The Role of the State in Economic Development: Employment Challenges in Uganda

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1. Introduction

This paper is largely a review and analysis of Uganda's employment policies and strategies. It makes use of basic data from the Uganda Bureau of Statistics (UBOS) on structure and dynamics of employment in Uganda, which comes after this introduction in section 2. In section 3 the paper briefly looks at the policy intervention process for employment creation. Section 4, the longest section of the paper is devoted to a review and analysis of policy intervention tools for employment creation.

Section 5 follows with a brief look at policy interventions and entrepreneurship for employment creation, followed by section 6 on policy interventions and skills development for young people Section 7 looks at strategies for strengthening labour market institutions, followed by section 8 that suggests the role of the state in employment creation. Section 9 concludes.

While based on review of Uganda's employment policies, the paper reflects opinions of the author especially in evaluating the role of markets and that of the state in employment creation. The author makes cognizance of the role of markets in ensuring efficiency in allocation of resources for optimal growth, investment and employment creation. However, the author observes that there are market failures in Uganda's labour markets especially in rural areas that require state intervention for employment creation.

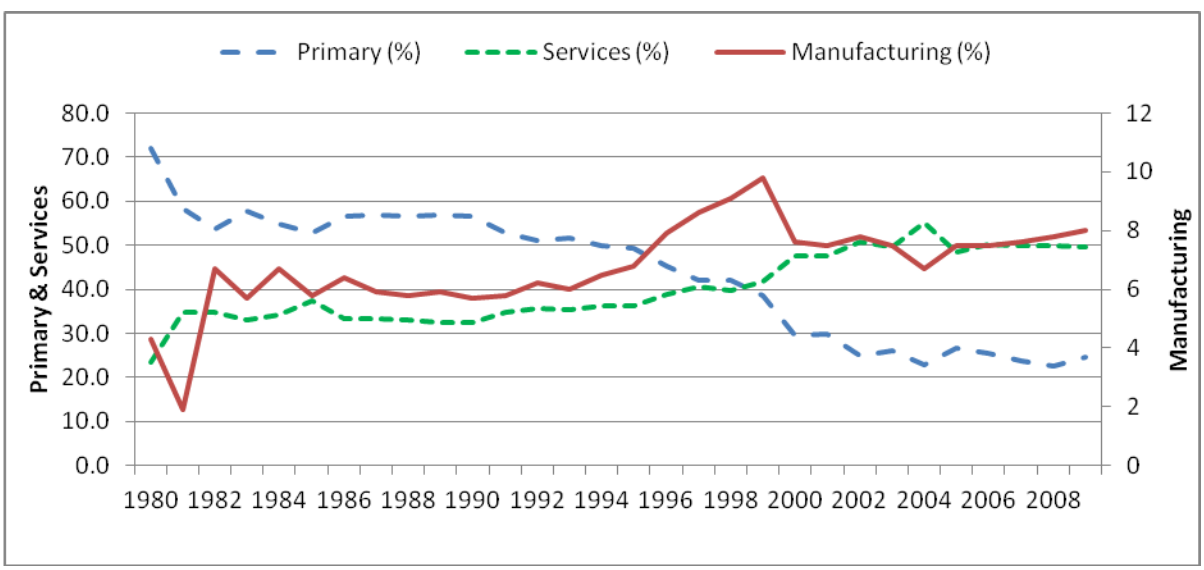
1. Structure and dynamics of employment in Uganda

The structure and dynamics of employment in Uganda mirror the structure of the economy, which has remained largely agrarian in terms of labour use. In terms of Uganda's population distribution, as of July 2012 rural areas accounted for 87% of the population, leaving only 13% for the urban areas.

However, over the past two decades Uganda has recorded significant structural shift. The observed structural shift has leaned mainly towards services, driven mainly by developments in the banking, telecommunication, and transport services. Figure 1 gives sector composition in terms of value addition. It shows that the contribution of the primary sector declined from 72 percent in 1980 to 24.7 percent in 2009. Over the same period, the contribution of services increased from 23.5 percent to 49.5 while manufacturing doubled from 4.3 percent to 8 percent. Other industrial activities have increased from 0.2 percent to 17.8 percent. This increase is mainly attributed to an increase in construction activities for both the public and private sector. The low growth rates in manufacturing indicate the low levels of industrialization. In particular, the huge infrastructural deficits characterized by inadequate electricity supply and poor transport infrastructure have hindered sustained industrial growth.

