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UG-Repositioning LGs for Economic Growth

The role of Local Governments (LGs) in promoting Local Economic Development (LED) in Uganda

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Repositioning Local Governments for Economic Growth (P152873)

The role of Local Governments (LGs) in promoting Local Economic Development (LED) in Uganda

Final Report

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[1] Social, Urban, Rural and Resilience Global Practice at the World Bank.

Contents

Acronyms

BDS	Business Development Services
CCKB	Competitive Cities Knowledge Base
COBE	Census of Business Establishments
COMESA	Common Market for Eastern and Southern Africa
DDP III	Third District Development Program
DDPs	District Development Plans
DFID	Department for International Development (UK Aid)
DPSF	Decentralization Policy Strategic Framework
DRC	Democratic Republic of Congo
EAC	East African Community
FGDs	Focus Group Discussions
FIs	Financial Institutions
GoU	Government of Uganda
GSURR	Social, Urban, Rural and Resilience Global Practice
ICT	Information Communication Technology
ISIC	International Standard Industrial Classification of All Economic Activities
JAARD	Joint Annual Review of Decentralization
LDO	Local Development Outlook
LED	Local Economic Development
LGFC	Local Government Finance Commission
LGs	Local Governments
NDP	National Development Plan
MAAIF	Ministry of Agriculture, Animal Industry and Fisheries
MDGs	Millennium Development Goals
MFIs	Micro-Finance Institutions
MoLG	Ministry of Local Government
MoTWA	Ministry of Tourism, Wildlife and Antiquities
MSMEs	Micro, Small and Medium Enterprises
NAADS	National Agricultural Advisory Services
OSC	One Stop Center
OWC	Operation Wealth Creation
PPD	Public Private Dialogue
PPPs	Public Private Partnerships
PSFU	Private Sector Foundation of Uganda
SACCOs	Saving and Credit Cooperatives
SWOT	Strengths, Weaknesses, Opportunities and Threats
TDA	Tourism Development Area
ToRs	Terms of Reference
UBOS	Uganda Bureau of Statistics
UIA	Uganda Investment Agency
UNBS	Uganda National Bureau of Standards
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Program
UNRA	Uganda National Roads Authority
URA	Uganda Revenue Authority
URSB	Ugandan Registration Services Bureau
VSLAs	Village Saving and Lending Associations
WDI	World Development Indicators
WENRECO	West Nile Rural Electrification Company
VAT	Value Added Tax

Executive Summary

While Uganda has a long history of decentralized service delivery, and has instituted Local Economic Development (LED) as an additional mandate for local governments (LGs), there has been less progress in operationalizing the concept and practically implementing it across LGs in Uganda. In addition to their basic service delivery functions enshrined in the Local Governments Act of 1997, since 2006 LGs are also mandated by various policy documents to play a role in wealth creation, and increasing citizens' income levels. While the Government of Uganda (GoU)'s LED Policy does outline the strategic intervention areas that LGs should implement, there is still considerable confusion among LG staff as to what this entails on a day to day basis and there has been limited progress in implementation. At the request of the MoLG, the World Bank, therefore, commissioned this assignment in support of the Government of Uganda (GoU's) efforts to improve the capacities of LGs for promoting LED. The study focused on assessing three localities (Jinja Municipality, and Arua and Nwoya Districts), both in terms of their local economic potentials and enabling environment for business, as well as in terms of the institutional and policy context for promoting LED. The study used quantitative methodologies, to identify promising economic sectors in the three localities, as well as qualitative methodologies to identify the main constraints that those sectors currently face.

The report argues, based on past experiences of LED implementation in Uganda as well as other African countries, that the LED approach implemented to date has not been sufficiently tailored to the Ugandan context. Implementation has focused disproportionately on the *institutional* aspects of bringing stakeholders from the public, private and civil society sectors to work together, and on the design of LED strategies that can be jointly implemented – while the *economic* aspects of what LGs should and should not do to enhance economic growth and job creation has received less attention. LED pilot programs implemented in Uganda have also made two main assumptions that did not turn out to be realistic: 1) that stakeholders are interested to rally behind a common LED strategy and contribute their own resources to implementing it, and 2) that the private sector has the necessary capacity and resources to make investments towards the enhancement of the local economy. In order to make recommendations as to how LGs could more realistically be re-positioned to play a positive role in enhancing LED, this report therefore starts by analysing the economic challenges affecting Ugandan localities.

One of the most urgent issues affecting cities and Districts in Uganda, similar to other African countries, are the high unemployment and informal employment levels, and lack of jobs in tradable sectors or in firms that can take advantage of economies of scale. While Uganda had a robust growth record in the last twenty years, leading to significant poverty reduction and the achievement of MDG1[2], formal employment growth has not been able to keep pace with the mushrooming population. The majority of new jobs being created are in non-tradable sectors, where wages are limited by the purchasing power of the local economy, and micro-enterprises that lack economies of scale. As a result, a high proportion of the population is still engaged in subsistence farming or has resorted to informal employment, mainly in the non-tradable service sector. A good reason for optimism in Uganda are the several emerging tradable sectors and subsectors with good economic potential to expand and create jobs, such as agro-processing, tourism, and other manufacturing activities. Consequently, the major issue for Ugandan localities is how to accelerate this structural transformation and the ability of the local economy to transition to higher value added, tradable sectors that can create sustainable jobs.

