that suggests that an increase in per capita incomes was spurred and sustained by a strong population control policy. On the contrary, economic transformation preceded demographic transition, and economic transformation was realised by strategic and intentional economic policies that were adopted and implemented to stimulate economic productivity, sectoral diversification and supporting export-led economic growth. It is the latter that significantly contributed to a sustained increase in per capita income, which, in turn, led to dramatic improvements in life expectancy.³⁶ This eventually initiated the fall in fertility rates and consequently the fall in the dependency burden by reducing the percentage of the population in the dependency group. Therefore, improvement in income per capita – which significantly stems from economic policy choices and is inextricably connected to jobs – is a stronger structural determinant of fertility and mortality transitions than population control policies. And there is a strong theoretical and empirical justification for this observation.

Gary Becker, an economic demographer, in his economic framework for the determinants of fertility reduction, places primacy on the rise in incomes over the increase in contraceptive use. He argues that a rise in family income is often associated with a change in the social position and standards of living of the family, which, in turn, induces a rise in expenditure per child as couples substitute ‘quantity for quality’ of children. In the long run, other scholars³⁷ observe, ‘[a rise] in the standards of living and child quality standards adjust[s] to a secular rise in income. The secular rise in income causes an increase in the quality of children, and therefore expenditure per child to rise. This tends to diminish the quantity of children demanded, and the well-known empirical inverse relation between income and the birth rate reasserts itself.’³⁸

This theoretical insight is corroborated by strong evidence from Whelpton’s studies of western societies during the nineteenth century. He indicates, for instance, that where social and economic forces prevail which tend to diminish the size of family desired, the lack of

35 See Williamson, J. G. (1998); Bloom, D. E., & Williamson, J. G. (1998) and Lee, R. D., Mason, A., & Miller, T. (1997)

36 Williamson, J. G. (1998) and Bloom, D. E., & Williamson, J. G. (1998)

37 See reviews of Becker’s essay by Harvey Leibenstein, *Economic Backwardness and Economic Growth*, John Wiley, 1957, pp. 163–164, and Bernard Okun, in Becker, G. S. (1960). *An economic analysis of fertility*. In *Demographic and economic change in developed countries* (pp. 209-240). Columbia University Press.

38 Becker, G. S. (1960, p.240)

knowledge of modern birth-control techniques is not an obstacle in the path of declining family size. For example, according to Whelpton's figures, in the southern United States, which was largely rural in 1800 as well as 1870, the fertility rate declined by more than 50 per cent from 1800 to 1870 – a period long before modern birth-control methods were known. A similar shift occurred in France after 1800. This evidence tends to weaken the contention that an improvement in birth control knowledge explains most of the decline in fertility.³⁹

This theoretical and empirical evidence suggests that Uganda's rapid population growth challenge could be resulting from a failure to implement economic policies and strategies to stimulate job creation and income per capita growth.

Thus, while empirical correlations may suggest that Uganda's underemployment and stagnant income growth reflect a labour oversupply problem, deeper scrutiny reveals a different dominant story. Instead, a pervasive lack of labour demand has inhibited job and income growth, perpetuating low standards of living and consequently low investment in children. As a result, relatively high mortality and high fertility rates have persisted and the demographic transition has stalled.

39 Whelpton. P. K. (1947)

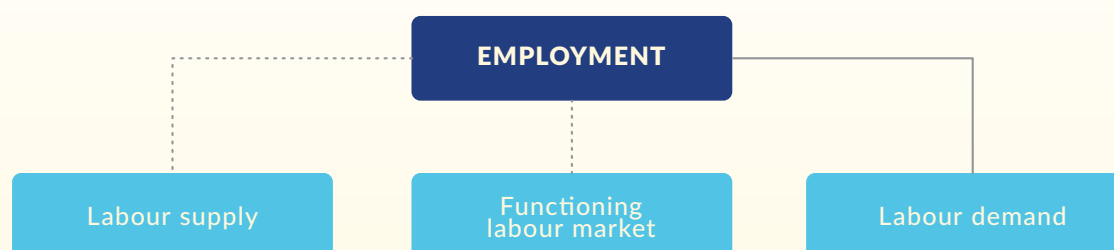


3.2.2 Labour demand shortage

The statistics show that there is not enough labour demand to employ Uganda's labour force full-time, using the most valuable skills available, or at fair wages. In other words, there is a demand-side shortage in the labour market.

The proximate binding constraint on Uganda's employment problem is thus a lack of labour demand growth (see Figure 5). This means that the primary opportunity to spur employment growth in Uganda lies in labour demand growth.

Figure 5: **Conceptualising Determinants of Labour Demand Shortage.**



Given Uganda's three-dimensional underemployment problem (*time-related, skills-related and payment-related underemployment*), desirable **labour demand growth** in Uganda means an increase in the number of jobs available, in the gainful time-intensity of employment, and in the gainful skill-intensity of employment. Where will these quantitative and qualitative increases in labour demand realistically come from? Existing research into employment growth prospects both in sub-Saharan Africa⁴⁰ and in Uganda⁴¹ specifically suggests that the greatest opportunities for sustained employment growth can be categorised as follows:

i. Modern wage employment displacing/replacing indecent work

- a. Entry of sustainable SMEs, especially in labour-intensive sectors.
- b. Broad-based growth of SMEs, especially in labour-intensive sectors.

ii. Household enterprise work becoming more skill-intensive, more time-intensive, and better-remunerated

- a. Productivity gains in *on-farm* household enterprises.
- b. Productivity gains in *off-farm* household enterprises.

40 AFD & World Bank (2014) *Youth Employment in Sub-Saharan Africa*

41 MFPED (2015) *Uganda's Employment Challenge*

3.2.2.1 Modern wage employment

The modern wage sector can be divided into two broad categories: services and industry. Within services, most people in sub-Saharan Africa are currently employed in education, healthcare and social services (mostly public), followed by retail, wholesale and transportation. Within industry, most people are employed in construction, food and textiles, wood processing, chemicals,

plastic, glass and paper. The modern wage sector has, in fact, been growing as a share of total employment in Uganda as well as in Madagascar, Mali and Tanzania. This is in contrast with Ethiopia, Kenya, Malawi, Zambia and Senegal, where the proportion of employment absorbed by the modern wage sector has remained unchanged or even dropped in recent years.⁴²

(a) Entry of sustainable SMEs and broad-based growth of SMEs, especially in labour-intensive sectors.

Situation. Uganda has one of the highest levels of firm entry in Africa, but this is not a sustainable path for labour demand growth because the rate of firm survival is very low. Uganda has the highest proportion of ‘necessity-driven’ entrepreneurial activity in sub-Saharan Africa.⁴³ Instead of being driven by business opportunities (pull factors), over half of Ugandan entrepreneurs are motivated by necessity (push factors) and thus choose small service ventures (hospitality, retail etc.) with low entry barriers rather than strong growth prospects. These activities are characterised by very high entry of very small firms, but also high exit rates and, therefore, low net employment growth.⁴⁴ Moreover, employment in these firms is inherently insecure.

Most firms in Uganda 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. Firm growth is significantly lower than in similar African countries. The firm growth that has occurred is driven by a small number of formal firms (around 5 per cent), with the remaining 95 per cent expanding only marginally since their establishment.

Opportunities. An investigation applying the ‘**product space**’ approach pioneered by Ricardo Hausmann has found that the areas that provide the best opportunities for developing a competitive advantage in Uganda in the short-term are *food processing, agro-chemicals, construction and industrial materials such as plastics, metal and paper products.*

⁴² AFD & World Bank (2014) *Youth Employment in Sub-Saharan Africa*.

⁴³ GEM 2016; MFPED 2015

⁴⁴ MFPED 2015



A less explored sector is what might be called the **'service space'**: How could Uganda build on its existing capabilities in the services sector to grow labour demand through firm entry and growth in these sectors? Uganda's services sector already contributes more than 50 per cent of the country's GDP.⁴⁵ The major services sub-sectors today are retail and wholesale trade, tourism, education, health, ICT and related services, financial services, construction and engineering services and professional services.⁴⁶ However, no detailed assessment of the export potential and competitiveness of the services sector has been undertaken to-date to establish the demand and supply conditions as well as export readiness of Uganda's services sector. Nevertheless, some services sub-sectors have been identified as high potential by COMESA (2009)⁴⁷ and UNCTAD (2011; 2014)^{48,49} studies: *transport (including auxiliary to transport), financial (banking, accounting, insurance), construction and engineering, and ICT (including IT-enabled services and business process outsourcing)*. The following sectors are already some of the highest employing service sectors but carry strong potential for further growth (they are each

examined by one of the above mentioned studies): *telecommunications, retail and wholesale, tourism and hospitality*.

Uganda has made progress in the move towards IT-enabled Business Process Outsourcing Services (ITES/BPO). 79 firms are listed as members of the Uganda Business Process Outsourcing Association. An informative analysis of employment in the BPO sector will depend on the availability of statistics regarding number of jobs, hours of work, pay and working conditions, which remain scanty. Additionally, maximising opportunities in ITES/BPO will demand deeper analysis of the service sectors in which Uganda exhibits potential, taking into consideration competition from countries like India.

Constraints. Firm growth and greater net entry of sustainable SMEs in Uganda's modern wage sector would require Ugandan produced goods and services to be sold at greater volumes or higher prices domestically, regionally and/or internationally. In terms of products, Uganda's manufacturing sector faces a difficult conundrum that is prevalent in most of Africa: the sector currently

45 Ibid

46 Bategana, S. L. (2008) EAC ECONOMIC PARTNERSHIP AGREEMENT EAC ECONOMIC PARTNERSHIP AGREEMENT DEDICATED SESSION TRADE IN SERVICES II – 15 AUGUST 2008, ENTEBBE, UGANDA

47 Mangeni, F. (2009) *The Services Sector in Uganda - performance in utilization of trade opportunities*

48 UNCTAD (2011) *National Services Policy Review I. UNCTAD/DITC/TNCD/2010/1.*

49 UNCTAD (2014) *National Services Policy Review II. UNCTAD/DITC/TNCD/2013/12.*

cannot compete with Asian and Brazilian manufacturing. In the context of a liberal trade regime, this applies both to exports as well as to the domestic market – imported goods are generally cheaper than what they could be produced for by Ugandan manufacturers. In addition, Uganda’s domestic market is very small compared to those of countries like China, India and Brazil. Regional integration in East Africa thus provides a potentially game-changing opportunity.

International competitiveness is an important constraint on both export-oriented and import-substitution-oriented firm growth. Competitiveness, especially for labour-intensive growth, arguably comes down to the cost and productivity of labour relative to competing countries. The cost of labour is affected by several factors, including the cost of living. In Uganda, rising food prices have driven up the cost of labour and thus hurt the country’s international competitiveness. More importantly, labour productivity still lags behind significantly. The constraints on labour productivity across Africa include firms’ access to capital, infrastructure, organisational efficiency, skills, and allocative efficiency due to political favouritism and high entry barriers.

Focusing on Uganda’s specific constraints, Hausmann et al.’s (2014) study, *How Should Uganda Grow?*, re-confirms the National Development Plan’s (2010/11-2014/15) finding that the binding constraints on growth in Uganda are as follows:

- (i) **Finance** – High lending rates of 20-30 per cent and short-term lending curtail investment and innovation.
- (ii) **Physical infrastructure** – Uganda’s high economic output relative to electricity consumption suggests that greater electricity provision will be necessary in order to further grow GDP.
- (iii) **Skills** – Technical and Vocational Education and Training (TVET) remains limited to carpentry, masonry, and electrical wiring and installation; a lack of specialised skill training is preventing diversification into more complex products.

In 2015, the Ministry of Finance, Planning and Economic Development released its report, *Uganda’s Employment Challenge*.⁵⁰ The background research for this report included an econometric analysis to identify the binding constraints on job growth through both new firms and existing firms.

50 MFPED (2015).



The MFPED analysis differs from the earlier NDP analysis in that it focuses on the constraints on job growth rather than growth more broadly. The analysis found the following binding constraints on firms employing more people – in other words, labour demand growth:

- (i) **Physical infrastructure** – Over half of Uganda’s productivity handicap can be attributed to physical infrastructure weaknesses: high electricity costs are a binding constraint on firm growth, while internal transport networks limit competition between geographically distant firms, thus limiting productivity.
- (ii) **Regulatory environment** – Red tape, corruption and weak contract enforcement mechanisms present a high entry barrier as well as a growth barrier for small firms, giving larger established firms a disproportionate advantage and thus limiting competition.
- (iii) **Coordination** – One of Uganda’s key deficits vis-à-vis similar countries is a lack of coordination and specialisation amongst firms in the same value chains, which is achieved in other countries to a large extent through government-business coordination mechanisms that are largely absent in Uganda.
- (iv) **Finance** – Though not a constraint on established formal firms, access to credit is a binding constraint on firm entry and the growth of small start-ups.
- (v) **Trade environment** – Uganda’s relatively open trade regime has meant that exporting firms struggling to compete internationally have lost out while resources have shifted to the non-tradable sector – as export-oriented firms tend to create more jobs, the trade environment is thus a seemingly binding constraint on labour demand growth.
- (vi) **Management expertise** – A lack of professional management techniques among high- and mid-level managers, even in large firms, limits organisational efficiency and thus the ability to operate at scale, making management expertise a more binding constraint on labour demand growth than technical knowledge.
- (vii) **Appropriate practical skills** – Compared to similar countries, Uganda’s skill-intensive manufacturing (e.g. apparel, machinery, equipment) firms represent a small proportion of the economy and are creating very few jobs. (MFPED 2013)

Finance, physical infrastructure and skills are corroborated as binding constraints in both the NDP and MFPED analyses above. The constraints on Uganda's **services sector** have been much less examined than those on the diversification of products (although the MFPED 2015

analysis does not disaggregate by firm type), though weaknesses in technical skills, electricity access, the trade environment and government regulation have been cited.^{51,52}

3.2.2.2 Household enterprises

Household enterprises are not distinct from the household in terms of revenues, expenses and risks. Therefore, household enterprises provide employment mostly to the extent that they generate productive work for the entrepreneur herself, but not directly to other people in the labour force.