While the contribution of the primary sector in GDP declined significantly, majority of the labour force remained stuck in agriculture. The services sector that registered significant increase in its share of GDP accounted for 25.1 per cent of Uganda's labour force in 2010. Furthermore, the services sector is comprised of mainly urban based activities such as banking, telecommunication, transport, hotels and restaurants. Thus, Uganda has witnessed a mismatch between location of labour and opportunities for economic growth.

Figure 1: GDP composition for Uganda



Source: UBOS

Unemployment and the youth

Unemployment in Uganda is largely a problem of the youth. The youth unemployment rate in Uganda is systematically higher compared to the national average (see table 1).

Table 1: Summary of statistics on unemployment rates between 2005/06 and 2009/10

2005/09			2009/10	
Youth category	Number of unemployed people	Unemployment rate (%)	Number of unemployed people	Unemployment rate (%)
15-24	110,400	4.4	174,700	5.4
18-30	143,800	3.4	256,700	4.7
Uganda	209,700	1.9	480,300	4.2

Source: UBOS 2009/10

From table 1 above we see that at the national level, the rate of unemployment more than doubled from 1.9% in 2005/06 to 4.2 percent in 2009/10. Nonetheless, unemployment rate of 4.2 percent is a low level of unemployment. However, this low unemployment rate does not take into account persons that have given up looking for jobs and of high level of underemployment in rural areas.

Youth employment in agriculture

As noted already, majority of the youth reside in rural areas. The 2005/06 UHNS and 2009/10 UNPS micro data disaggregated according to age groups show that over the last five years more than 70 percent of the youth still depend on agriculture for their livelihood (see table 2). The UNPS data further reveals that the youth (18-30 years) are abandoning agriculture more than adults (31-59 years). Accordingly, the percentage of the youth in agriculture fell from 82.3 percent in 2005/06 to 71.2 percent in 2009/10. The outward shift of youth labour from agriculture seems to be to the services sector, which recorded an increase from 11.8 percent in 2005/06 to 21.5 percent in 2009/10. Industry too registered an increase in youth.

Table 2: Sector of employment by age group

	2005/06			2009/10		
Broad Sector	**18-30 Years**	**31-59 Years**	**Total**	**18-30 Years**	**31-59 Years**	**Total**
Agriculture	82.3	69.7	73.9	71.2	65.8	67.7
Industry	4.7	6.4	5.8	7.3	7.1	7.2
Services	11.8	23.5	19.5	21.5	27.1	25.1
Not stated	1.2	0.4	0.7	0.0	0.04	0.02
Total	100	100	100	100	100	100

Source: EPRC, Gemma Ahaibwe et-al

A "Labour Market Information Status Report for Uganda" prepared by the Ministry of Gender, Labour and Social Redevelopment in 2006 presents surprising finding about the link between education and labour force participation. Furthermore, the report presents surprising results between unemployment and education. The report gives labour force participation rate as 80 percent. The findings of the report are that persons without education had higher participation rates than those with primary education, while those who had attained secondary education had the lowest participation rates (69 percent). The report gives overall unemployment rate for Uganda as 3.5 percent and notes that unemployment in Uganda is mainly an urban issue with unemployment rate of 12 percent and highest among females (17 percent). The report further underscores the surprising relationship between education and unemployment noting that lowest unemployment is found among those persons with no education, followed by those with primary education. The report notes that as of 2005 the rate of unemployment of graduates in Uganda stood at 17.4 percent. The report suggests that there is need to orient graduates from being job seekers to job makers. The report further proposes that Government should develop policies that ensure children are kept in school

2. Policy Interventions process for employment creation

From about 1989 to the time of writing this paper in 2012, Uganda's economic policies focused mainly on stabilization and promoting market efficiency in the allocation of resources. The private sector was premised to be the driver of economic growth and job creation. Macroeconomic stability was prescribed as the anchor for investment, economic growth, structural transformation, and creation of employment. Unemployment was not envisaged as a likely problem under the set of policy prescriptions because all markets, including the labour market, were expected to clear.

As pointed out already, the pay-off of the policies Uganda implemented delivered macroeconomic stability as well as impressive rates of GDP growth. However, for various reasons the policies have not solved the unemployment problem. In most cases market failure and/or missing markets explain the limitations of the policies to deliver the promised creation of employment.

The policies did not take into consideration Uganda's structural challenges, which essentially meant that some of the expected results may not be achieved because of either market failures or missing markets. As it turned out, in rural areas markets either worked inefficiently or were simply missing, a situation that led to sub-optimal results in terms of growth of agriculture, investment, and employment creation in rural areas. Furthermore, the private sector that was presumed to drive Uganda's economic growth seems to have failed in terms of creating descent jobs especially for university graduates.