The study identified the target localities' economic subsectors with potential for increased economic growth and job creation in Jinja, Arua and Nwoya using quantitative as well as qualitative methods[3]. ***Jinja Municipality*** was found to have a comparative advantage in manufacturing industry compared to the rest of the country and this sector was found to be the biggest contributor to new job creation in the town. While the majority of people in Jinja were employed in trade, manufacturing and accommodation and food services, the trade and accommodation & food services sectors did not have any particular comparative advantage in Jinja over the rest of the country. Tourism is also an emerging tradable sector with potential, but its impacts on employment creation are estimated to be lower.

[2] Milleneum Development Goal 1, which aimed at eradicating extreme poverty and hunger.
[3] when representative quantitative data was not available.

In ***Arua and Nwoya Districts***, the quantitative data was only considered to be representative of formal employment in the town, given the low share of the workforce and lack of informal activities captured by the data. In Arua and Nwoya (towns) most people were found to be employed in retail and wholesale trade; followed by accommodation and food services and education, health and social work. Arua was found to have a comparative advantage in these activities compared to the national economy - which is understandable given the strategic location of Arua town as a trade hub on the border with South Sudan and the Democratic Republic of Congo (DRC) as well as its recent post-conflict status (explaining the high proportion of social work activities)[4]. The qualitative analyses identified agribusiness processing as the main subsector offering an opportunity for the desired transformation, from subsistence farming to increased commercialization and manufacturing in Arua and Nwoya because: (a) several agro-processing firms are already emerging and adding value to local produce such as cassava, honey, chilli, sesame, fruits, maize, rice and oilseeds; (b) there is a ready market for processed products locally and in cross-border markets (due to high transport costs to capital cities and local demand for cheaper products). Tourism was found to be another subsector with emerging potential, particularly in Nwoya District, which is within the North-Western Tourism Development Area, one of six areas prioritized under Uganda's National Tourism Master Plan. Arua is also one of 13 Districts in Uganda identified by the Ministry of Tourism, Wildlife and Antiquities (MoTWA) as having tourism potential.

Increasing scale and specialization within the informal economy is another important priority, given the sector's major contribution to employment and the likelihood of its persistence in the medium term. While the informal economy in target localities involved a huge number of people and variety of economic activities, ranging from subsistence agriculture to survivalist household enterprises, motorbike "boda boda" transport providers, and small scale traders and fabricators, the subset of informal firms most likely to grow, expand and contribute to value addition, were considered to be small-scale fabricators and cottage industries. In Jinja, small scale fabricators reported that their activities were experiencing declining competitiveness due to competition from cheap imported products. But in the less developed context of Arua, small scale processing and fabricating businesses actually reported high market demand in local as well as cross-border markets.

However, despite high market potential, economic activities in tradable sectors are still nascent in the localities analyzed, and the study found that they were facing some critical constraints, which need to be alleviated for their economic growth and job creation potentials to be realized. For example, even in Jinja's relatively more developed manufacturing subsector there were only a small number of firms with more than 10 employees and the rest were micro and small - with self-employed individuals accounting for more than half of firms. Also, in Arua and Nwoya, even though market potential for processed agro-products exists, most producers still sell their products unprocessed – e.g. while about seven honey processing and packaging firms are present in Arua, the majority of the honey is still sold unprocessed by smallholders to traders due to the lack of processing capacities, and the available agro-processors do not have the capacity to satisfy national and international demand.

Based on the principles of sound economics, the main case for Government intervention is in alleviating market failures or supply constraints that hinder the performance of the private sector. While there are many issues beyond LG control, this study identified many areas where LGs are particularly well positioned to address. *In the* ***tourism subsector***, the constraint that participants ranked the highest was the lack of developed tourist sites, products and attractions needed to encourage tourists to stay longer and spend more in the local economy. While the three localities had numerous sites that could be interesting to tourists, current focus was only on one or two sites because the other sites lack infrastructure. Critical infrastructure needed includes good roads leading up to the sites, toilets, craft stalls, etc. Also supporting community tourism, and promoting backward linkages to the local population was felt to need action at a local level. ***The study therefore recommends for MoLG to explore the opportunity of working with MoTWA to roll out a LG tourism development project, with support from donors, international tourism experts, etc. - focusing on investments in tourism infrastructure, community based tourism, locality promotion, and development of tourist products and attractions. It is important that LGs develop a local tourism development plan, in line with the National Tourism Master Plan and that this is integrated into Local Development Plans.***

[4] Similar quantitative analysis was not possible for Nwoya due to data shortages.