Currently over 80 per cent of Uganda's labour force is primarily engaged in household enterprises, and well over three-quarters of these are in agriculture.⁵³

Household enterprises will continue to be the main employers of Uganda's labour force in the short- and medium-term future.

Growth ambitions. In order to grow, firms first need to have the ambition to grow. The evidence is somewhat ambiguous on Ugandan household enterprises' growth ambitions. The 2014 Youth Employment in Africa report⁵⁴ asserts that most household enterprises (which represent the majority of businesses in Uganda) do not intend to grow beyond the household. This may be true of larger family-run businesses, too, although there is little evidence on this. The 2004 Global Entrepreneurship Monitor found that 60 per cent of Ugandan business managers intend to at least double their employees over the next five years.⁵⁵ More recent data from Uganda does not seem to be available on this question.

51 UNCTAD (2011) *National Services Policy Review I*. UNCTAD/DITC/TNCD/2010/1.

52 UNCTAD (2014) *National Services Policy Review II*. UNCTAD/DITC/TNCD/2013/12.

53 UBOS (2013) *Uganda National Household Survey 2012/13*

54 World Bank 2015

55 GEM 2004



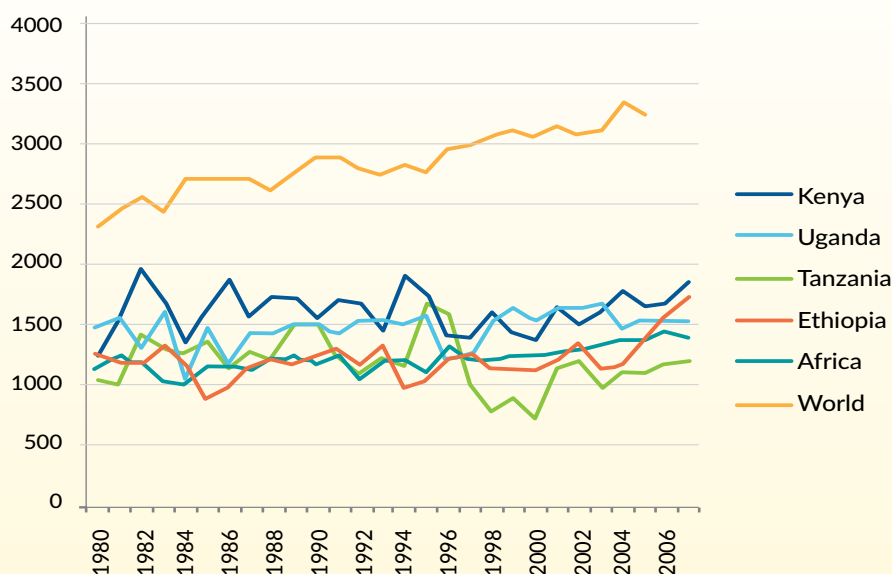
(a) Productivity gains in on-farm household enterprises

Situation. The 2014 Youth Employment in Africa report ⁵⁶ notes that ‘even under optimistic assumptions, the cohort of young Africans now entering the labour force is likely to exceed the number that can be absorbed into jobs in manufacturing and services.

Over the next few decades, young people will continue to apply their energies and

talents to agriculture, on or near the farmstead of their birth.⁵⁷ This fact has important implications for the discourse on employment. If the majority of the population will inevitably apply its labour to small-scale agriculture in the near future, then raising the productivity and earnings of small-scale agriculture becomes a top priority in addressing Uganda’s employment challenge. Currently 67 per cent of Uganda’s employed people are primarily employed in agricultural household enterprises.

Figure 6: **Cereal yield (kg per hectare), 1980-2007**



Source: National Statistical Offices

⁵⁶ World Bank 2015

⁵⁷ *ibid.*

Smallholder productivity in Uganda has not risen substantially in the past decades, and has lagged considerably behind the world average (see Figures 6 and 7). This problem is not unique to Uganda – the average farmer in sub-Saharan Africa produces less than half of what an Indian farmer produces, less than a fourth of a Chinese farmer’s production, and less than a fifth of an American farmer’s production. The Green Revolution and the transformation of the rural sectors between the 1960s and 1990s seen in many Asian countries have not taken off in sub-Saharan Africa.⁵⁸

Opportunities. The longer-term growth prospects of Uganda and its agriculture sector are promising. First, continued overall economic growth will translate into increased incomes and greater aggregate demand for higher value-added agricultural products such as processed food. This will generate opportunities for the expansion of more complex production and value addition in the agriculture sector. Second, investments in infrastructure will improve market access of the agriculture sector, leading to economies of scale. Smallholder farmers could become increasingly market-oriented agricultural producers.⁵⁹

The stark productivity gap between Asian and African smallholders presents itself as an opportunity for transformation. The Asian Green Revolution is not simply transferable to other regions. But it is clear that East African staple yields (e.g. maize, rice) are only about one-half to one-third of their potential with the proper application of fertilisers, irrigation and seeds.⁶⁰ Furthermore, specific interventions have proven that smallholder productivity in sub-Saharan Africa can increase rapidly with the right investments. The Kenyan and Ethiopian fruit and vegetable export sectors are cases in point, with the latter growing at 24 per cent annually.⁶¹ One Acre Fund, which provides a package of services including pre-financed farm inputs, the distribution of inputs, training in agricultural techniques, and market facilitation for produce sales, has helped over 300,000 smallholders achieve 50 per cent+ income increases on average.⁶²

Crucially, agricultural productivity growth is a key enabler of broader economic transformation and thus labour demand growth: Faster agricultural growth has put countries on the path of a much broader transformation process: on the one hand, rising farm incomes spur demand for industrial goods; on

58 World Bank (2007).

59 African Development Bank (2010).

60 Oxford Analytica (2009), “East Africa: Expansion of Agribusiness Faces Obstacles”. Oxford Analytica Global Strategic Analysis, London.

61 *ibid*

62 One Acre Fund (2016). Website.



the other hand, higher farm output reduces food prices, thus curbing inflation, inducing non-farm growth, and driving the demand for additional workers. Rising on-farm productivity also encourages entrepreneurial activities through diversification into new products, the growth of rural service sectors, the emergence of agro-processing, and the exploration of new export markets.⁶³

Constraints. The most frequently cited binding constraints on smallholder productivity are access to finance, skills and land regulation. A study by the African Development Bank⁶⁴ identifies the following as the major constraints on smallholder productivity in East Africa:

- i. Unclear land access rights, which have led to insecurity, underinvestment, small plots, and a high degree of landlessness.
- ii. Difficulties in accessing commercial credit due to a lack of collateral and credit history, which lead to underinvestment.
- iii. Limited access to input markets, which means fertiliser, pesticide and improved seed use remains low.
- iv. Limited access to output markets: (a) lack of access to storage means crops rot and cannot be sold; (b) failure to meet quality standards means smallholders cannot sell to international retail chains; and (c) poor road and rail systems limit market access.
- v. Ineffective research and extension services.
- vi. Lack of institutional support for agriculture.
- vii. Climate change: The frequency of droughts and floods has increased in East Africa over the past 30 years, leading to crop losses.
- viii. Rising food prices, which lead to increased hunger and inflation, which lead to rising input prices, which lead to lack of access to inputs.
- ix. Volatile fuel prices, which lead to higher input prices and national policies encouraging biofuels production, which has displaced some food production.

⁶³ African Development Bank (2010). *Opportunities for Smallholder Agriculture in East Africa*.

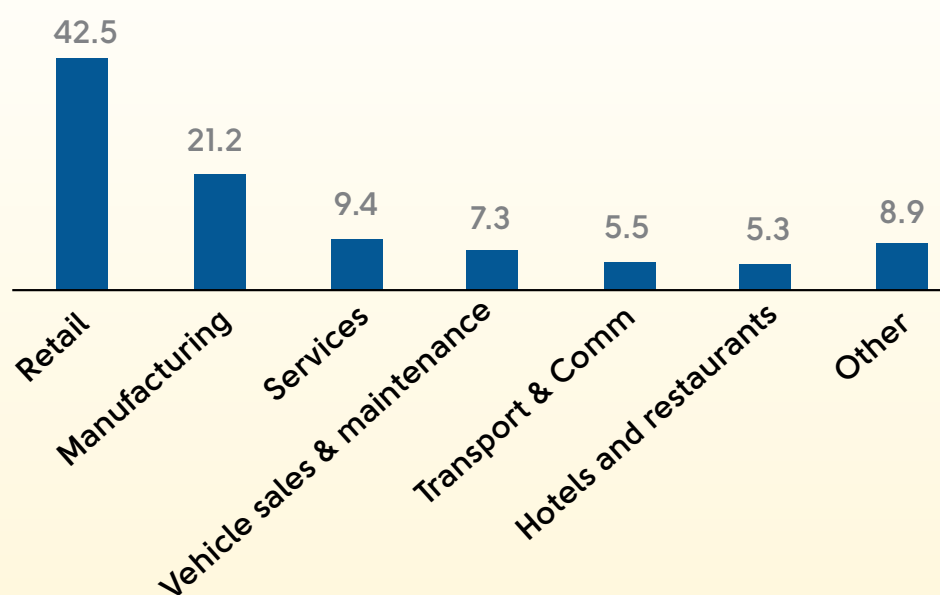
⁶⁴ African Development Bank (2010).

(b) Productivity gains in off-farm household enterprises

Situation. The off-farm household enterprise sector is the largest employer after agriculture in the Ugandan economy. In the near future this sector will absorb a large amount of new workforce entrants. Crucially the off-farm household enterprise sector can also provide higher incomes than agriculture. The shift in economic activity out of agriculture and into off-farm household enterprises has contributed significantly

to poverty reduction in Uganda during the past three decades. Rural Ugandan households have diversified their portfolio of income-generating activities to include more off-farm activity and this has had a large positive impact on household consumption.⁶⁵ It is therefore paramount to study the opportunities and constraints on the household enterprise sector's growth and productivity.

Figure 7: **Economic activities undertaken by HEs by sector (share %)**



Source: World Bank (2009). *Uganda Country Study: Raising productivity and reducing the risk of household enterprises – Study report.*

⁶⁵ Fox, L & Timhidzai, O. (2011)

Opportunities. The opportunities for higher productivity off-farm household enterprises in Uganda are severely underexplored by the existing literature. In other countries, forward and backward linkages with high growth wage sectors (especially with export-oriented firms) such as manufacturing, food processing, construction and hospitality, have spurred productivity growth and expansion in the off-farm household enterprise sector. This would imply that the opportunity analysis should focus on the same sectors as discussed under 1a and 1b, focusing on their potential for local sourcing of inputs such as raw materials, component parts, outsourced labour, and support services.

What is clear is that household enterprise ownership in Uganda and other countries leads to increased hours of productive work; in other words, it addresses time-related underemployment. Furthermore, data from Uganda shows that there are positive spill-over effects across on-farm and off-farm household enterprise incomes: expanding into off-farm enterprises tends to raise a household's agricultural productivity and vice versa. Agricultural households with additional off-farm enterprise activities tend to buy more agricultural inputs, in essence, using their off-farm income to provide

working capital for their on-farm activities.⁶⁶ The result is higher yields and still higher incomes. Similarly, evidence from Tanzania shows that increased farm incomes foster growth in the off-farm sector by expanding demand for off-farm products and services.⁶⁷

Existing government of Uganda programmes such as the National Agricultural Advisory Services (NAADS), which was recently replaced by Operation Wealth Creation (OWC), present a good starting point for supporting productivity increase and growth in HEs. However, without granular analysis of the binding constraints on HE productivity and growth, these measures may continue to be targeted towards areas where they register minimal gains.

Constraints. The main constraints on off-farm household enterprise productivity across Africa include a lack of access to finance as well as business and behavioural skills.⁶⁸ The most frequently cited binding constraints on off-farm household enterprises in Uganda are access to productive assets, market access, high taxes, informality, access to capital, management skills and access to a worksite.⁶⁹

⁶⁶ Fox, L. & Sohnesen, T. (2012).

⁶⁷ Kweka, J. and Fox, L. (2011).

⁶⁸ World Bank (2015).

⁶⁹ Ishengoma & Kappel 2008; World Bank 2009; Fox & Sohnesen 2012; Baker.

The World Bank undertook a comprehensive study⁷⁰ of the constraints on off-farm household enterprises in Uganda and listed the following as the biggest constraints:

Access to capital – Working capital as well as start-up capital is out of reach to HE owing to lack of collateral, high interest rates, and harsh repayment terms.

Business know-how – Lack of market research means many HEs enter saturated markets and face excessive competition; weak business management skills mean many HEs fail to recover credit given to buyers.