Nonetheless, Uganda's policy makers did not lose faith in markets as the panacea of Uganda's unemployment challenges. Moreover, going by the official calculation of unemployment, Uganda's unemployment seemed low and not a challenge. Thus, unemployment in Uganda did not receive the adequate attention it should have received when the country embarked on implementation of the Structural Adjustment Programme (SAPs) during the early 1990s. However, this view started to change following public discontent about unemployment, especially of university graduates. Even in rural areas, public outcry over unemployment became louder and threatened survival in power of the ruling party (indicated by the decreasing proportion of voters voting for the ruling NRM from 75.5 percent in 1996 to 59.3 percent in 2006.

Government's response in this regard was broadly two pronged: one strand looked at long-term strategies for addressing unemployment through curriculum review, and the other strand focused on addressing constraints to participation in economic growth such as lack of access to credit, lack of capital, poor infrastructure etc. These are discussed further in the next section.

3. Policy interventions tools for employment creation

Policy intervention tools for employment creation in Uganda from 1990 to 2012 included the following:

i. Liberalization in all sectors for efficient allocation of resources and anticipated optimal investment, job creation, and economic growth;
ii. The Poverty Eradication Action Plan (PEAP) and its successor Uganda National Development Plan (NDP);
iii. Creation of the Uganda Investment Authority (UIA) to support both Foreign Direct Investment (FDI) and domestic investments;
iv. Addressing bottlenecks to rural development. The Plan for Modernization of Agriculture (PMA) and its successor Agriculture Development Investment Strategic Plan (DSIP) were intended to address bottlenecks to rural development and thereby create employment in rural areas where majority of Uganda's labour force reside.
v. Projects for public works in place of public works programmes

We discuss each of these policy intervention tools and limitations faced in terms of employment creation. We argue that the limited role of the state in terms of strategic guidance and support to enterprise development partly explains the dismal employment creation by the private sector.

Liberalization: did labour markets in Uganda clear?

As pointed out in section 1, Uganda implemented far reaching economic reforms from early 1990s with the view that markets would serve best the growth and development needs of the country. Where markets worked relatively more efficiently mainly in urban based economic activities, market polices seem to have produced the anticipated results. However, in rural areas where markets were either inefficient or missing, liberalization did not lead to the anticipated results in terms of investment, growth, and employment generation.

In agriculture, liberalization led to significant increase in farm gate prices. However, farm input prices too increased significantly. Thus, the anticipated farmer response to increased farm gate prices was weak. In fact, the incentive structure broadly turned against agriculture in favour of urban based economic activities such as car washing, transport services, hotel and restaurant services etc. This explains increasing migration of the youth from rural areas to urban areas. Yet, majority of the youth still reside in rural areas where employment opportunities are hardly existent.

In Uganda, liberalization did not lead to clearing of labour markets. We observe increasing unemployment, especially among graduate youths. In rural areas, due to productivity challenges in agriculture, we observe increasing underemployment. Market failure and missing markets in rural areas mainly explain the observed underemployment in rural areas. Development of rural markets has taken the form of building marketing infrastructure as under the Local Government Development Programme (LGDP). Yet, the problem is much bigger than lack of marketing infrastructure. A holistic approach to rural development that focuses on employment creation is the thing needed. State actors would be instrumental in developing appropriate strategies and implementation mechanisms for the holistic approach.

For clarity, a couple of examples will suffice. First, we could borrow from Vietnam a country that hardly produces cotton yet has a booming garment industry that employs a big proportion of the country's labour force. Development of the garment industry in Vietnam was a deliberate strategy by the Vietnamese government. Desirous to benefit from the American

Growth Opportunity Act (AGOA), the Vietnamese government focused on development of the garment industry, which it could not leave to the private sector. Development of the garment industry in Vietnam entailed i) training to equip workers with the requisite skills in the garment industry; ii) tax reductions/exemptions on importation of requisite inputs such as tailoring machines, textile, yarn etc; ; iii) attracting FDI in the garment industry; and Public-Private Partnerships (PPPs) in the garment industry to develop higher level value chains in the industry. A second example is that of developing the leather tanning industry to produce footwear. On a daily basis cattle are slaughtered in Uganda yet development of the leather tanning industry has proved difficult. Hides and skins are exported in their raw form, with hardly any value addition. Training, tax support policies, PPPs, and attraction of FDI in the leather industry is what Uganda needs to begin creating jobs in the leather tanning industry.