In the ***agribusiness subsector***, firms particularly emphasized the lack of Government action in enforcing regulations on agriculture input quality standards, which is leading to substantial productivity losses for local firms. Also, perhaps one of the most important challenges facing smallholder agribusinesses, is their lack of aggregation or bulk marketing and, consequently, their lack of bargaining power with traders and middlemen. At the moment, smallholders mainly sell at variable farm gate prices based on their (weak) power of negotiation with traders. This is further exacerbated by their lack of market and price information, which puts them at a disadvantage when negotiating prices. Local firms emphasized the need for a functional agriculture and livestock extension service and support to agricultural cooperatives that supports value addition and collective marketing. ***Given the current absence of a functional extension system at the local level, efforts could start with Public Private Partnerships (PPPs) between LGs and agro-processing firms to encourage linkages with out-growers. Supporting LGs to improve the enforcement of regulations on quality standards of agricultural inputs is also critical.***

In the ***industrial sector****,* rather than direct support to the sector, the firms consulted emphasized the need for a better enabling environment for business. ***The study's recommendations are therefore centered around the need for easing bureaucracy at the LG level and reducing avenues for corruption.***

In the ***informal economy****,* firms highlighted their lack of access to finance, modern technology, skills, and market information in order to be able to upgrade their products. Firms requested Business Development Services (BDS[5]) to help them develop bankable business plans for upgrading machinery and production technologies, and business incubation centres to help them with quality upgrading and modernization. ***Activating the role of the Commercial Office in the provision of support to the informal fabrication / cottage industry sector is therefore critical. This would mainly include the provision of BDS support such as financial literacy training, business plan development, cooperative establishment, collective bargaining, and quality upgrading advice.***

In terms of constraints in localities drivers of competitiveness, which cut across all economic sectors analysed, the study found that ***infrastructure deficits****, particularly in the Northern Districts, are affecting local businesses' capacity to expand.* For example, the lack of access to electricity in the outskirts of Arua, is a major obstacle to the establishment and expansion of agro-processing and other manufacturing activities. Also, other infrastructure upgrading needs include tourism site development and roads to tourist sites, water and sewage facilities near tourist areas (in Nwoya), irrigation and rural feeder roads, market infrastructure, serviced industrial parks and zones, and premises for informal fabrication and cottage industries. ***The study therefore recommends that the next stage of LG infrastructure investments should focus on these economic infrastructures, to be included in Municipal and District Development Plans.***

Firms also face major constraints in ***access to land*** *for the establishment of agro-processing and manufacturing investments.* The main issues include the customary nature of land tenure, particularly in Nwoya and Arua; the very limited amount of land under the LG control, and the difficulty in persuading customary institutions or private individuals to sell their land to investors. Some consulted firms reported major issues of political interference in land acquisition, wherein some politicians reportedly instigated the local population to protest against investors for "taking their land" with the aim of undermining projects affiliated with government bodies that are politically not aligned. Communities in many cases demand for the return of land or refused to vacate land for development under the influence of such politicians. LG staff also reported the lack of good working relationships among the various land management institutions at a local level. ***While improving land policies and land administration in Uganda is an urgent need at the national level, LGs also have a major role to play at the local level, particularly in terms of facilitating access to land for investors through effective relationships with community institutions. Developing clear criteria and guidelines for facilitating access to land for investors in a fair and transparent manner is a priority***.

The constrained ***access to finance*** *by firms across all prominent sectors and size categories is locking firms into smaller sizes than they have the potential for and preventing an increase in the share of medium-large scale enterprises in the local economy. This is a major obstacle hindering firms' ability to take advantage of economies of scale in production, which in turn prevents higher productivity in the local and the Ugandan economy.* Firms

[5] The BDS field has grown out of the desire to support small and medium enterprises and usually entails non-financial services to enhance management practices and performance of firms.

across all subsectors analysed were found to lack access to affordable sources of finance for the medium-long term loans they need for expansion, give the prohibitively high interest rates available at Commercial Banks (even including funds from GoU and Donor programs aiming to increase access to finance). ***Due to the lack of capacity and mandate for LGs to work on this issue, it is recommended that LGs concentrate on raising awareness of the available sources of funding in commercial banks, Micro Finance Institutions (MFIs), etc., particularly of GoU and donor funds at lower interest rates, which local firms often seem to be unaware of.***

Finally, another important issue at the local level, is ***the high transaction cost involved in firms' interaction with Local Government*** *due to complex and bureaucratic procedures*. In particular, the lack of transparency of the tax assessment process, seems to be introducing avenues for corruption and is hindering the profitability of firms and increasing the incentives to informality. Firms also highlighted the high transaction costs currently exerted by product certification, duty reimbursement and other customs related processes, requiring travel to multiple locations. Foreign investors also highlighted the need for more protection of and facilitation for investors particularly at times of land conflicts, thefts and harassment. ***The study recommends: (i) simplifying the LG tax administration system and improving transparency of tax assessment. In more developed contexts like Jinja, an e-government tax service could be piloted; (ii) LGs should also be supported to establish One Stop Centers where a business can get advice on all Government procedures in one place; (iii) decentralizing the procedures exerting the highest transaction costs for business to the LG One Stop Centers, particularly product certification and customs related procedures; and (iv) having a window for investment facilitation and follow up support for foreign investors.***