Access to worksite – A shortage of affordable worksites constrains HE entry and survival.

Electricity – Rural enterprises face entry and growth limitations due to lack of access to electricity while urban enterprises are crippled by expensive and unreliable electricity supply.

Vulnerability – Informality and a lack of security mechanisms such as insurance make HEs vulnerable to a range of risks, of which the biggest self-reported ones are theft/burglary, business risk, road accidents, equipment failure and fire.

With regard to youth, there are measures being pursued to respond to some of the constraints listed above.

⁷⁰ World Bank (2009).



3.2.3 Enhancing opportunity and constraint diagnostics

There are a wide range of constraints that would need to be much more closely examined in order to identify which are the most binding for which firms and which sectors. One of the central conclusions of Hausman *et al.*'s (2014) paper is that greater government capacity to carry out growth diagnostics is needed since a one-off study is insufficient to guide effective policy.

The analysis thus far has (1) focused on modern wage employment and not integrated the HE sector in the analysis, (2) focused on opportunities in the 'product space' while neglecting 'service space', (3) been carried out economy-wide rather than focusing on specific constraints by sector, and (4) focused on quantitative regression analysis using the 'camels and hippos' test, while neglecting (a) other quantitative methods and (b) qualitative methods.

3.2.3.1 HE sector

The opportunities for productivity growth, especially in the off-farm household enterprise sector, should be explored. A lack of market research and consequently destructive imitation and a lack of innovation are among the binding constraints on household enterprise productivity in Uganda. Their fate is likely to depend on the ability of larger firms in

high productivity sectors to expand, thus spurring household enterprise demand through backward and forward linkages. An understanding of the constraints in this sector requires that the biggest opportunities for progress be identified first.

3.2.3.2 Service space

Opportunities for labour demand growth in the services sector are underexploited despite services being the biggest driver of growth and employment in the economy. Again, a meaningful and

accurate constraint analysis requires that the main opportunities for labour demand growth in this sector be closely examined.

3.2.3.3 Sector-specific constraints

Effective policy designed to spur labour demand growth will depend on a much more granular and ongoing analysis to identify (1) the biggest opportunities for labour demand growth by sector, and (2) the binding constraints on each of those

opportunities. Different sectors and firms face different constraints, and different constraints are more or less binding depending on the activity, location and characteristics of a sector or firm.

3.2.3.4 Quantitative methods

The MFPED analysis chose one of four principles suggested by Hausman, Klinger and Wagner⁷¹ for the identification of binding constraints:

- i. The (shadow) price of the constraint should be high. If energy is a binding constraint, it is likely that electricity tariffs and fuel bills are high.
- ii. The objective function (growth, investment or job creation) should be sensitive to movements in the constraint. Changes in the cost of energy are likely to have a large impact on growth.
- iii. Private agents should be attempting to overcome/bypass the constraint. Firms may be running private generators.
- iv. Agents that are less (more) intensive in the constraint should be more (less) likely to survive. Some activities are inherently more reliant on electricity. If the cost of or access to electricity is a binding constraint, these energy-intensive industries likely account for

a small share of economic activity and generate few new jobs.

The MFPED study argues that the fourth principle listed above lends itself most readily to a systematic investigation of the binding constraints on employment growth. The approach taken proceeded in two steps:

- I. Quantifying each industry's inherent sensitivity to a particular constraint;
- II. 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.

This approach aimed to identify the most-binding constraints on both the growth of established firms and the ability of entrepreneurs to establish and maintain successful businesses. Each quantitative method on its own sheds some light on the constraints on firm and employment

⁷¹ Hausman, Klinger & Wagner (2008).



growth, but unless corroborated with other methods, it runs the risk of showing correlation rather than causation. Making use of the other quantitative methods

available would strengthen the binding constraint analysis on Ugandan labour demand growth.

3.2.3.5 Qualitative methods

Firm growth ultimately comes down to firm decisions. These firm decisions could be captured by qualitative analysis that examines the decisions of both domestic

firms and international firms not present in the market to not invest further in the high potential sectors identified.

3.2.3.6 Innovation: The hidden constraint

The innovativeness of entrepreneurs – their ability to identify and creatively exploit opportunities – is an important constraint on firm entry, survival, productivity and growth that is rarely captured by analyses for at least two reasons. First, studies assessing the constraints on firm success often primarily draw upon business surveys, asking businesses directly what their biggest constraints are. Entrepreneurs and business leaders are likely to perceive and report external challenges such as infrastructure costs and regulation as damaging to their businesses. They are much less likely to perceive and report their own lack of innovation or broader entrepreneurial

abilities as constraints on their businesses' success. Innovation is thus underreported as a constraint on firm success. Second, the innovativeness of entrepreneurs is very difficult to define for the purposes of quantitative analysis, and is, therefore, difficult to capture in any of the four types of constraint diagnostic listed above from Hausman *et al.* It is, therefore, difficult to conclusively assess the extent to which innovation is a binding constraint on labour demand growth. Innovation is one of the key characteristics that distinguish opportunity-driven entrepreneurship from necessity-driven entrepreneurship. This is explored in the next section.



4.
Entrepreneurship

In Brief:

- *Uganda is ranked among the ten most entrepreneurial countries in the world. However, its entrepreneurship is more necessity-driven (by push factors) than opportunity-driven (by pull factors).*
- *Necessity-driven entrepreneurship has resulted in high firm entry but also high firm exit, leading to a low level of net firm entry and survival.*
- *Entrepreneurial activity and firm entry and growth are dominant in sectors such as recreational and personal services, hospitality and retail trade that exhibit low entry barriers, and entrepreneurial activity in such sectors is characterised by imitation rather than innovation.*
- *Opportunity-driven entrepreneurship requires: (a) Innovative entrepreneurs; (b) an enabling environment; and (c) opportunities. No two of the three are sufficient.*
- *Promoting a shift from necessity-driven to opportunity-driven entrepreneurship will require Uganda to design a strategic and targeted FDI policy to stimulate and sustain growth in sectors in which Uganda exhibits growth potential.*

Entrepreneurship is central to firm growth and, by extension, to employment growth. However, while Uganda is ranked as one of the top ten most entrepreneurial countries in the world, her impressive entrepreneurial spirit is yet to produce a robust firm expansion dynamic that effectively addresses the employment needs of the Ugandan economy.

Particularly, the Global Entrepreneurship Monitor (GEM)⁷² ranks Uganda second worldwide in the GEM headline indicator of entrepreneurial activity. In terms of the share of the adult population either in the process of starting a business or running a new business less than three and a half years old, in 2010, Uganda stood at 31.3 per

cent behind only Vanuatu, Bolivia, Ghana, Zambia and Angola.⁷³ However, over 50 per cent of Uganda's entrepreneurship is classified as 'necessity-driven' rather than 'opportunity-driven', meaning that many Ugandans start a business 'because they cannot find a suitable role in the world of work.'⁷⁴

Therefore, it is argued that the persistence of negative push factors may be partly responsible for the higher inclination towards 'necessity-driven' rather than 'opportunity-driven' entrepreneurs in Uganda, with serious implications for the nature of businesses and the level of firm survival.⁷⁵ The GEM 2013 observes that 60 per cent of business managers are

⁷² GEM (2014)

⁷³ Kelley, Bosma et al. 2011.

⁷⁴ Reynolds, Bosma et al. 2005.

⁷⁵ See a 2013 Internal memo on Firm dynamics by the Ministry of Finance, Planning and Economic Development.

planning to start another business; 20.1 per cent of business managers closed another business in the last year; and over 81 per cent of those who closed a business currently operate or plan to open another.

Two waves of National Panel Surveys conducted in 2005/6 and 2009/10, consistently report a fluid picture of entrepreneurial activity suggested by GEM. More than one in 10 business

managers in 2005/6 were operating multiple enterprises simultaneously. But new ventures tend to be short-lived, with almost 90 percent having scaled back to one or no businesses by 2009/10. Only 4 percent of individuals managing one enterprise in 2005/6 were operating two or more businesses in 2009/10, while half had gone out of business. Individuals who were not initially operating a business are the most important source of new firm creation.

Table 2: Number of non-farm enterprises managed by individuals, 2005/6 – 2009/10

Share of working-age population in 2005/6 managing...		Share in 2009/10 managing...		
		None	One	More than one
No enterprises	82%	88%	11%	1%
One enterprise	17%	50%	46%	4%
More than one enterprise	2%	39%	50%	11%

Source: MFPED 2013 internal memo.

Notes: Calculations based on Uganda National Panel Survey.

This pattern of serial entrepreneurship suggests that many Ugandan entrepreneurs tend to be relatively short-sighted. Further evidence indeed suggests that among Ugandans in the process of establishing a business, half expect to recoup their initial investment

within 6 months – this compares to 21% in South Africa and 16% in China. This implies that there are many unsuccessful experiments and that the lack of ability to identify and uncover viable business opportunities might be a significant constraint.



4.1 Uganda's Firm Structure

The nature of entrepreneurship activity in Uganda has produced a very peculiar firm structure with serious ramifications on employment.

Uganda's business landscape is increasingly dominated by a large number of very small firms. In 2001/02 and 2010/11, two complete censuses were conducted to update the business register and respectively captured approximately 170,000 and 460,000 businesses. The average size of firms captured in the 2001/02 census was 3.41 employees. 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). The share of firms with five or more employees decreased from 10.8% to 6.6%. While 52% of employees were working in businesses with five or more workers in 2001/02, this had fallen to 36% by 2010/11.

Firm entry is high, but may be creating fewer jobs. The absolute number of new firms starting up has increased dramatically, from around 44,000 in 2001/02 to 129,000 in 2010/11. But this growth may not be sustainable. 37% of the firms captured in the 2001/02 census

were established in 2001 or 2002. In the 2010/11 census, only 29% were established in 2010 or 2011. Many entrepreneurs already manage more than one business and there is likely to be a limit to the number they can manage. Moreover, the average size of start-ups decreased, from an average of 1.9 in 2001/02 to just 1.6 in 2010/11. This was mainly driven by the entry of own-account workers growing faster than the entry of firms with paid employees. In 2001/02, 59% of new businesses had no employees. This had increased to 67% in 2010/11. The average number paid workers also decreased among start-ups with employees.

Firm failure is high although the picture is not significantly different than in other countries. Only 24% of the firms established in 2001 (and captured in the 2001/02 census) were still operational after nine years. This translates into an average annual exit probability of 15%, but is likely that the large majority of failures occurred within the first few years. It would be misleading to interpret this exclusively as firm 'failure' however – it is common for Ugandan business owners to shut down one activity only to focus on another, likely more profitable, enterprise. Moreover, while these exit rates appear high, they are not much higher than those observed in other

countries, even advanced economies. One study of 10 OECD countries found that between 20 and 40% of new firms failed within the first two years, while only 40 to 50% survived for more than seven years.⁷⁶ There is significant variation

across different industries, as shown by Table 3. While 49% of manufacturing start-ups survived their first nine years, the same is true for only 22% of new firms in the services sector.

Table 3: **Firm survival and growth by sector**

	Number of firms established in 2001 (2001/02 census)	Proportion still operational in 2011	Average annual risk of failure	Average size in 2001	Average size of surviving firms in 2010/11
Food Processing	457	26%	14%	3.36	12.70
Other Manufacturing	801	62%	5%	2.94	4.22
Construction	32	25%	14%	42.75	7.50
Trade	21,207	23%	15%	1.45	1.70
Transport & Storage	81	60%	5%	6.11	4.73
Hospitality	4,469	22%	15%	2.26	3.36
Information & Communication	256	21%	16%	2.92	9.45
Financial Services	54	100%	0%	7.54	6.47
Real Estate & Business Services	386	37%	11%	4.21	9.38
Education, Health & Social Work	863	26%	14%	5.19	7.10
Recreation & Personal Services	3,870	14%	20%	1.83	2.23
ALL	32,476	24%	15%	1.87	2.72

Source: MFPED 2013 internal memo.

Notes: Calculations based on Census of Business Establishments 2001/2 and 2010/11.