The SAPs did not help the Uganda economy to solve its unemployment challenges. The role of the state will need to be revisited with a view to enabling the state to intervene to the extent possible in support of private sector-led economic growth for job creation. The thinking in Uganda that "government has no business in business" needs to be revisited.

The PEAP, NDP, and Employment Creation

Another tool the Uganda government used for employment creation was its national planning frameworks. The Poverty Eradication Action Plan (PEAP) and its successor the National Development Plan (NDP) were presumed to drive Uganda's investment, growth and employment creation. The PEAP, which was implemented from 1997 to 2009 with some revisions during the implementation period, had the following four broad areas:

i. creating a framework for economic growth and transformation;
ii. good governance and security;
iii. actions which directly increase the ability of the poor to raise their incomes;
iv. actions which directly improve the quality of life of the poor.

Uganda implemented the PEAP from 1997 to 2009 when the country prepared a successor national development framework to focus on wealth creation. The PEAP is credited for strong achievements in all of its four broad areas, all of which were presumed to have a strong bearing on job creation. However, achievements of the PEAP notwithstanding, unemployment and underemployment remain Uganda's major development challenges.

Following limited achievements by Uganda in terms of wealth creation, Uganda's policy makers in 2009 prepared the NDP. However, up to now (2012) the NDP has remained largely not implemented. Donor funded programmes and projects, and not government national planning frameworks, still drive the country's broader development agenda. For example, in the 2012/13 National Budget Speech, the Minister of Finance, Planning and Economic Development explained that delayed implementation of the NDP was on account of lack of funding; the funding available for projects and government development programmes was counterpart funding to unlock disbursements of donor funding that had been withheld for lack of counterpart funding. Consequently, agriculture and manufacturing, the key areas for employment creation in the NDP, remain largely underfunded. Furthermore, the Ministry of Agriculture, Animal Industry and Fisheries (MAAIF) lacks capacity for strategic planning with a view to job creation in agriculture. There is preference for market forces among policy makers in MAAIF as driver of agriculture development yet market forces seem to be ineffective regarding development of higher level value chains that are fundamental to the development of the sector. Development of higher level value chains in agriculture would need deliberate state intervention in training, policy setting, and agenda setting, things markets cannot do.

Uganda's institutions in their current form cannot help the process of job creation; the institutions have simply failed to function. Institutional failure has led to inefficiencies, which the market mechanism was expected to address. What is required is a system that makes both markets and institutions work for employment generation.

Increasingly, there is realization that the state must play a role in terms of addressing market failures and helping markets work better, where they may not be working well. Increasingly in

Uganda there is discussion on the appropriate role of the state in a market economy. The issue is to build on macroeconomic stability that Uganda has achieved during the past two decades and manage the economy in a way that creates jobs. The immediate challenges are capacity for development of appropriate policies and building of institutions that are supportive of employment creation both at central government level as well as local government level.

Delayed or slow implementation of the NDP is partly because of government's unquestionable faith in markets that they will continue to serve the Uganda economy well. The NDP identifies key sectors that will drive the Uganda economy forward. Liberal market policies should be accompanied with helpful regulation and financial support from the public sector to develop sectors in which Uganda enjoys revealed comparative advantage. At some stage once the industry has taken off, the public sector would divest itself from it.

Uganda's oil and gas sector offers the country tremendous opportunity for economic transformation and employment creation in the productive sectors. Here the matter is for government to manage oil resources well and spend the increased revenues outlays in a manner that makes the Uganda economy avoid the dreaded Dutch disease. In terms of ICT, Uganda is doing well. The country should build on the achievements in the sector to drive the process of job creation. Again as noted already, regional integration offers Uganda an opportunity for economic transformation if harnessed well. Uganda should therefore support the East African Community integration agenda and develop the requisite capacity to benefit from the regional trading bloc.

Greater role of the state in employment creation would call for policies that transcend stabilization and market oriented paradigm, which is premised on the assumption that markets exist and work efficiently. The state would have to ensure that markets work efficiently and where markets do not exist, the state should support development of the requisite markets through supporting of higher level value chains. Strengthening of regulation of financial markets in particular is very important. State support to agriculture development through subsidizing agriculture inputs especially fertilizer is particularly important. State support to industrial development would take the form of assisting the private sector (for example through PPPs) to add value to primary commodities such as cotton, coffee, and hides and skins.