In terms of the ***constraints internally hindering the ability of LGs*** *to implement LED, the first and most major issue was found to be the lack of financial resources*. Within LG's current funding streams there is very little flexibility to invest in LED, given that over 90% of LG financing is in the form of conditional grants earmarked for specific areas, mainly relating to the delivery of basic services, and unconditional grants and own source revenues continue to be very low and only enough to cover recurrent expenditures. Moreover, the financial resources that LGs receive for service delivery have been declining in real terms. Given the high rate of population growth and LGs service delivery needs, on the one hand, and the increase in the wage bill (as a result of new LG creation) on the other, this has led to big financing gaps in LGs' ability to meet its service delivery requirements. At the same time, LG own revenues have plummeted over the last decade, since the abolishment of the Graduated Tax, which has made LGs much more reliant on the centre for their financing. As a result, LGs continue to suffer the burden of unfunded mandates, leading to unsatisfactory service delivery. Without additional funding for LED, LGs are stuck in a vicious cycle, where they do not invest in improving the enabling environment for business because they do not have sufficient budgets to even meet their service provision obligations, and this impacts the competitiveness of economic activities, which in turn leads to a limited tax base and insufficient LG budgets. In particular, the minuscule budgets allocated to the Production Office mandated to play an active role in implementing LED in the LG structure (currently averaging about 1% of LG expenditure), is severely impeding the implementation of any activities.

Secondly, the other major constraint identified was the low capacity and understanding of LED among Government Officials, including staff, but particularly Local Councillors (elected politicians) who often have a low level of education and undertake actions that obstruct economic development. ***The study therefore recommends, (i) approval of the new structure for LGs, recently proposed to Parliament, as a more effective structure towards re-positioning LGs for facilitating economic growth, (ii) increasing LGs unconditional transfer to cover the cost of the reforms and investments they need to make in the areas of economic infrastructure, improving the regulatory environment for business and enterprise support, (iii) Increased funding from development partners for LED investments as well as technical capacity building for LGs; (iv) instituting performance based LED budgetary allocations, contingent on good performance against a set of objective criteria, (v) cascading of training to LGs which clearly focuses on their expected role in locality promotion, attracting investment and improving the enabling environment for business.***

There is also a need for a change in middle management officials' attitude to the private sector, from a source of resources for the LG to actors that need to be supported to generate economic growth and jobs in the locality. LGs are currently disproportionately focusing on tax collection and PPPs that bring in private sector funding for local infrastructure. The Public Private Dialogue (PPD) Forums established by LGs have had mixed success (relatively successful in Nwoya, dormant in Arua and facing resistance in Jinja) based on whether private sector actors saw that it was in their direct interest to participate. ***A change in approach and the institution of***

meaningful PPD Forums at the local level would give a signal to the private sector that the LG is serious about improving the environment for business in the locality. PPD forums should rely on dialogue with <u>already active</u> private sector associations at the local level rather than creating new forums. A further area of assessment should be to look at how LGs are currently implementing infrastructure and other PPPs, in line with MoLGs PPP guidelines, and how these could be enhanced.

It will also be important to establish avenues for LG advocacy at the national level. LGs need to be supported and empowered to raise issues affecting their local economy, which are beyond their areas of jurisdiction, for action by national level agencies. One possible mechanism is through the ***Joint Annual Review of Decentralization (JAARD) process, which involves central ministries as well as development partners and could be an avenue for raising key advocacy messages requiring action at the national level. Another mechanism is to link local PPD forums with the Presidential Investors Roundtable so that local level issues are raised.***

To summarize, the most critical actions recommended for LGs in Uganda to undertake are:

- ***Infrastructure investments that are better prioritized according to their economic growth potential*** – building on the major recent investments in roads and connectivity improvements to transition to other strategic investments in power generation, tourism site development, market infrastructures, serviced industrial parks and zones, irrigation and feeder roads, and work premises for informal firms.
- ***Investment attraction through facilitating access to land*** by improving cooperation between the Uganda Investment Agency (UIA), the Local Government, and community land management institutions.
- ***Reducing LG bureaucracy and streamlining procedures*** such as piloting e-government services for Local Government tax collection and establishing One Stop Centers at the City level where a business can get advice on all Government procedures in one place. Increasing public awareness and transparency of Government processes relating to tax assessment is also of paramount importance.
- ***Re-activating the role of LGs in the provision of agricultural extension and BDS support to local firms.*** Given the current lack of functional systems in this area, starting with PPPs with local businesses is one possible way forward in areas including input provision, technical training and product upgrading, financial literacy, business plan development, cooperative formation and collective bargaining.