Firm lifespan may be increasing, but only gradually. Given the observed decline in the entry rate of new businesses (relative to the stock of established firms), an increase in the average age of firms should be expected. The mean firm age increased only slightly from 4.0 to 5.0 years between the two censuses. Figure

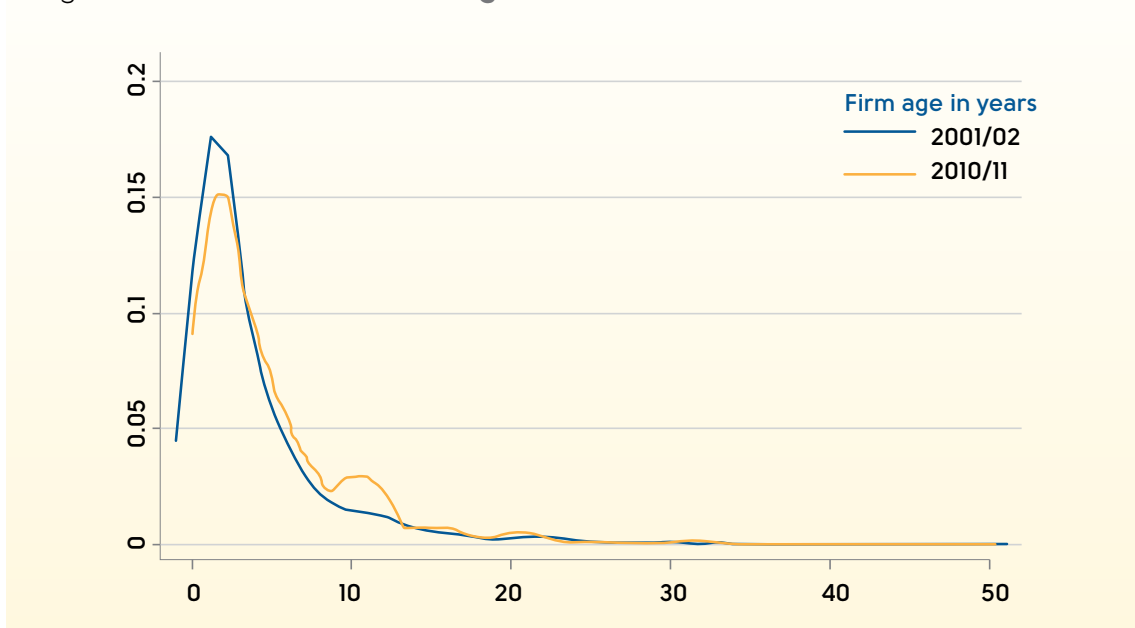
9 displays how the distribution of firm age has changed. The share of young firms has decreased as expected, while the proportion of older firms saw a marginal increase. This relatively small increase, which applies for firms older than 4 years, suggests that any improvement in firm survival rate has been modest.⁷⁷

⁷⁶ Bartelsman, Scarpetta et al. (2005).

⁷⁷ The increase in density for firms aged between 10 and 11 years in the 2010/11 census suggests that business owners do not recall their year of establishment perfectly but are instead more likely to report a round year, in this case 2000.



Figure 8: **Distribution of firm age in 2001/02 and 2010/11**



Source: MFPED 2013 internal memo.

Notes: Calculations based on Census of Business Establishments 2001/2 and 2010/11. Note that these distributions were computed after a number of corrections were made to the raw data – most importantly, in the 2010/11 census firms established in 2009 were mistakenly coded as having been established in 1988.

Most jobs appear to be created and destroyed through high firm entry and exit, which increases instability and may limit positive market selection. Firm exit is not inherently bad; it is desirable that inefficient firms be replaced with more efficient ones. Many Ugandans are serial entrepreneurs, able to learn from their past mistakes and apply them in future business ventures. Moreover, innovation requires business managers to take risks, which by definition will not always succeed. But many, perhaps a majority, of jobs are found in ‘fringe’ firms that continuously enter and exit the market. Rather than

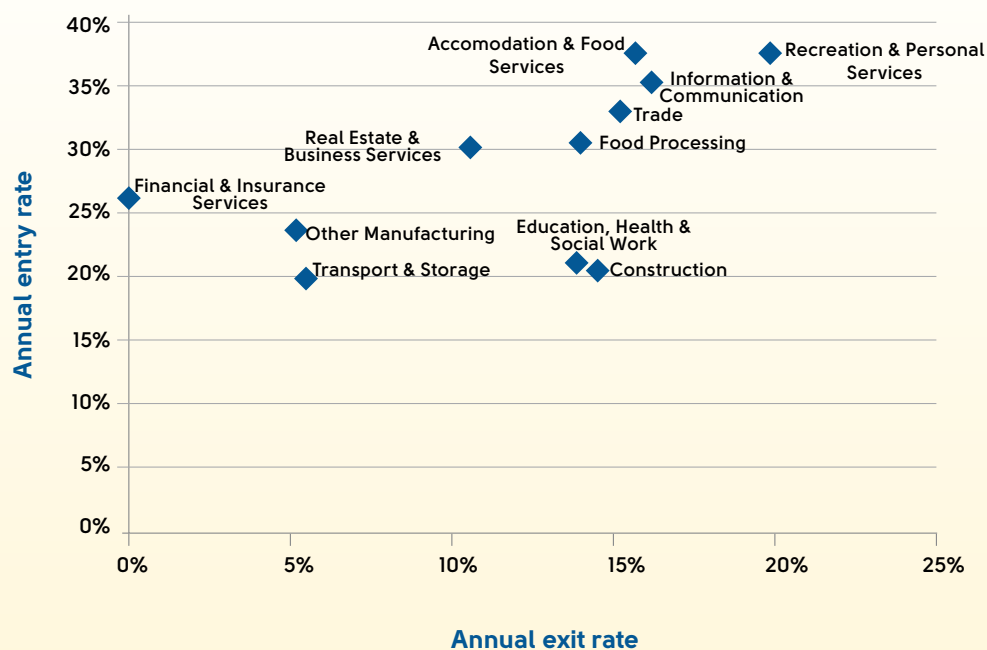
providing much-desired stability, these jobs are inherently insecure. 65% of the jobs created by new firms in 2001 had been lost through firm exit by 2010/11.

Firm entry appears to be largely driven by negative push factors rather than the pull of profitable economic opportunities. There is a strong positive correlation between entry and exit rates across sectors (Figure 11). Business founders are most likely to choose activities with low barriers to entry – recreational and personal services, hospitality and retail trade; these are activities that are

among the least profitable, typically with low growth prospects and a low life expectancy.⁷⁸ High entry into these sectors may displace existing firms,

particularly recent entrants that are not necessarily less efficient or of lower potential.⁷⁹

Figure 9: **Entry and exit rates by industry, 2001/02-2010/11**



Source: MFPED 2013 internal memo.

Notes: Calculations based on Census of Business Establishments 2001/2 and 2010/11.

The annual entry rate is estimated as the average share of new firms in 2001/2 and 2010/12. The annual failure rate is estimated based on the number of firms established in 2001 that are captured in the 2001/02 and 2010/11 censuses.

Most firms display little change in employment over their life cycle. Table 3 demonstrates that the firms established in 2001 that survived to 2010/11 did grow on average, but very slowly. The mean firm size increased by less than one worker

over the nine-year period, from 1.9 to 2.7 employees.

A more detailed picture of firm life-cycle dynamics can be obtained by examining the size of individual firms relative to

⁷⁸ Information and communication services is another sector characterised by high entry and exit.

⁷⁸ 55% of information and communication services are "Motion picture projection activities"

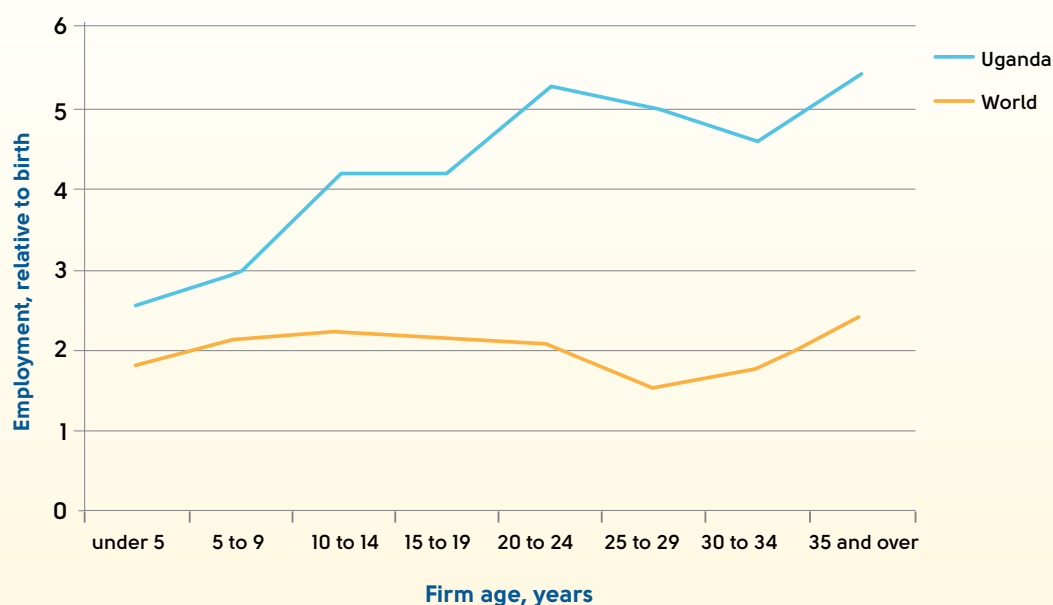
⁷⁹ Vivarelli (2012).



their birth. The business censuses do not capture the size of firms at their date of establishment, but this information is available in the World Bank Enterprise Survey, which was conducted in Uganda in 2006. This survey is intended to be representative of the non-agricultural 'formal' economy, and only sampled firms with five or more employees. The growth that does occur appears to typically take place within the first few years following

establishment (conditional on survival), with very little growth thereafter. On average, firms are stagnant after around five years. A 35-year-old firm in Uganda is on average only twice as large as it was at birth. In the United States it is likely to be 10 times larger.⁸⁰ Firm growth appears to be significantly lower in Uganda even compared to other similar African countries, such as Ghana (see Figure 12).

Figure 10: **Employment growth over the firm life cycle in Uganda and Ghana**



Source: MFPED 2013 internal memo.

Notes: Calculations based on the World Bank Enterprise Surveys (2006 for Uganda and 2010 for Ghana).

⁸⁰ World-Bank (2012).

There are a small number of outliers registering rapid growth. The aggregate picture hides a high degree of heterogeneity. Table 4 reveals that a small number of fast-growing 'gazelles' (5.5 per cent of firms according to the Enterprise Survey) have grown significantly, while the large majority of firms (94.5 per cent) have grown only very marginally since they were established. This represents a relatively low incidence of high-growth firms – Uganda ranks 98 out of 117 developing countries for which Enterprise Survey data is available.⁸¹ The gazelles observed in Uganda's Enterprise Survey are disproportionately operating within the manufacturing and construction sectors. Although gazelles are more likely

to start small, most large firms are born large. According to the Enterprise Survey, only 12 per cent of large firms (with more than 50 employees) had fewer than 20 employees when first established. The large majority of employees work in businesses that are not expanding. Foreign ownership does not predict higher growth – although these firms are significantly larger than firms without any foreign ownership, on average they do not expand employment after they begin operations. Exporting appears to be a more reliable indicator of employment growth; firms that export some output directly or indirectly have increased their employment by over 50 per cent on average.

Table 4: **Employment Growth by Firm Characteristics**

	Average size at birth	Average size when surveyed	Average age	Share of firms	Share of employment
Gazelles	10.0	78.9	14.7	5.5%	12.7%
Non-gazelles	19.6	22.9	11.1	94.5%	87.3%
With foreign ownership	51.3	51.2	12.3	16.3%	33.6%
Without foreign ownership	12.6	19.6	11.1	83.7%	66.4%
Exporters	41.7	63.8	13.0	9.9%	25.5%
Non-exporters	16.4	20.5	11.1	90.1%	74.5%

Source: MFPED 2013 internal memo.

Notes: Calculations based on the World Bank Enterprise Survey 2006. A firm is classified as a gazelle if its number of employees has increased more than five-fold since its establishment.

⁸¹ This is not the most common definition used to classify gazelles. According to the OECD, gazelles are enterprises with more than 10 employees, under 5 years old, with average annualised growth exceeding 20 per cent over a three-year period. But this international definition may not be useful in the Ugandan context. Less than 1 per cent of firms in the Ugandan Enterprise Survey meet all three criteria. Fifteen per cent of firms meet the growth condition, but the vast majority of fast-growing firms have been operating for more than 5 years.



Hence, this pattern of firm growth is not reflected by the expectations of business managers. According to the 2013 GEM survey, over 60% of Ugandan business managers expected to at least double their number of employees over the next

five years. The failure of most firms to grow does not merely reflect a conservative outlook among entrepreneurs, but other factors inhibiting their aspirations to expand to which we now turn to.

4.2 Is Entrepreneurship a Binding Constraint to Firm Growth?

In this section we problematise the pattern of Uganda's entrepreneurial activity and firm dynamics as described above. We return to the binding constraints conceptual framework presented in section 1 and particularly focus on answering two important questions emerging from the above observations:

- i. Why is Uganda's entrepreneurship activity more 'necessity-driven' rather than 'opportunity driven'? is this feature shaped by constraints on the demand side or supply side?
- ii. What are the most binding constraints to opportunity-driven entrepreneurship and firm growth?

To answer the above question, we begin with two premises: (a) that opportunity-driven entrepreneurship is contingent on the ability of entrepreneurs to identify

viable business opportunities; and (b) firm growth requires the former plus availability of effective business managers (see Figure 11). Therefore, the fact that Uganda's entrepreneurs are mostly 'necessity-driven' may imply that either business opportunities are not available within the economy or Uganda simply lacks the kind of entrepreneurs with the wherewithal to identify opportunities within the economy. But where do skilful and innovative entrepreneurs come from? And remedially speaking, how is Uganda going to manage the transition from 'necessity-driven' to 'opportunity-driven' entrepreneurs?

In Figure 12 below, we attempt to conceptualise determinants of opportunity-driven entrepreneurs and shed some light on what needs to be done to support the required shift in the nature of Uganda's entrepreneurship.