The Uganda Investment Authority (UIA) and Employment Creation

Uganda established the Uganda Investment Authority in 1991 as a semi-autonomous government agency operating in partnership with the private sector and Government of Uganda to drive national economic growth and development. The UIA was set up by an Act of Parliament with the aim of promoting private investment in Uganda. UIA's objectives are:

i. Attract value adding investment that brings technology, skills & jobs;
ii. Contribute to the image of Uganda as a leading African Investment destination;
iii. Provide serviced sites, buildings & competitive infrastructure to meet the needs of growing Ugandan based businesses;
iv. Stimulate & lead key stakeholders in creating a competitive business environment;
v. Set up and develop Industrial and Business Parks; and
vi. Offer support to SMEs.

As can be seen from the objectives above, job creation is a major objective of the UIA. Despite UIA's achievements during the past two decades, unemployment and underemployment have remained Uganda's major development challenges. The reasons for this include the following:

1. UIA focuses on mainly urban based economic activities, yet over 70 percent of Uganda's labour force live in rural areas;
2. UIA lacked strategic focus for job creation. Driven by liberal policies in investment, even the foreign direct investment that the country has received during the past two decades has created insufficient number of jobs; and
3. UIA support to domestic investors remained weak for a long time. There was overzealous interest in foreign direct investment (FDI). Apart from FDI in services like telecommunications and banking that created some jobs, most of the FDI was in exploitation of natural resources, whose potential to create jobs is very low.

The creation of the UIA was a good thing as regards employment creation. However, its operations should not have been left entirely to the ruthless market forces. The state should have chosen specific sectors to which FDI would flow with a view to job creations. Furthermore, the UIA should have been mindful of the structure and dynamics of unemployment in Uganda if the institution were to address unemployment in a significant way.

The PMA, DSIP, and Employment Creation

In recognition that majority of Uganda's labour force live in rural areas, government decided to focus on rural development. In 2000 the Uganda Government prepared the Plan for Modernization of Agriculture (PMA), which had the following seven pillars:

i. Research and technology development;
ii. Agricultural Advisory Services (NAADS);
iii. Agricultural Education;
iv. Rural Financial Services;
v. Marketing and agro processing;
vi. Sustainable use and management of natural resources; and
vii. Physical infrastructure .

Unfortunately, the PMA was not implemented holistically. NAADS (pillar 2), which benefited the relatively better to do farmers in rural areas is almost the only thing the PMA is known for. Because the PMA was implemented in a piecemeal approach (not holistically), it failed to achieve the anticipated job creation in rural areas. Furthermore, the PMA was premised on the paradigm of markets, with the role of the state limited to providing a "conducive" environment for agriculture growth and development. The PMA could not be wholly implemented partly because of lack of strategic agenda for the development of Uganda's agriculture that is bedeviled with market failures.

In 2009 government prepared the agriculture development investment strategy (DSIP), which largely reflects the same market principals advanced in the PMA. The DSIP has four proad programmes namely:

i. Enhancing production and productivity;
ii. Market access and value addition;
iii. Improving the enabling environment; and
iv. Institutional strengthening in the sector.

However, as pointed out already, the DSIP lacks a strategic focus driven by the state to compliment markets especially where they fail or are missing. In each of the four programmes, markets take centre stage. It is unlikely therefore that the DSIP will deliver in terms of employment creation in rural areas. Migration of the youth to urban areas is likely to continue. Yet, employment opportunities for the youth in urban areas are also limited. Government has responded to youth unemployment in urban areas by putting in place youth venture capital funds, accessible through the banking system. The problem is not with the youth venture capital funds but the limited impact such venture capital funds are likely to have on Uganda's unemployment because of the structure and dynamics of Uganda's unemployment that the venture capital funds cannot address.

Projects for public works instead of public works programmes

Delivery of services in Uganda is through projects. Bidding and winning to implement a project for delivery of services in Uganda is a very big thing for registered firms and/or individuals in Uganda. Rural feeder roads are maintained through open public bidding and winning firms do the works. The idea is to avoid wasteful expenditure that was associated with delivery of such services by the public sector. Therefore, there are no public works programmes.

However, firms that win to undertake projects appear credible only on paper. In reality, most of them are briefcase firms that hardly provide descent employment. Whether such firms implement the projects well or fail to, at the end of the day they get paid, thanks to the rampant corruption.