At the national level, critical action is needed towards increasing access to medium-long term firm level financing at affordable interest rates to enable firms to establish and expand new investments. This is a prerequisite for firms to be able to transition into more tradable sectors and firm sizes that can take advantage of economies of scale.

It is important to note that the recommendations that the study has made for LG implementation were kept intentionally simple to take account of the prevailing decentralization context and LG capacity levels in Uganda. While more extensive support is provided by many LGs around the world, particularly in more developed country contexts, it is important that LGs in Uganda take a step by step approach and start by taking practical and realistic actions that will have a good chance of success. If the LG could be repositioned to support the private sector and work to alleviate some of the main constraints that firms in prominent sectors face, this would undoubtedly help expand value addition, economic growth and job creation.

1. Introduction and Conceptual Framework

As per the assignment Terms of Reference (ToRs), the objectives of the assignment were to "…examine LGs' existing roles and mandates and how LGs' performance of these can be strengthened to realize their economic potential; and two, to examine LED as a new additional mandate for the LGs and the roles to be played by LGs in implementing this new mandate, in line with the GoU National Development Plan (NDP) goal as well as the Bank twin goal of growth and poverty reduction." The assignment was, therefore, seen to cover two main areas of analysis:

1) An assessment of economic potentials, and the enabling environment for business within the target localities – in order that the LGs and the GoU have information on the types of economic activities that are likely to be competitive, the constraints they face and the recommendations from local businesses on what LGs could do to alleviate these constraints.
2) An assessment of the institutional and policy context for LED promotion by the target LGs – in order that the LGs and the GoU can identify the main constraints facing effective LED promotion in the target localities and the main ways these could be alleviated.

While there is no one clearly defined theoretical model or accepted definition of LED, it is generally based on the concept that every territory has comparative advantages whose potentials can be fulfilled if investments are made in the location's local endowments. Rodríguez-Pose (2001) outlined an analytical framework for local economic development strategies and grouped the desirable investments to be made by local institutions into four pillars:

(1) Infrastructure upgrading – investing in transport, electricity, water, telecoms, land, including business parks and incubators
(2) Supporting local firms – through tackling the market failures acting as barriers to their economic success including improving their access to finance but also to physical capital, market information, BDS and productive networks.
(3) Upgrading human capital – such as investing in vocational training improvements or skill matching to the needs of business
(4) Attracting foreign investment – through promoting territorial potentials and improving the enabling environment for business e.g. improving regulations on taxes, licenses, duties, registration, access to land, etc.

According to the framework, for economic activity to be rooted to a certain area, investments need to be matched to the location's comparative advantages and investments need to be balanced across the four pillars outlined above.

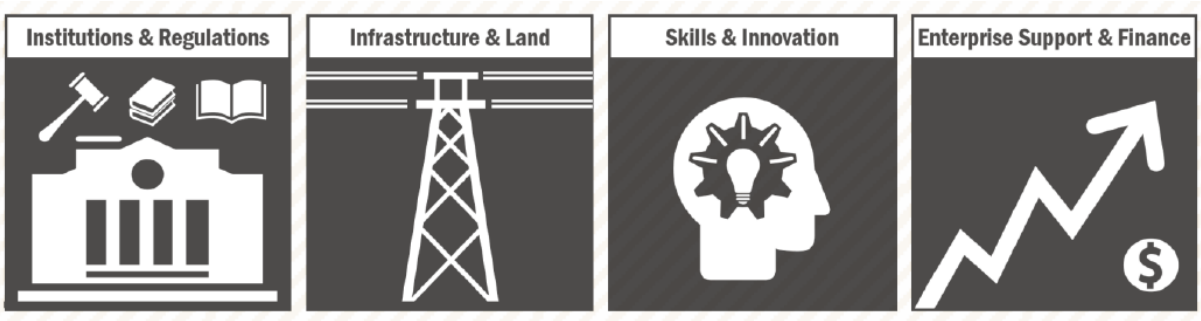
However, the version of LED that was introduced in Africa by donor funded programs, overemphasized the partnership aspect of LED over what these partners will practically do and which areas of investments are needed. UNCDF / UNDP defined LED as aiming to "enhance peoples' economic opportunities and quality of life through a process in which public, private and civil society actors work collectively towards improving the competitiveness and employment prospects of a defined territory." The Uganda LED policy (2014) also defined LED as: "a process through which Local Governments, the private sector and the communities form partnerships to mobilize, manage and invest resources effectively into economic ventures to stimulate development and growth of the locality."