Figure 11: Drivers of opportunity-driven entrepreneurs



In section 5, there is a debate that deals with the question of whether formal education is important in producing opportunity-driven entrepreneurs. The arguments there seem to point to a consensus that formal education is only entrepreneurship-enabling to

the extent that it imparts people with relevant problem solving and analytical skills in addition to training the required human resources need to run businesses once they are set up.⁸² Many scholars⁸³ emphasise that opportunity-driven entrepreneurs emerge primarily through

82 See Kolvereid, L., & Moen (1997); Sonnenfeld & Kotter (1982); Garavan & O'Connell (1994); Webb et al. (1982); Gorman et al. (1997); Letoski et al. (1994).

83 See Aronsson (2004) & Webb et al. (1982).



robust mentorship structures, which in turn prevail only in dynamic economies with deeper levels of firm concentration, agglomeration and linkages across various sectors.

In the context of Uganda, this suggests that the prevalence 'necessity-driven' over 'opportunity-driven' entrepreneurship may be a structural problem related to the broader level of economic development. Uganda remain a largely agrarian economy with limited sectoral diversification mainly in the service sectors, which tend to have limited firm linkages and agglomeration. Thus, the current structure of Uganda's economy implies that there are limited firms available to offer mentorship and training opportunities to facilitate the emergence of far-sighted opportunity-driven entrepreneurs. In addition, the lack of well-developed firm structure embedded in greater levels of economic production has also hindered Uganda's ability to provide opportunities for more effective and competent managers to emerge; implying that even when businesses are set up, very often they are constrained from growing and expanding due to a shortage of capable managers.

The above analytical insight somewhat presents an inescapable economic growth and opportunity entrepreneurship trap for many developing countries including Uganda. This is because,

as we have observed, opportunity-driven entrepreneurs and capable managers (both critical inputs to firm entry and survival) require a certain type of education and training but more importantly, a dynamically expanding economy with deeper firm linkages and agglomeration. But building and producing this kind of economy requires opportunity-driven entrepreneurs with the ability to identify business opportunities as well as managers that can drive firm growth, sector diversification and sustainable economic growth and expansion. This presents a vicious cycle with no end in sight to the perpetuation of 'necessity-driven' entrepreneurs produced by negative push factors.

However, this trap only holds in a closed economy state of the world. In today's highly economically globalised world, the trap can be broken and has proven to have been broken by means of promoting Foreign Direct Investment (FDI) in many countries such as Mauritius, the East Asian Tigers, and Brazil. Uganda can therefore learn lessons from the experiences of such countries. One of the key lessons is that a strategically intentional FDI policy regime has to be developed and implemented. While the discussion of the political economy requirements of the such an FDI policy regime is beyond the scope of this report, we can however point out that such an FDI policy regime should be developed with the view to promote

and support foreign investment in sectors that have been identified as sectors where Uganda's growth potential lies (see section 3). The objective should be to make sure that attraction of FDI is aimed at addressing the binding constraints to firm growth within these sectors and particularly ensuring foreign firms are encouraged and incentivized to develop linkages with local firms. In the long run, this is predicted to support and promote economic growth through firm growth and survival. This in turn would create more opportunities through backward and forward linkages for training and mentoring capable managers and opportunity-driven entrepreneurs, ultimately supporting and consolidating a sustainable growth path, firm growth and job creation.

In sum, Uganda's labour demand shortfall is in part a symptom of most entrepreneurship being necessity-driven rather than opportunity-driven. Entrepreneurs who start businesses for survival rather than to exploit identified market opportunities tend to enter into low productivity activities with low entry barriers, imitate rather than innovate, and their firms tend not to survive or grow. A shift from necessity- to opportunity-driven entrepreneurship would require, firstly, the availability of more opportunities, and secondly, the presence of innovative entrepreneurs who are able to identify and exploit opportunities. The former condition takes the debate back

to the broader set of factors constraining economic development. This section has argued that the latter condition - the quality of entrepreneurs - is in fact also shaped primarily by structural factors. While formal entrepreneurship-fostering education certainly has a role to play, the development of innovative and capable entrepreneurs requires a dynamic economic environment in which entrepreneurial skills can be nurtured. Further, for opportunity-driven entrepreneurs to build successful organisations that harness these opportunities, they need to be able to draw on capable managers. But management skills and business knowhow have been identified as perhaps the key weaknesses of Uganda's labour supply. Like entrepreneurs, high-calibre managers are perhaps more dependent in their development on an environment of economic dynamism rather than on targeted formal education. This cycle - entrepreneurs and managers drive economic dynamism but also require it in order to learn the necessary skills - can be vicious or virtuous. It is argued here that a strategic and targeted FDI policy can attract the external investment needed to spur innovation and growth in key sectors of opportunity, enable the emergence of pockets of dynamism that foster the development of more innovative entrepreneurs and strong managers, and thus kickstart the shift from a vicious to a virtuous cycle.





5.
Education

In Brief:

- *Education has been mostly blamed for Uganda's employment situation but education explains only some not all of the binding constraints to employment expansion.*
- *The state of Uganda's education system is a constraint on employment outcomes primarily to the extent that it holds back labour demand growth.*
- *Education has a role to play in nurturing opportunity driven entrepreneurs and preparing good business managers but other factors play a determining role.*
- *Uganda has registered tremendous improvements in education access but maintains significant shortfalls in quality and relevance.*
- *While TVET provides an opportunity for building appropriate skills, enrolment remains undermined by negative perceptions towards vocational education.*

There is perhaps no single factor that is blamed more for Uganda's youth unemployment and underemployment condition than its education system. Consequently, education reform has been repeatedly touted as part of the solution to improving employment. But in what ways is education constraining employment and how far can education

targeted measures go in responding to the youth underemployment challenge? This section explores the link between education and employment. It then examines how education in Uganda is responding to underemployment or failing to do so.

5.1 Exploring the Link Between Education and Employment

There is an inevitable link between the different tiers of education and employment. Basic education is important for developing literacy and numeracy as well as cognitive skills. *Technical and Vocational Educational*

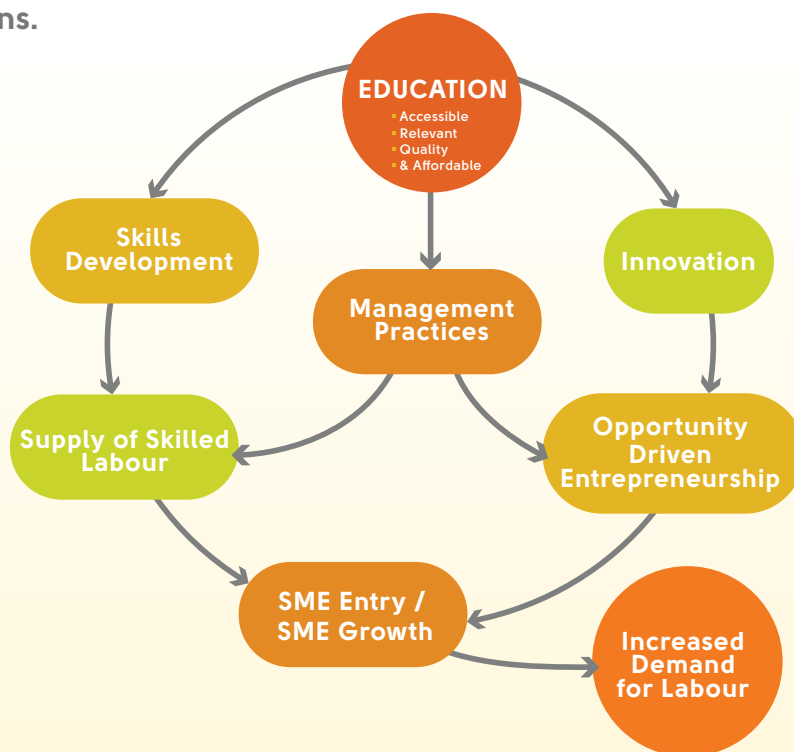
and Training (TVET) lies at the centre of building a practically skilled workforce. Higher education, on the other hand, cultivates innovation and a knowledge economy – i.e. an economy underlined by science, information and technology.



Education can thus go a long way in enabling people to use information and technology, adapt to their changing natural and socio-economic environment, and communicate across communities – which is important in labour mobility and the propensity to get paid employment, to mention a few. It can also transform social perspectives and, through this, eliminate employment discrimination, making the labour market more equitable and efficient. These attributes are also essential to growth and productivity within on-farm and off-farm household enterprises where Uganda’s employment is currently concentrated and is projected to be for the near future.

Countries strive to educate their populations with the view to build and accumulate the human capital for development. In terms of employment, the potentially game changing power of education concerns its impact on, among others, innovation, entrepreneurship, management practices, supply of skilled workforce, transmission of national values and a sense of citizenry. These attributes have an impact on both supply and demand conditions for labour as illustrated in Figure 13.

Figure 12: **Conceptualising how education can impact labour market conditions.**



To contribute effectively towards labour supply, an education system has to prepare and deliver the right number of people in the right sectors with the right skills for the different job levels. But this in itself requires that education is consciously tailored towards skilling learners for currently existing and projected jobs; in other words, education has to make its graduates *employable*. This logic, however, rests on the assumption that an economy would be generating jobs that can be filled by graduates of the education system.

Caveats on education and youth unemployment in Uganda

Caution has to be taken about considering education as the silver bullet for solving the youth unemployment problem in Uganda. This is mainly for two reasons:

- i. Uganda already has a high youth population, estimated at around 7 million. As part of the existing labour force, many of the youth have acquired low quality education while a good number have not attained any formal schooling at all. These youths will not be returning to school whether the education system is reformed or improved. Therefore, as far as building appropriate skills is concerned, education-targeted measures will be relevant for the future – not the present – youth. Nevertheless, recent initiatives, such

as Skilling Uganda, which target the provision of skills development programmes beyond the realm of formal schooling, can go a long way in addressing this challenge. Additionally, Uganda may have to intensify on-the-job training measures if the capability gaps of today's youth are to be addressed.

- ii. Employability on its own may not necessarily improve employment outcomes where unemployment and underemployment stem from low labour demand, which, as articulated in this report, is Uganda's foremost employment challenge. While theoretical literature [1] and empirical surveys [2] have repeatedly concluded that education measured by years of schooling yields better chances of gainful employment for young people, this relationship is primarily dependent on the existence of decent work opportunities in an economy. As people's level of educational attainment increases, so does their aspiration for better jobs. In Uganda, figures from UBOS show that unemployment rates can, in fact, be higher among those with higher levels of education: degree holders are 11.8 per cent unemployed compared to 1.0 per cent for people without any level of education (see Table 5).



Table 5: **Estimated unemployment rate by education level**

Level of Education	Unemployment rate
No formal schooling	1.0
Primary	1.2
Secondary	4.1
Post primary / secondary specialised training	4.7
Degree and above	11.8

Source: UBOS, 2013. *The National Labour Force and Child Activities Survey 2011/2012.*

Education, therefore, has to be considered through the lens of contributing towards not just labour supply per se but also labour demand growth by: (a) providing a skilled workforce needed for the growth of firms in labour-intensive sectors such as manufacturing, (b) training managers, (c) nurturing entrepreneurs, and (d) promoting innovation and an economy built on information, science and technology. Secondly, in economies like Uganda with a high concentration of economic activity within both on-farm and off-farm household enterprises, the contribution of education towards the productivity and growth of HEs is equally crucial.

Secondly, as Majgaard and Mingat (2012) reaffirm, school attendance alone is not sufficient to achieve the expected gains of education. This report, therefore, goes

further to suggest four conditions which education has to meet for it to have a positive impact on labour supply quality and labour demand growth.

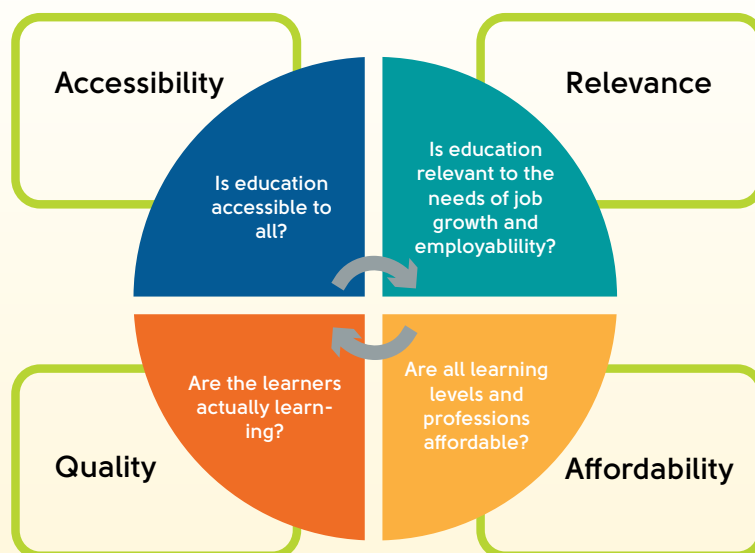
Accessibility: How accessible is education for young people in different parts of the country and for different socio-economic groups of the population?

Relevance: To what extent is the education system yielding graduates with the right skills that can be absorbed in the economy?

Quality: What are the learning outcomes beyond school attendance or performance in exams?

Affordability: How affordable are the different levels of education and professions for people who will later be willing to work in the related jobs?

Figure 13: **Conceptual presentation of the conditions education has to meet to contribute to better employment outcomes**



Source: Authors' conceptualisation

In view of the above conceptualisation, this study examines four questions in an attempt to understand the impact of education on employment in Uganda.