4. Policy interventions and entrepreneurship for employment creation

Regarding entrepreneurship for employment creation, the Uganda government has focused more on promoting self employment and less on support for enterprise development. By enterprise development we mean deliberate government actions to support enterprise development as were conceived when the UIA was created. More needs to be done in that regard especially supporting development of higher level value chains that are employment intensive.

Over time, the outcry over unemployment became a political issue. The ruling government responded by putting in place measures to address constraints to starting and running businesses by the youth. Microfinance was seen as one possible way of enabling the youth to access credit that would enable them to participate in the country's economic growth process. Uganda has a big network of microfinance institutions, although the extent to which microfinance can assist the unemployed youth to live a descent life remains a debatable matter. In 2009, Government in the national budget put aside Shs 25 billion for the Youth Venture Capital Fund. The youth were to borrow specified amounts of money to enable them start their own businesses. The youth were to access the funds through accredited commercial banks on condition of meeting some requirements. As you may recall, majority of the youth reside in rural areas and are not literate enough to benefit from such schemes. In 2012, Government introduced the "Graduate Venture Capital Fund" amounting to Shs 16 billion and increased funding to the Youth Venture Capital Fund by Shs 3.25 billion. Largely, the difficulties of accessing the funds aside, the funds could only be accessed by a very small proportion of the youth and are unlikely to be a solution to Uganda's unemployment and underemployment challenge.

As can be seen, Uganda's approach to unemployment was to make markets work for the unemployed. Where markets were not working well, government's view was that the limiting constraints to participation in economic growth would be addressed and eventually markets would work and get rid of unemployment either through self employment or job creation. Where markets were missing, Government approach again was to develop them with expectation that they would work and the labour market would clear.

Regarding promoting self employment, the Uganda government is trying out some approaches, which are briefly assessed here. Government identified lack of capital as one major limiting constraint to self employment. Therefore, Government came up with the idea of youth venture capital funds discussed briefly in the previous section. The overarching objective was to enable the unemployed to participate in the country's economic growth process through addressing market failures and developing markets were they do not exist.

5. Policy intervention and skills development for young people

Curriculum review was perceived as necessary on grounds that the education system was not equipping learners with the knowledge and skills required by the private sector, which was expected to create jobs. From around 1997 primary school curriculum was to be reviewed to focus on Business, Technical, Vocational Education and Training (BTVET). In 1997 Government introduced the Universal Primary Education (UPE) programme, which is sometimes interpreted as BTVET. However, business and technical education in the primary school curriculum remains largely missing. At secondary education level, Government in 2007 introduced the Universal Secondary Education (USE) programme, again with hardly any serious focus on business and vocational education. Government introduced "Entrepreneurship" as a subject in school (secondary, and tertiary) with hope that the knowledge and skills gained there from would enable the youth to start their own businesses.

Further on curriculum review, more recently in 2012 the Uganda Government introduced Universal Post Ordinary Level Education and Training (UPOLET). UPOLET implementation has not only proved to be very difficult because of lack of readiness, but also remains largely an academic programme with hardly any focus on business and vocational education and training. Demand for business, technical and vocational education in Uganda remains low at all levels of education. Tertiary education institutions responded to the criticism that their graduates were lacking knowledge and skills that are demanded on the job market by introducing compulsory "apprenticeship" to form part of the education. Nonetheless, apprenticeship seems not to guarantee employment to young university graduates as and when they complete university education.

Universities and other tertiary education institutions introduced academic programmes that were deemed to be in high demand on the job market. New and attractive courses wee mainly in the areas of business, economics, ICT, and human resource management among others. Government put more emphasis on the teaching of science subject by: i) Paying teachers of science subjects relatively higher wages; ii) Committing 75 percent of government sponsored students' positions to students taking sciences; and iii) Recruiting science teachers at all levels; and iv) Increasing inputs for teaching sciences in secondary schools such as science laboratories, chemicals and equipment. Despite these measures, unemployment remains Uganda's major challenge, suggesting that market signals alone may be inadequate in terms of addressing the problem.

6. Strategies for strengthening labour market institutions

By institutions we mean the rules of the game – both formal and informal. Markets are a form of an institution in which the role of the state is restricted to provision of public goods and delivery of social services. Under prevailing circumstances in Uganda, liberalism is the dominant labour market institution. Strategies for strengthening labour market institutions hardly involve the state.