More recently, the World Bank finalized a City Competitiveness Knowledge Base (CCKB) Conceptual Framework, which will be used as the framework guiding this study. The framework was the result of an extensive stock take of recent local economic development / economic competitiveness frameworks, as well as quantitative analysis on economic development in 750 cities and qualitative case studies in numerous competitive cities[6]. The CCKB framework promotes both horizontal (non-targeted) and vertical (sector specific) investments in four drivers of competitiveness, presented in Figure 1 below (institutions and regulations; infrastructure and land; skills and innovation and enterprise support and finance. The framework also identifies three leverage points for cities: a) catalyzing public private growth coalitions, b) applying city scope and capacity by making economic development an explicit priority for the city, and ensuring the city

[6] World Bank (2015). Competitive Cities for Jobs and Growth: What, Who and How? Washington D.C. June 2015, p. 9-10.

has the mandate and resources to invest in it, and c) leveraging regional and national relations to expand reach and engage with problems that the city alone cannot solve. See Annex 3 for more information on specific actions that LG in competitive cities and regions have undertaken under each of the above four drivers.

Figure 1: World Bank CCKB Conceptual Framework

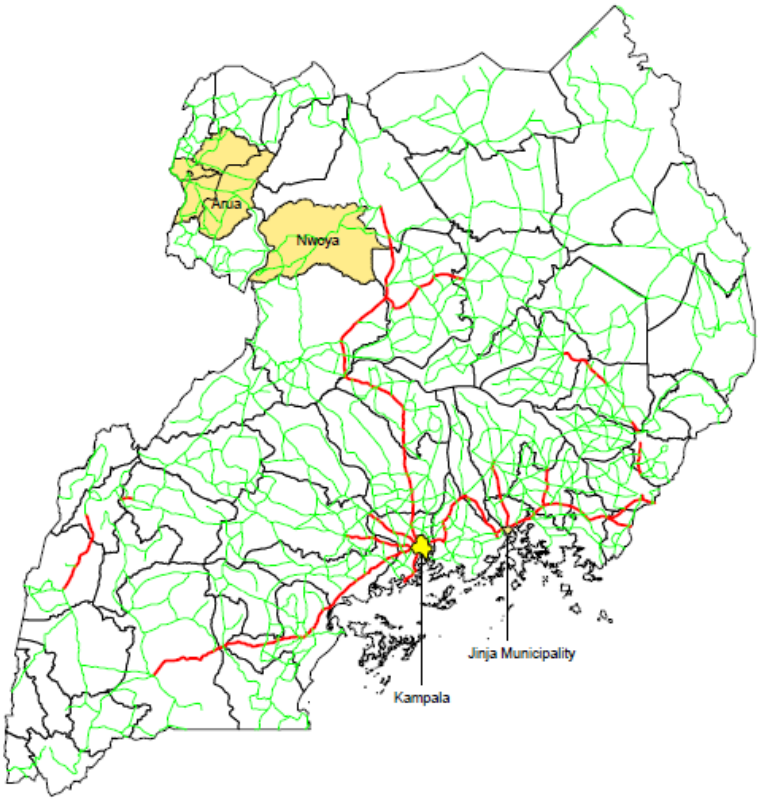


This report will therefore analyse the role of LGs in Uganda in making investments and alleviating constraints under the above four drivers of economic competitiveness. The next section outlines the methodology used in this study. Section 3 reflects on how the LED approach could be better tailored to the realities of the African and Ugandan contexts. Section 4 examines the economic potentials and challenges in Jinja Municipality, and makes some priority recommendations on how the Jinja Municipal Council could be better re-positioned to contribute to economic growth. Section 5 undertakes a similar analysis for Arua District; and Section 6 for Nwoya District. Finally, Section 7 makes some national level recommendations on how LGs in Uganda could better contribute to economic growth and LED.

2. Methodology

Two localities were covered by the World Bank (Jinja Municipality and Arua District) and the MoLG team went on to complete the same analysis in Nwoya District. The localities were chosen by MoLG as areas which would provide an opportunity to analyse both urban as well as rural LGs, as well as different developmental contexts from the south and north of the country. Jinja was chosen due to the recent emergence of the tourism sector and a desire to look in more detail at the economic potential this offers the city, in addition to its existing industrial potential. Arua was chosen due to its strategic location on the border with the DRC and South Sudan, with increased prospects for cross border trade, and market expansion for Ugandan goods. In addition, Arua had been one of the target Districts that implemented the UNCDF LED pilot (The Third District Development Project, DDPIII) and could, therefore, provide some lessons learnt on LED implementation. Finally, Nwoya was chosen to give an example of another rural District with economic potentials, especially in the agribusiness sector – and of a LG that has recently exhibited some good practices in terms of attracting investors and facilitating their linkage with local farming communities. Figure 2 below shows the location of the targeted localities within Uganda.

Figure 2: Localities Targeted for the Study



The Lead Consultant worked together with the MoLG team at every stage of the qualitative research and the frameworks and tools for the research were designed, field tested and implemented jointly. The aims of this approach were twofold: 1) to ensure that the assignment took a locally relevant approach, 2) to empower the MoLG team to undertake similar analyses in the future. In addition, the quantitative analysis tool has been set up by the World Bank Economist in such a way that data could be easily generated by MoLG for the other localities. A short training can be provided by the World Bank to the MoLG team on this quantitative tool.