1. *Is education accessible to all?*
2. *Is education relevant to the needs of job growth and employability?*
3. *Are the learners actually learning?*
4. *Are all learning levels and professions affordable?*

5.1.1 Is education accessible to all?

Equal access to education and training is one of the critical contributors towards the possibility of equitable chances for employment. A number of factors influence access to education, among them: the availability of educational facilities within physical reach of the learners; the opportunity cost families

have to undergo to have their children at school; the ability to meet attendant costs; the presence of peace; gender biases; etc. While the state in Uganda provides free basic and secondary education, access is still constrained by numerous gaps.

Enrolment is high but access to facilities remains a challenge.

The introduction of Universal Primary Education (UPE) in 1997 meant that basic education was to be free and accessible for all. This boosted primary enrolment from slightly below 3 million in 1996 to 8.4 million in 2014.⁸⁴ Primary school attendance reached 87 per cent of primary school-going age children (6-12 years) in 2014.⁸⁵

However, the uneven availability of schooling facilities continues to constrain access to education. The 2013 Uganda National Household Survey (UNHS) established that only 29 per cent of

Ugandan communities were able to access a government school at primary level, while 26 per cent accessed a private school. The most recent statistics from the Ministry of Education, Science, Technology and Sports (MoESTS) acknowledge that ‘many sub-counties, especially in newly created districts, do not have any government-aided primary school.’⁸⁶ The consequence: a 2014 study by UNICEF and other partners found that long distances to school are still among the reasons for children not attending school. This was further confirmed by the 2014 National Population and Housing Census (NPHC) (see Table 6).

Table 6: **Reasons for not attending school among children (16-12 years)**

Reasons	2009/10			2012/13		
	Male	Female	Total	Male	Female	Total
Child considered too young	64.6	58.5	61.7	62.7	61.2	62.0
Other Reasons	13.0	12.2	12.9	10.6	10.9	10.7
Education too expensive	5.4	4.8	5.1	10.0	7.2	8.7
Child disabled	2.4	2.5	2.4	6.4	4.9	5.7
Child had to help (home/farm)	4.6	5.0	4.7	3.0	5.4	4.2
Child not willing to attend	3.7	4.7	4.1	3.0	2.6	2.8
School too far away	3.9	7.5	5.5	1.5	4.2	2.8
Parent did not want	2.0	3.0	2.5	2.0	1.9	1.9
Child orphaned	0.4	1.8	1.1	0.9	1.6	1.2
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: UBOS, School to Work Transition Survey, 2015

84 National Planning Authority (2015).

85 UBOS (2016).

86 MoESTS (2015).

Primary enrolment is high but uneven.

Regional disparities are inclined to undermine the progress in primary school enrolment. For example, a 2013 survey by Uwezo Uganda revealed that in Kotido district in the Karamoja sub-region, 61 per cent of children aged 9-16 years had never attended school, 35 per cent in Nakapiripirit and 27 per cent in Kotido – compared to the national average of 4 per cent. Uneven access to formal education can systematically entrench inequalities. In the case of Karamoja, this phenomenon is noticeable beyond statistics. It is conspicuously manifested in the low levels of socio-

economic development within the area – including the absence of modern wage firms, recurrent insecurity through the persistence of traditional practice of cattle rustling as well as the low representation of the Karamojong in modern wage employment.

Learners are not completing school. High enrolment is, however, not matched with conforming completion rates. After 17 years of UPE, UBOS' 2015 School to Work Transition Survey (SWT) found that 53.4 percent of young people (15-29 years) had incomplete primary or no education at all.

Table 7: **Distribution of completed education level among young people (15-29) as of 2015**

Level of Education	Sex		Residence		Total
	Male	Female	Rural	Urban	
No education	7.1	10.6	11.6	3.1	9.2
Incomplete Primary	44.4	44.1	50.8	27.5	44.2
Primary	23.9	24.5	23.4	26.4	24.3
Secondary	16.2	13.3	8.9	28.7	14.5
Vocational	4.7	4.3	4.2	5.1	4.4
Tertiary	3.8	3.1	1.1	9.1	3.4
Total	100.0	100.0	100.0	100.0	100.0

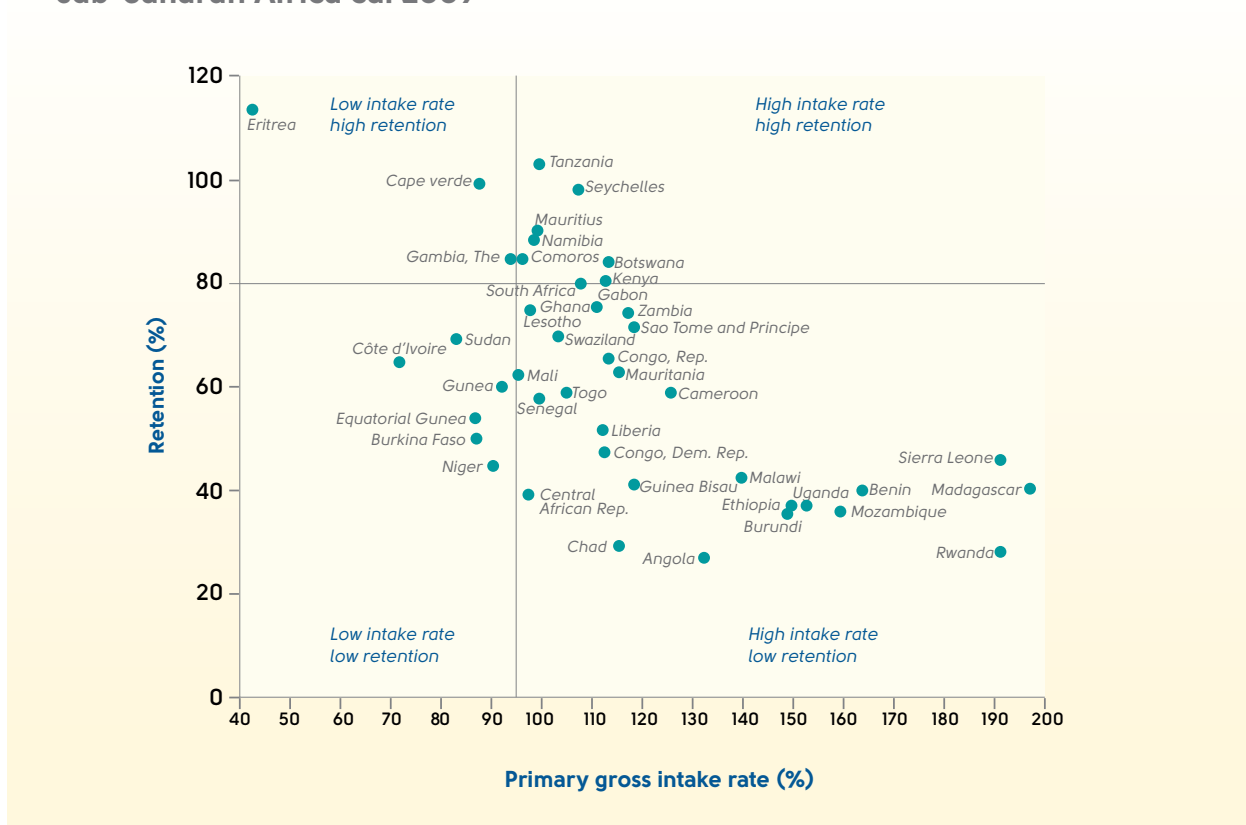
Source: UBOS, School to Work Transition Survey 2015.



It is, therefore, no wonder that Uganda performs poorly in primary school retention compared to other countries in sub-Saharan Africa. According to a World Bank comparative study (2012),

Uganda is ahead of only Chad, Angola, Mozambique, Burundi and Rwanda among SSA countries on retention levels for primary education (see Figure 15).

Figure 14: **Primary school entry and retention levels in sub-Saharan Africa ca. 2009**



Source: Majgaard, K., & Mingat, A. (2012)

Children as a source of labour constrains school attendance. With children providing an important source of labour for HEs, families have to incur a high opportunity cost when sending their children to school, i.e. if the children attend school, there will be fewer people

or no one to work on the farm or in the family business or to conduct household chores. Official statistics show that by 2012 some 4.3 million (39 per cent) children aged 16-17 years were engaged in some form of work.⁸⁷ Activities such as supporting domestic chores do not

⁸⁷ UBOS 2013, National Labour Force and Child Activities Survey 2011.

necessarily mean a child will not attend school; however, available evidence suggests that child work is negatively affecting school attendance. Among the major reasons for high school dropouts established in the 2014 UNICEF study was children's involvement with domestic work or obligations with a family business or farm.

Trading school attendance for work among children may be exacerbated by the prevailing high rates of school-leaver unemployment. Don Adams (2002) suggests that parents from some communities, when faced with costs and school-leaver unemployment, withdraw their children from school to help them seek alternative paths to their future. Therefore, improving the prospects for school leaver employment has the potential to encourage school attendance as much as education the chance for gainful employment.

TVET enrolment and completion are low and not increasing. TVET is widely seen as an effective route to building a skilled workforce. Uganda's education system offers multi-level opportunities for TVET enrolment: post-primary (community polytechnics), post-secondary (technical and vocational institutes) and tertiary technical colleges. A recently introduced Skilling Uganda seems set out to

revolutionise vocational education by, among other steps, expanding beyond formal schooling structures.⁸⁸ However, as Table 7 illustrates, school completion for vocational education only stands at 4.4 per cent.

Enrolment in TVET still suffers from negative perceptions. TVET in Uganda started during the colonial period. Then it was a small sub-sector intended to produce manual workers predominantly drawn from underprivileged and uneducated sections of society.⁸⁹ This background marked the beginning of the stigmatisation of TVET. Indeed following independence, TVET continued to be viewed as an alternative for the intellectually inferior students and was associated with non-prestigious blue collar jobs.⁹² Post-independence governments did not put much emphasis on TVET, which also suffered from the changing educational priorities in view of the policy shift towards basic education.

Recent government efforts to promote TVET have focused on increasing funding and advocacy. This has, nonetheless, not addressed the low levels of learner interest, which might be exacerbated by the fact that vocational jobs such as plumbing, masonry or carpentry are dominated by informal, precarious, low paid work and, consequently, attract

⁸⁸ See *Skilling Uganda Strategic Plan, 2011*.

⁸¹ *Okinyal, 2012*

⁸² *Okou, 2002*



low levels of social dignity. Low interest in TVET was confirmed in UBOS' School to Work Transition (SWT) survey of 2015 where only 16.7 per cent of current

students surveyed expected to complete vocational education compared to 57.6 per cent for tertiary.

Table 8: **Share of expected levels of education completion among current students**

Level of Education	Sex		Residence		Total
	Male	Female	Urban	Rural	
Tertiary	60.6	53.8	69.1	53.2	57.6
Vocational	12.2	22.2	11.7	18.6	16.7
Secondary	23.3	21.1	17	24.3	22.3
Primary	2.2	2.8	0.8	3.0	2.4
Missing	1.8	0.2	1.5	0.9	1.1
Total	100.0	100.0	100.0	100.0	100.0

Source: UBOS, *Highlights of the School to Work Transition survey 2015*.

Higher education enrolment is growing but is undermined by infrastructure and cost constraints. Higher learning institutions, which include universities and other tertiary institutions (mostly technical and business colleges), registered a 26 per cent increase, from 148 in 2006 to 127 in 2011.⁸⁹ Total enrolment grew by 44.4 per cent during the same period (from 137,190 to 198,066).

However, the National Council for Higher Education (NCHE), government's watchdog agency for tertiary education, reports that the growth in both the number of institutions and enrolment

has not been matched with increase in infrastructure and qualified academic staff. Furthermore, costs remain a challenge as only 4,000 government-sponsored admissions are made available each year. Students from remote areas seldom secure government scholarships, which are largely awarded on the basis of high school scores, yet, given the poor school infrastructure available to students from remote districts, they underperform in national examinations. This exacerbates the challenge of inequitable access to education. A recently introduced district quota system attempts to correct this inequality but remains insufficient.

⁸⁹ National Council for Higher Education (2011).

Overall, limited state funding for higher education, which started during the 1990s structural adjustment, has had catastrophic effects on higher education. As Mkandawire and Soludo (1999) argue, universities witnessed a haemorrhage of their academic staff as many sought greener pastures overseas while those who remained became consultants for NGOs and other development organisations. This underfunding has affected infrastructural expansion, hence affecting teaching space and library and laboratory facilities, to mention but a few. Gradually, the research capacities have atrophied but have, fortunately, been given a shot in the arm by external funding, which, however, may not be in tandem with the immediate needs of national development.

Certain professions – e.g. medicine and engineering – portend better employment opportunities but are heavily constrained by limited admission offers. Professions such as medicine and engineering portend better chances for

gainful employment. A 2013 graduate tracer study by the National Council for Higher Education (NCHE) established that medical doctors topped other professions with regard to the time taken to get into gainful employment: 95.5 per cent of medical doctors and 92.6 per cent of clinical officers got into gainful employment in less than a year after completing school compared to 55.5 per cent of social scientists and 28.6 per cent of business administration diploma holders. Graduate engineers were the best paid category, with 87.3 per cent of those interviewed earning more than 1 million shillings per month.

The NCHE study, however, reported that medicine, engineering and science education were courses with inadequate enrolment. This implies that these programmes could be among the very few professions in the economy with the possibility of labour undersupply. However, admission opportunities in these disciplines remain very limited.