Employment services are therefore largely provided by the private sector. However, intermediation between employers and job seekers remains weak because employment service providers are often not registered and their credibility therefore questionable. Some prospective employers advertise vacant posts through the media and sometimes engage services of specialized firms to participate in selection of candidates. Where this is done the intention is to reduce likely corruption in recruitment. Corruption in the labour market takes different forms including nepotism, tribe, and religion. In the private sector, there is a lot of informality in the labour market, with the consequence that even the market fails to allocate jobs efficiently as corruption, nepotism, membership to a political party, and tribal considerations take precedence.

Uganda has put in place measures to fight corruption in all sectors, including the labour market. Some institutions such as the Directorate of Public Prosecution (DPP), the Office of the Inspector General of Government (IGG), the Auditor General's office, and the Anti-Corruption court, have been put in place to fight corruption. Nonetheless, corruption in Uganda is so entrenched, which has rendered functioning of the labour market inefficient. Consequently, firms that provide employment services can only succeed when they enjoy support from the rich and political class.

7. Suggestions on role of the state in supporting employment creation

Institutions

We argue that for employment creation to take place the traditional roles of the state i.e. provision of public goods and deliveries of social services are very important. However, we further argue that in addition to efficient delivery of social services and provision of public goods, the state should develop institutional mechanisms to support employment creation. A preponderance of laws and policies that should be supportive of employment creation exists in Uganda. The challenge lies in implementation of existing laws and policies, which translates into an informal institutional framework often driven by powerful personalities.

The issue is that both formal and informal institutions must be supportive of Uganda's employment creation agenda. This calls for capacity building for formulation and implementation of laws and policies that are supportive of employment creation. This includes developing a culture of work and innovation, which the public sector should financially support to develop.

Financial institutions, political institutions, as well as economic management institutions are three broad categories of institutions that have overbearing influence on employment creation. Financial institutions in Uganda are characterized with market failure, which has rendered them not very relevant to the development needs of the country. There is need to assess the relevance of Uganda's financial institutions with a view to enhancing financial intermediation. The laws and policies relating to financial institutions should be reviewed, with employment creation as a key objective.

Political institutions are driven mainly by the desire of the political class to remain in power for as long as possible and not by a desire to create jobs. In this regard, advancement of democracy could help political institutions to get more aligned to employment creation. Politicians at all levels of government must have employment creation as a major objective. Much as employment creation is claimed to be the objective of Uganda's political parties, in practice once a ruling party comes into power its survival becomes the overbearing ultimate objective.

Regarding economic management institutions especially the monetary and fiscal authorities, the objective of employment creation is relegated to the whims of market forces. Conduct of monetary policy by Bank of Uganda is firmly focused at maintenance of macroeconomic stability, regardless of its cost to the economy, especially unemployment. The thinking is that low inflation is the anchor for investment, economic growth and employment creation. Much as macroeconomic stability is very important, our view is that the conduct of monetary policy should take into consideration the development and growth needs of the Uganda economy as spelt out in the country's 1995 constitution.

Fiscal authority's institutions performance from the perspective of employment creation is very weak. For example, Uganda's tax/GDP ratio has stagnated at about 12 per cent for the past one decade. Public expenditure management is bedeviled with lots of inefficiency in terms of allocation and use, which do not auger well for employment creation in Uganda. Uganda needs to review her public expenditure management systems with a view to using part of public sector financial resources to leverage private investment without which employment creation is likely to remain elusive.

Incentives

Uganda instituted a system of incentives that was expected to lead to faster economic growth and possibly employment creation. In addition to market oriented policies that were expected to change the incentive structure in favour of production for exports Uganda put in place investment incentives to support investment broadly, especially Foreign Direct Investment (FDI). Every year in the national budget the Minister for Finance, Planning and Economic Development (MoFPED) announces investment incentive measures through tax policy. There is no doubt that Uganda's incentive structure partly explains the impressive performance of the Uganda economy in terms of GDP growth performance. However, in terms of employment creation, the incentive structure in place seems to have performed rather poorly.

Incentives to technological development and innovation remain inadequate. Despite government emphasis on science education, technological development and innovation remain extremely low. Incentives as provided under Uganda's investment code are broad in nature and not targeted to strategic areas that have high potential for employment generation such as the development of the textile and garment industry, and the footwear industry.

Uganda's market driven economic incentive structure turned against production in favour of speculation and provision or rudimentary services such as transport and restaurants. Poor incentives in agriculture partly explain the poor performance of the sector during the past two decades. There were hardly any measures put in place by Government to turn the incentive structure in favour of production. On the contrary, production faced a plethora of constraints including poor infrastructure (inadequate power supply, poor road network, almost non-existence of a railway system etc).