2.1 Quantitative Analysis

The quantitative analysis centred on the following main sources of existing data

a) Uganda Census of Business Establishments (2001/2002, 2010/2011)
b) Uganda Census of Agriculture 2008/2009

The analysis particularly looked at sectoral specialization of the localities and aimed to identify the most prominent / important sectors of each of the target local economies by looking at:

- Identifying relative share of employment by computing location quotients, which reflect the relative regional concentration of sectors. This compares an industry's share of regional employment with its share of national employment. The location quotient helps determining which industries make the regional economy unique but at the same time could erode the region's competitiveness, if in decline.
- Decomposing changes in employment using shift-share analysis to disentangle the growth of the national economy, the region's mix of industries, and most importantly the region's competitiveness. The analysis helps identify industries where a regional economy has competitive advantage over the larger economy by decomposing regional growth in employment and calculating how much can be attributed to national, industry and regional factors.

The sectoral specialization analyses were based on the United Nation's statistics division International Standard Industrial Classification of All Economic Activities, fourth revision[7]. This is recognized to be the most useful level in terms of analysing the performance of different local economic activities as it provides enough detail on the specific activity being performed.

Location quotients are reported at two levels, the broad industry and the more disaggregated sub-sectors (ISIC 4-digit[8]). Unfortunately, the broad industry categories (which do not correspond to the UN categories) changed between the two censuses. Comparing job growth by industry would therefore require making strong assumptions for some categories. The Shift Share analyses are therefore made only at the disaggregated level. The registered firms in the Census of Business Establishments (COBE) 2011 and corresponding number of sub-sectors in the selected locations are shown in Table 1.

Table 1: Number of sub-sectors by industry in Uganda

Industry	Number of sub-sectors
Accommodation & Food Services	5
Agriculture	7
Construction	6
Education, Health & Social Work	18
Financial & Insurance Services	9
Fishing	2
Food Processing	17
Forestry	1
Information & Communication	12
Mining & Quarrying	2
Other Manufacturing	40
Real Estate & Business Services	26
Recreation & Personal Services	20
Trade	49
Transport & Storage	11
Utilities	4
Total	229

Source: COBE 2011

Based on the above quantitative analyses, this report has been able to identify some of the most prominent sub sectors, where the target localities seem to have a comparative advantage and / or where the sub sectors have shown demonstrable success in employment creation. However, these approaches have been more successful in Jinja Municipality, where the COBE covered a good proportion of local employment. On the other hand, given the rural nature of Arua and Nwoya Districts, where the majority of the population are engaged in subsistence farming, the COBE data were not able to identify some of the agricultural sub sectors with potential for commercialization and value addition. Further analysis was therefore undertaken based on the Agricultural Census data, as well as identification of some of the emerging subsectors with potential from the qualitative analysis.

2.2 Qualitative Analysis

The qualitative analysis was undertaken to shed more light on the prominent economic activities in the localities, their competitiveness in national and international markets and the constraints they face, particularly with regards to the enabling environment for business. Focus group discussions (FGDs) with firms in prominent sectors were undertaken to gather this information. Prominent sectors were identified from: 1)

[7] The full detailed structure and explanatory notes are available at: http://unstats.un.org/unsd/cr/registry/regcst.asp?Cl=27
[8] International Standard Industrial Classification of All Economic Activities, Rev.4

the quantitative analysis, 2) by LGs or key informants, especially for emerging sectors, which had not yet been reflected in the data (e.g. tourism in Jinja) or were not represented due to their informal nature (e.g. farming activities in Arua and Nwoya). The sub sectors prioritized for this study focused on tradable economic activities (such as agricultural products, manufactures and tradable services like tourism), given their importance to local economies and their higher potential for increased productivity and better job creation. In terms of the informal economy, one FGD in each locality was organized specifically for informal firms involved in small scale fabrication activities. In addition, the FGDs for tourism and agribusiness also de facto included informal firms such as small scale agricultural producers, tourist craft sellers, boat drivers, etc.[9] The questionnaires used key informant interviews as well as in the FGDs can be found in Annex 1.

Five FGDs were undertaken over a period of three days in each locality (half a day per FGD) and a total of 116 firms and 89 Government and other stakeholders participated in the FGDs (see Annex 2 for the full list of people consulted). The FGDs focused in particular on identifying the key constraints in the enabling environment for business that affected the competitiveness of firms in prominent sectors. In addition to explaining how the various constraints affected their performance, participants were asked to take part in a ranking exercise to prioritize the top issues. Firms were also asked for their recommendations on what the District / Municipal Government could do to alleviate these constraints. The responses matrix as well as the constraints ranking for each FGD is available upon request. The findings from the FGDs were triangulated with and complemented by value chain and sectoral studies from secondary sources[10].