5.1.2 Is education relevant to the needs of job growth and employability?

Relevance concerns how education meets the interests and aspirations of individual learners as well as how it builds their capabilities to solve real-world issues.

In terms of employment, the central question would be how education equips school leavers with appropriate skills to be absorbed in the economy. A school leaver can participate in the economy through:



(a) having the opportunity to supply their labour for pay (wage employment), (b) working on a family business/household enterprise, and (c) starting an own business (entrepreneurship). The former demands that an economy creates jobs requiring skills and that school leavers possess these skills, and the latter necessitates that school leavers are able to identify opportunities in the economy and establish a business based on those opportunities.

Emphasis is on labour supply but the challenge is low labour demand growth.

Arguments about the existence of a labour market-skills mismatch often literally suggest that school leavers lack the skills ‘demanded’ by employers – in other words, that school leavers are not employable. This narrative is often repeated whenever one listens to discourses in policy-making spaces, including parliament. It is also commonly cited by respondents in interviews, be it

young people themselves, independent analysts⁹⁰ or even policy-makers. Indeed, studies, too, have suggested that education systems in developing countries are not equipping learners with appropriate skills to be employable so as to get and keep a job.⁹¹

However, the three strands of underemployment highlighted in this report – time-related, skills-related and working poor – speak to a shortage of decent jobs. There is, indeed, a plausible causal link between education and labour demand growth. Two of the binding constraints on labour demand growth established by the Finance Ministry’s econometric analysis – lack of appropriate skills and poor management practices – can be linked to education and training. Therefore, limitations in education can have critical implications for labour demand growth, as summarised in the table below.

⁹⁰ See, for example, Nuwagaba (2012).

⁹¹ See, for example, Nuwagaba (2004); African Economic Outlook (2012); The Guardian, n.d.

Table 9: **Illustration of education-related challenges limiting labour demand growth**

Role of education	Existing challenge	Why does this matter	Consequence of current circumstances
Skills building	Failure to produce a labour force with appropriate skills	Appropriate skills needed for growth of skills-intensive firms	Limited firm growth hence limited job growth
Facilitating innovation	Low innovations in competitive & comparatively advantageous sectors	Innovations matter if they occur in sectors where the economy has a comparative & competitive advantage	Innovations have yielded “white elephant” projects with low or no prospects firm growth
Nurturing entrepreneurs	Limited capabilities to identify opportunities	Opportunity driven entrepreneurs needed to start firms with high growth prospects	Low net firm entry due to necessity driven entrepreneurship
Management training	Poor management practices	Good managers needed to find opportunities and grow firms	High firm mortality, low firm growth & low job growth

Source: *Author’s conceptualisation*

Therefore, considering issues such as skills development through the lens of firm growth would imply a different strategy from when education is considered for the general imposition of skills for employability. Uganda would, for example, draw lessons from the Asian Tigers such as Singapore and South Korea where education reforms focused on building skills in specific sectors in which

the drive and opportunity to grow firms existed.⁹² Although Uganda’s increasing focus on science education and TVET seems to follow this logic, there is no evidence of a deliberate focus on specific sectors with clearly articulated potential for firm expansion.

Low TVET attendance has implications for skills-building. As earlier stated, TVET lies

⁹² Ashton, D., Green, F., SUNG, J., & James, D. (2002)



at the heart of skills-building. And skills-building, the ILO (2008) argues, 'fuels innovation, productivity increase and enterprise development, technological change, investment, diversification of the economy, and competitiveness that are needed to sustain and accelerate the creation of more and better jobs...' These are aspects Uganda needs to expand job opportunities. Therefore, the extremely low TVET completion rate of 4.4% should be seen as a crucial challenge.

Besides increased government attention, TVET also required a better response from parents and learners who should have the aspiration to enrol in the programmes.

Learners' interests are more likely to be influenced by their life goals, which often tend to go beyond simply finding a job but rather the aspiration for better well-being. Well-being is characteristically determined by the level of personal income (as already discussed, vocational jobs in Uganda are not doing well on this score). As the 2013 World Development Report (WDR) notes, '...people aspire to choose jobs based on what motivates them and on what could make their lives more meaningful.' Box 1 presents some statistics from the 2015 SWT survey showing what young people consider to be their primary life goals.

Box 1: **Primary life goals of young Ugandans**

When young people were asked about their primary life goals during Uganda's SWT survey, the highest number (37.4 per cent) indicated 'having lots of money' as compared to 10.1 per cent whose primary goal was 'making a contribution to society' or the 20.8 per cent who chose 'being successful at work'. In the context of employment, these aspirations should be construed in line with the rational goals of a worker, which is to maximise one's welfare.

Source: Excerpts from the 2015 STW survey

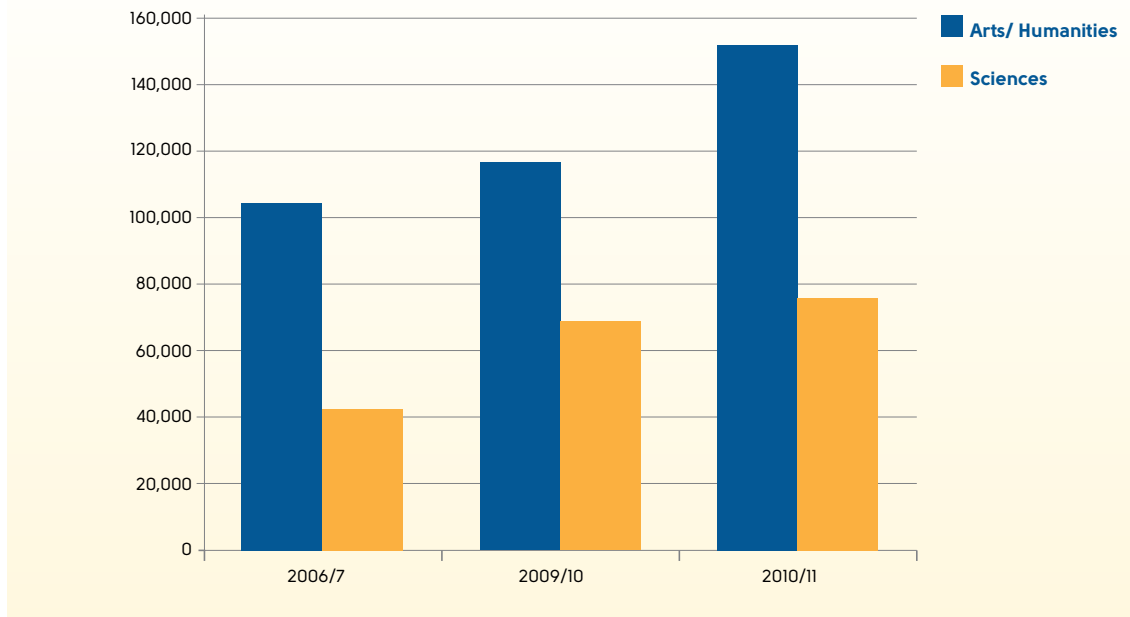
The aspirations in Box 1 allow a conclusion that when considering the prospects for employment vis-à-vis the available learning opportunities, young people may contemplate the quality of jobs existing in a given profession. The decision-making processes may thus include observing people currently employed in a given sector in terms of their pay, ability to progress at job level as well as social dignity.

Therefore, reorganising employment opportunities in the vocational and technical sectors may be one of the answers to interesting more young people in enrolling in vocational education programmes. This would, however, require further assessment of the firm dynamics in sectors that employ graduates of vocational education, such as construction. It would be important to understand why vocational-related job opportunities remain precarious and low-paying despite growth in corresponding sectors within the economy.

There is disproportionate concentration in the arts and humanities compared to the sciences. At the level of higher education where professional specialisation mostly occurs, there is a high concentration of enrolment in the arts and humanities as compared to science and technology. The most recent State of Higher Education report (published in 2011) shows that although higher education enrolment has been increasing, it remains concentrated in the arts and humanities (see Figure 16). As of 2011, 74 per cent of university-level enrolment was in the arts and humanities and 26 per cent in science and technology. In fact, enrolment in science and technology had dropped from 35 per cent in the previous year. At non-university-level higher learning institutions, 94 per cent were arts/humanities-based compared to 6 per cent for science and technology.



Figure 15: **Percentage enrolment by subject, 2006-2011**



Source: NHCE, *The State of Higher Education report, 2011*

Low enrolment in science can be explained, first, by limited enrolment opportunities. It can, furthermore, be explained by existing limitations to the teaching and learning of science such as lack of infrastructure and equipment (laboratories and laboratory equipment) and shortage of science teachers at primary and secondary school levels – especially in rural areas where more than 70 per cent of Ugandans still live.

There is a standard blame often put on Uganda’s education system – that it was framed by the British colonial administration which at the time intended to train clerks but neither producers nor a technically skilled workforce. The education system is thus

seen as one which is largely academic and pays less attention to technical scholarship. Yet the country sees more prospects for employment expansion in the construction and manufacturing sectors, given the policy and increased public sector spending on agriculture, infrastructure (e.g. roads, railways and hydropower dams) alongside a recent drive towards industrialisation. Should these ambitions come to fruition, the demand for workers trained in science-based disciplines will continue to grow at a higher proportion in comparison to those trained in the arts and humanities.

Entrepreneurship is being taught but the impact is unknown. Entrepreneurship is taught in secondary schools. In addition,

a number of business courses, among them entrepreneurship, are offered in universities, including Makerere University Business School, which was established to train and research in business disciplines. The Uganda Management Institute (UMI), on the other hand, concentrates on management training. Similarly, several agencies, such as Enterprise Uganda, offer out-of-school business mentorship and coaching opportunities for young people. There is, however, little evidence to confirm the impact of entrepreneurship education on the establishment of successful businesses.

The 2013 WDR suggests that the capacity to acquire skills and apply them to business is one of the most important characteristics of successful entrepreneurs. However, as to whether such skills are specifically imparted through education remains inconclusive. Several arguments seem to support the view that formal education's contribution to entrepreneurship is only relevant to the extent that it imparts to people the required problem-solving and analytical skills as well as training human resources required by those running businesses. But many scholars and business managers who have been involved in these studies insist that entrepreneurial abilities are better imparted through mentorship involving apprenticeship programmes.

Entrepreneurs, the WDR further suggests, are associated with specific psychological traits, such as the personal ambition for achievement, the belief in the effect of personal effort, self-confidence and a positive attitude towards risk. Nonetheless, studies (e.g. on China and the Russian Federation) show that the rates of returns on capital in micro-enterprises tend to be higher when their owners are more educated and experienced.⁹³

In spite of the unresolved debate, the general value of education to entrepreneurship cannot be overestimated. Business owners require the ability to read and write and the problem-solving skills to identify opportunities and establish as well as manage a business successfully. This implies that basic education and the quality of education generally is just as good for entrepreneurship. Business management skills on their own can also be acquired from the job – as the examples of some of the not-so-schooled yet successful business managers across Uganda seem to suggest.

There is clearly a need to analyse the impact of entrepreneurship education and training programmes on the establishment of successful enterprises whilst gaining an understanding of what explains the success of business owners who did not go through entrepreneurship training.

93 WDR (2013).



Innovations are not aligned to market opportunities. There seems to be a strong drive towards supporting innovation through universities. This has primarily taken the form of government support for selected projects, such as the invention of a solar-powered plug-in car at Makerere University. What is missing, however, is evidence that these innovations are occurring within areas where Uganda's economy stands a plausible chance to

be competitive. Innovations are more relevant to employment if they occur in sectors where the economy has the potential to produce and sell high quantities of products or high-value products domestically or internationally – so that it can lead to firm growth and, for that matter, employment expansion. In Box 2, an insight into two most recent innovations is provided.

Box 2: **An insight into Uganda's innovations**

Case 1: Kiira EV car innovation

In 2006, a research project run by Makerere's engineering department yielded a hybrid plug-in car branded Kiira EV. Five years later a solar-powered Kayoola bus was launched. The government has proceeded to provide initial funding for Kiira Motors Corporation (KMC) as the emerging firm from the motor vehicle innovations. KMC has also been allocated 100 acres of land in Jinja industrial park. But evidence regarding whether Uganda has conducted the necessary assessments to confirm the capability to competitively manufacture motor vehicles is missing. How Uganda will deal with the challenges of international competition is unclear. Even though the president has proposed banning the importation of used cars to allow for the setting up and growth of local assembly plants, this may not necessarily shield KMC from competition from international motor vehicle manufacturers such as the ones from Japan and South Korea.

Case 2: The Presidential Initiative on Banana Industrial Development (PIBID)

In 2005, the government launched the PIBID as an initiative to process matooke (plantains), a locally produced staple food, into a range of products with the view that local and international market would be found. The project had been largely informed by a conclusion that about 40 per cent of the bananas produced in Uganda went to waste. But it has so far turned out to be a largely unsuccessful venture. A government audit faulted the decision to implement the project without a feasibility study. As it turned out, it was rather difficult for Uganda to find a market for processed bananas.