Regarding export promotion (stated as one of Uganda's economic management objectives), there was little to show in terms of policy beyond the exchange rate policy that prioritized a competitive exchange rate in favour of exports. In fact, export performance remained poor for a long time despite the policy of a competitive exchange rate. When exports of goods and services picked from 2004, it was not because of the exchange rate policy but for reasons related to the signing of the Comprehensive Peace Agreement in Southern Sudan between the SPLA and the Khartoum Government, which led to increase in trade between Uganda and South Sudan. It is imperative that Uganda should extend incentives to selected export commodities in support of employment creation.

In agriculture, a clear system for agricultural support for eradication of hunger and malnutrition is necessary. Agriculture is a very important sector to which Government should extend incentives especially price subsidy of inputs such as fertilizer for employment creation in production and higher level value chains. While households will continue to grow a wide range of crops and keep a wide range of livestock, it is necessary for Government to focus on a few products that Government can support in terms of production, value addition, and marketing.

The greatest resource of a nation is its people. However, a big proportion of Uganda's population is virtually idle, hardly engaging in production of goods and services. Liberalization policy coupled with human rights have rendered the youth idle and unproductive. The state seems to have maintained a hands-off stance leaving the youth to do what they want as dictated by market forces and lack of opportunity. Limited control and guidance by the state to the youth has rendered them almost idle, and has made them prefer leisure to work. Thus, Uganda is not utilizing its human resource to the full for economic transformation. Idleness of the youth suggests there is need for government to regulate time use, with a view to engaging the youth more in economically gainful activities that are in line with Uganda's economic transformation agenda.

8. Conclusion

Conclusions are drawn basing on the following five key issues that are highlighted in this paper:

i. Although unemployment in Uganda seems low at 4.2 percent, the reality is that many people that would be looking for jobs have given up because of lack of opportunities of finding jobs. Unemployment in Uganda could therefore be as high as 50 percent. Graduate unemployment in particular is very severe and explains the increasing unemployment rate nationally;

ii. About 70 percent of Uganda's labour force resides in rural areas and are disguisedly under-employed in agriculture. The proportion of the labour force employed in agriculture is decreasing while that employed in services is increasing. However, as of 2010 agriculture still employed 67.7 percent of Uganda's labour force and services employed only 25.1 percent of the labour force;

iii. Uganda's policy makers have strong faith in free markets as the right policies for investment, growth and employment creation. The role of the state as regards supporting employment creation is limited to education and training, and addressing bottlenecks in investment. However, because of market failures especially in rural areas, we find that the lablour market in Uganda could not clear;

iv. Limited impact of the Uganda Investment Authority that was put in place to boost investment and lead to employment creation. UIA focuses mainly on urban based economic activities, where by 2010 only 25.1 percent of the labour force lived. By extension therefore, the UIA could not solve the unemployment problem of the majority of Uganda's labour force that resides in rural areas; and

v. Limited impact of rural development frameworks i.e. the PMA and DSIP to create employment because of failing to take into consideration the fact that in rural areas markets were either missing or had completely failed to function.

Therefore, market forces alone are unlikely to fully solve Uganda's unemployment challenge. Within the realm of markets Government must intervene in business in a strategic way to create jobs. One way is to assist the private sector with development of higher value chains that are employment intensive. Liberalism applied across board in all sectors and particularly in FDI is unlikely to produce the desired employment creation results.

Uganda should build on the on-going efforts in terms of macroeconomic management, education and training, and addressing investment constraints facing the private sector to begin to explicitly prioritize reduction of unemployment and under-employment. Public works programs should be put in place instead of projects, which hitherto have failed in terms of generating the desired number of jobs. The UIA should expand its focus to cover the entire economic structure of Uganda, particularly agriculture and development of higher value laboutr intensive value chains for selected agricultural commodities.

Government should build on existing efforts in terms of skills development. In particular, the BTVET programme, which currently covers business and technical education institutions, should be expanded, and aspects of it incorporated in the UPE programme. Similarly, vocational education should form a compulsory part of the USE programme. Government efforts in promoting entrepreneurship for employment creation should be expanded to cover self employment as well as support to enterprises that have high potential for employment generation.

Finally, the quality of governance matters as regards the role of the state in employment creation. A corrupt state is unlikely to implement properly the above proposals. Often, State actors misinterpret such proposals to favour them or their interests. Yet others, obsessed by the current market based approaches argue that the state is already implementing the proposals and insist that what is being proposed is not new.

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