5.1.3 Are the learners actually learning?

The quality of education goes beyond school attendance or learners' performance in exams; it concerns overall learning outcomes. UNESCO talks about needs-based criteria for assessing the quality of education. In these criteria, quality should consider what education systems are for.⁹⁴ This takes into account the skills, knowledge, values and attitudes passed on by the education system. Outcome-oriented quality indicators, therefore, should include how the education system is imparting basic numeracy and literacy skills as well as how it is 'encouraging critical thinking and fostering the desire and capacity for lifelong learning that adapts and shifts in local, national and global dynamics.'⁹⁵

Learning outcomes are poor. A 2015 analysis of pre-primary and primary education in Uganda by the National Planning Authority (NPA) concludes as follows: 'Recent trends on virtually all the primary quality indicators are below the desired levels.' Figures from the 2014 Uganda Education Management Information System (EMIS) show that literacy and numeracy levels at Primary 6 are below average at 40.2 per cent and 41.4 per cent respectively. A 2016 learning assessment survey by Uwezo found that two in every 10 Primary 7 pupils could

not understand a Primary 2-level English story and the same proportion could not do Primary 2-level division (English is the medium of instruction in upper primary).

Besides consistently low levels of quality nationally, some critical variations exist. For example, the bottom 20 districts in Uwezo's survey were all from northern and eastern Uganda while the top 20 were all from the western and central regions.

Variations between wealthier and poor households are relatively low (56 and 52 per cent respectively of Primary 3 – Primary P7 pupils could do Primary 2 division while 42 and 36 per cent could read and understand an English story of the same level). However, variations between children who attended private education or privately paid remedial classes and those who did not should be of interest. While 54 per cent of Primary 3 – Primary P7 who attended privately paid classes could do Primary 2 work, the percentage was considerably lower (36 per cent) for those who had not attended such classes. This shows that private education or privately paid remedial classes deliver better learning outcomes in comparison to education in government-aided schools. However,

⁹⁴ UNESCO (2015).

⁹⁵ *Ibid.*



poor families are less likely to afford the attendant costs of private schools or private remedial class; and this has the potential to entrench existing inequalities as children from poor families are disadvantaged.

Detailed surveys assessing learning outcomes at higher levels of education are missing. However, the 2015 graduate tracer study by NHCE reported the lack of practical skills as one of the major challenges reported by the employers who employed the survey graduates.

5.1.4 Are all learning levels and professions affordable?

Affordability of education considers the costs learners or their parents have to incur to attend school and their ability to meet the costs. This has implications for the possibility of even access to education and, as such, the possibility of avoiding inequalities that can emerge if some sections of society are unable to access formal education when others do.

Primary and secondary education is free but pressure remains on parents to provide lunch, uniforms and scholastic materials. In 1997 the government made a significant move towards strengthening its role in the provision of education with the introduction of UPE. This led to the elimination of tuition fees and what used to be charged as Parent-Teacher Association (PTA) fees in government-aided primary schools. UPE was followed with the introduction of Universal Post-

Primary Education and Training (UPPET) 10 years later. Under UPPET, government provides free post-primary education in technical colleges and secondary schools.

However, the responsibility for the provision of school uniforms, lunch and scholastic materials remained with the parents. Unfortunately, given high poverty levels, many families are simply too poor to meet these costs. The UNICEF out-of-school children study finds financial constraints as the most prominent factor explaining non-enrolment and high school dropout rates. It observes thus: 'Approximately 81 per cent of the households sampled stated that lack of money was the reason why their children dropped out of school, while 58 per cent claimed financial constraints was the reason their children never enrolled in school in the first place.'⁹⁶

⁹⁶ Mpyangu, M. C., Ocen, A. E., Onyango O. E., & Lubaale, A. M. Y. (2014).

Quality education is expensive, which disadvantages poor families. In view of the gaps in public sector-provided education, parents who can afford to pay are increasingly exiting public schools and enrolling their children in private schools. Enrolment in private schools has been increasing over the years. According to statistics from the Education Ministry, private school enrolment at primary level increased by 84.2 per cent (from 768,842 in 2002 to 1,416,259 in 2015) compared to

enrolment in government-aided schools, which increased by 4.1 per cent during the same period. As earlier presented, private schools have better outcomes in terms of numeracy and literacy. The emerging notion, therefore, seems to be that 'if you want quality, go to a private school.' However, a concentration of quality in private schools locks out poor families that cannot afford to pay.

5.2 Conclusion

The above analysis confirms that education in Uganda has registered some marked improvements, particularly with regard to access. Cost-related constraints have been somewhat minimised with the introduction of free schooling at primary and secondary school levels. However, significant gaps remain regarding the quality and relevance of education.

Education may not be the immediate structural constraint on employment expansion. Nonetheless, there is a clear link between education and other factors proximate to job growth – e.g. the supply of appropriate skills and management practices. Furthermore, it has been argued that the general quality of education has implications for entrepreneurship.

For these and other reasons, the observed challenges in education matter for the employment agenda.

There are other attributes of education not explored in this report but which have implications for employment. For example, an education embedded with the building of national values and a sense of citizenry could contribute towards mitigating iniquities like corruption which have negative implications for the business environment and, for that matter, firm growth and, by extension, job expansion. Relevant research in universities can be useful to inform policy-makers on what the most effective policies to pursue are in order to sustain a growing economy that generates decent employment.



The current policy emphasis on education suggests that policy-makers appreciate its potentially game-changing impact on employment. However, education should not be seen as the magic knob that will solve the country's employment challenge. Education-targeted measures need to be pursued hand in hand with other critical interventions such as improving the business environment and the rule of law. It also seems that there are no intentional efforts to tailor

education and skills development to specific sectors where the country finds a reasonable opportunity to excel and have a market advantage. Besides improving quality outcomes, what might be crucial now is to identify the sectors in which the Ugandan economy finds competitive opportunities and establish what education-related constraints exist in those sectors. Educational reforms could then be targeted towards addressing the identified constraints.



6.
Lifting
Constraints,
Leveraging
Opportunities

This report has sought to reframe the debate on employment in Uganda and to relocate issues surrounding entrepreneurship and education within that debate.

First, the report revisited the recent historical context around Uganda's employment challenge.

The 1990s and early 2000s saw high growth after the establishment of political and economic stability. The last decade has seen a slowdown in total factor productivity and the realisation that Uganda's growth is not leading to agricultural productivity gains or deep structural transformation. A simultaneous population explosion resulting from increased social investment and life expectancy and a persistently high birth rate has produced a rapidly expanding youthful labour force. As a result of an economic growth pattern which is not labour-intensive, this labour force is increasingly met with a shortage of employment opportunities.

Second, the report presented Uganda's employment challenge in light of the most recent labour statistics.

There are three central messages. First, almost half of Uganda's active labour force is engaged exclusively in subsistence production, meaning it is not integrated into the exchange economy or the

labour market. Second, the Ugandan labour market is characterised by relatively low unemployment but very high underemployment – time-related, skills-related and wage-related. Third, most underemployed people are working primarily in household enterprises rather than in formal wage employment.

Third, the report discussed the causes of unemployment and underemployment in Uganda, arguing that the statistics should be seen first and foremost as representing a labour demand shortage rather than an oversupply of labour.

The lesson drawn from other countries is that economic transformation tends to precede demographic transition. While empirical correlations may suggest that Uganda's underemployment and stagnant income growth reflect a labour oversupply problem, deeper scrutiny reveals a different dominant story. Instead, a pervasive lack of labour demand has inhibited job and income growth, perpetuating low standards of living and consequently low investment in children. As a result, relatively high mortality and high fertility rates have persisted and the demographic transition has stalled. The lesson drawn from other countries is that transformation preceded demographic transition.

Fourth, the report mapped the opportunities for spurring labour demand and employment growth, and diagnosed the constraints on the economy's ability to take advantage of those opportunities as follows:

- (i) On-farm household enterprises will continue to be the biggest employer in Uganda in the near to medium future. The key to improving employment outcomes in this dominant sector is to foster agricultural productivity, which is constrained by a number of factors, including farmers' access to inputs and access to output markets, clear land rights, and climate change mitigation/adaptation.
- (ii) Off-farm household enterprises are a very large and growing employer and present the most promising large-scale opportunity for labour to move towards more decent work, especially in terms of productivity and income. This can be achieved through backward and forward linkages with the formal sector, the growth of which the success of off-farm household enterprise will hinge on. The most binding constraints on off-farm household enterprise development and productivity are access to worksites, finance, protection against vulnerability, business know-how and electricity.

- (iii) Firm growth in the formal wage sector presents the most promising opportunity for the expansion of decent employment in the long run. Its opportunities lie in the product and service sectors that are most likely to achieve international competitiveness on both the export and domestic markets. A myriad of constraints hold back the rapid development of these sectors, and these have not been sufficiently studied at sector level. Existing research suggests that seven constraints are binding on firm growth in the formal wage sector: the trade environment, firm coordination, physical infrastructure, access to finance, the regulatory environment, management experience and appropriate practical skills. This report argues that innovation is an additional binding constraint that is not adequately captured by quantitative analyses.

An important conclusion of the study is that an ongoing and more rigorous and granular analysis of firm growth opportunities and constraints is needed in order to empower government and other stakeholder to effectively promote labour demand growth. This analysis should pay due attention to the household enterprise sector, explore opportunities and constraints in the services sector, assess sector-level (rather than economy-wide)



constraints, and employ a greater variety of quantitative and qualitative methods.

Fifth, the report has evaluated the role of entrepreneurship in the cause of and solution to Uganda's employment challenge.

Uganda has one of the world's highest entrepreneurship rates but with low firm survival and growth rates and a lack of innovation. Entrepreneurs who start businesses for survival rather than to exploit identified market opportunities tend to enter into low productivity activities with low entry barriers, imitate rather than innovate, and their firms tend not to survive or grow. In order to harness the power of entrepreneurship for sustained labour demand growth, a shift from necessity-driven to opportunity-driven entrepreneurship is necessary.

If the most binding external constraints on firm growth are lifted in a given sector, then innovative opportunity-driven entrepreneurs will be able to exploit business opportunities through productive and growing formal firms and household enterprises. But opportunity-driven entrepreneurship requires not only the availability of market potential but also high quality entrepreneurs who are innovative, able to identify opportunities, and build successful ventures.

The report has argued that the quality of entrepreneurs is shaped primarily by structural factors. While formal

entrepreneurship-fostering education certainly has a role to play, the development of innovative and capable entrepreneurs requires a dynamic economic environment in which entrepreneurial skills can be nurtured. Further, for opportunity-driven entrepreneurs to build successful organisations that harness these opportunities, they need to be able to draw on capable managers. But management skills and business knowhow have been identified as perhaps the key weaknesses of Uganda's labour supply. Like entrepreneurs, high-calibre managers are perhaps more dependent in their development on an environment of economic dynamism rather than on targeted formal education. This cycle - entrepreneurs and managers drive economic dynamism but also require it in order to learn the necessary skills - can be vicious or virtuous. It is argued here that a strategic and targeted FDI policy can attract the external investment needed to spur innovation and growth in key sectors of opportunity, enable the emergence of pockets of dynamism that foster the development of more innovative entrepreneurs and strong managers, and thus kickstart the shift from a vicious to a virtuous cycle.

Sixth, similarly to entrepreneurship, the report has reassessed the role of education within the employment debate. In the context of tremendous progress on education access but a

persistent shortfall in learning outcomes, it is argued that education is not the silver bullet for Uganda's employment challenge. The education system can help build an employable workforce by meeting four crucial conditions: quality, relevance, accessibility, and affordability.

Employability, however, may not necessarily improve employment outcomes where unemployment and underemployment stem from low labour demand, which, as articulated in this report, is Uganda's foremost employment challenge. The state of Uganda's education system is a constraint on employment outcomes primarily to the extent that it holds back labour demand growth. Here, education underlies some but not all of the binding constraints. Education is crucial in preparing the labour force with appropriate practical skills needed for firm growth in labour-intensive sectors, equipping enough people with strong management expertise, fostering opportunity-driven entrepreneurs, and promoting innovation and technological progress. Further, in economies like Uganda with a high concentration of economic activity within both on-farm and off-farm Household Enterprises (HEs), the contribution of education towards productivity and growth of HEs is equally crucial.

Efforts to reform education would maximise their impact on labour demand growth by strategically targeting practical skills, management know-how and innovation in the sectors that hold the greatest labour-intensive growth opportunities. In doing so, education must be not only accessible and affordable, but the content taught must be relevant to the needs of the economy and the quality of teaching and learning must be sufficient to equip the labour force with the requisite capabilities.

Finally, this report reframes the debate around employment. The analytical approach stipulates *employment* at scale as the ultimate objective, then constructs a 'logical tree' of opportunities and constraints in order of their proximity to the objective. *Labour supply, labour demand, and the functioning of the labour market* are seen as the proximate factors affecting any economy's employment outcomes. Labour demand is diagnosed to be the binding constraint on employment at scale. In other words, any efforts to promote employment growth in Uganda are unlikely to be successful unless they lift the labour demand constraint. Next, the report asks what are the greatest opportunities to spur labour demand growth. For each of these opportunities, it then once again diagnoses the binding constraint(s)



holding back progress. This analytical approach has two fundamental impacts. First, it ensures logical coherence across a complex systemic problem analysis. Second, it allows us to strategically prioritise scarce resources on tackling the most pressing and potentially impactful parts of the larger problematique. Targeted actions to leverage key opportunities and

lift binding constraints have the greatest chance of having a catalytic impact on a complex system, leading to positive knock-on effects and a multiplication of opportunities for progress. In this way, rigorous diagnosis can disproportionately increase the power of the scarce resources invested in remedy.

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