The second qualitative area of analysis for the assignment was to support the target LGs and the MoLG in identifying the level of readiness for effective LED promotion by the LGs and the constraints that they face in doing so. The first step taken was the review of key documents such as the national level LED Policy and Strategy as well as the wider Decentralization Policy Strategic Framework (2006) and other papers on decentralization in Uganda. Meetings and discussions with MoLG at the central level were also undertaken to gather information on the performance of LED pilots and on MoLG's vision as to what LGs should achieve in this area. Secondly, the Consultant together with the MoLG team facilitated a one-day SWOT analysis session with LG staff in each locality, so that they themselves could reflect on and identify their strengths, weaknesses, opportunities and threats with regards to LED promotion. At the start of the sessions, the Consultant also spent time clarifying the LED concept from the international experience and what it means for LGs in Uganda. Case studies of success and failure from around the world were also presented and discussed.

The main limitations of the research were the shortage of time and budgetary resources to undertake the study as well as the shortage of disaggregated, subnational data that is representative of all the economic activities taking place, particularly in the rural Districts. The research, therefore, had to largely rely on the qualitative information gathered during FGDs and key informant interviews. Attempts were, however, made to back up qualitative findings with data from secondary sources where possible. A limitation of the FGDs was that, given that only half a day could be allocated to each sector, the results obtained cannot be said to be a very deep analysis of the performance of each local subsector or to provide very detailed information on the specific constraints each of them faces (which would be better addressed through individual value chain studies on specific products and sub sectors). Nonetheless, it is felt that the quantitative analysis, combined with the FGDs and the secondary data from value chain and other studies have together provided valuable insights to Ugandan policy makers on what type of LED interventions would be desirable from their side.

[9] For the purpose of this study, the UBOS definition of the informal sector is being used i.e. i) employees working in establishments that employ less than five employees; and ii) employers, own-account workers and persons helping unpaid in their household business who are not registered for either income tax or value added tax.

[10] Value chain analysis offers a, simple, participatory way to analyse potentials and constraints within prominent economic sectors of a locality - by estimating value accruing to actors at the different stages of the chain, and identifying the constraints inhibiting more value accruing to them.

3. Tailoring the LED Approach to the Uganda Context

Uganda was one of the first countries in Africa to implement decentralization and more recently, LED was added as another mandate for LGs to undertake. The decentralization policy announced by Government in 1992, was embedded in the Constitution and further elaborated in the LG Act, 1997 Cap 243, devolved substantial powers and functions to Local Governments. In terms of development functions, at the District Council level these included the provision of education, health and water services; road construction and maintenance, agricultural extension; land administration, development planning; physical planning and community development. At the Urban Council level these centred more on the provision of municipal services such as street lighting, sewerage, public parks; in addition to physical planning, social welfare schemes and the maintenance of law and order[11]. In 2006, a 6th objective of decentralization was created namely; '*To promote Local Economic Development in order to enhance people's incomes'.* This has been incorporated in the Decentralization Policy Strategic Framework (DPSF) and the Local Government Sector Strategic Plan Strategic Plan 2013-2023 (LGSSP), the Uganda Local Development Outlook (LDO) 2014 and subsequently incorporated within the first and second NDPs. Between 2008 and 2012, MoLG implemented a LED pilot project in 5 Districts, funded by UNDP / UNCDF, which later informed the development and adoption of a national LED policy in 2014.

Several national policies have outlined the vision for what LED should achieve in Uganda, but it is generally felt that LGs have not made much progress in this area. Uganda's Vision 2040 framework has set out the vision for the economic transformation that Uganda seeks - a "Transformed Ugandan Society from Peasant to Modern and Prosperous Country within 30 years". NDP II provides the framework for the country's planning and development to achieve this vision, focusing on strengthening "Uganda's Competitiveness for Sustainable Wealth Creation, Employment and Inclusive Growth". Various economic subsectors have been prioritized for focus and support, including oil and gas, tourism, minerals, Information Communication Technology (ICT), industrialization and agriculture. The LED Policy has further set out the GoU's vision at the LG level as fostering "A vibrant and competitive private sector led local economy for poverty reduction, wealth creation and prosperity in Uganda" - through eight strategic intervention areas, including promoting partnerships, expanding economic infrastructure, creating an enabling environment for business, and strengthening Government capacities, and others. However, there is still considerable confusion among many LG staff about what LED means and how it should be practically implemented, even within the LGs that implemented LED pilot activities. Apart from the activities funded by the pilot projects, the majority of LGs have not yet implemented any LED activities. There is therefore a desire by the Ministry of Local Government to better understand the reasons for this and to identify what can be done to reposition LGs for better local economic development in Uganda.

While LED is a well-established mandate for LGs in developed countries and there are numerous examples of success, it has arguably so far not been as successful in the African context. For example, South Africa, the African country with most experience in LED implementation, has had mixed success. For many years, there was a battle of ideas on whether LED should be "growth enhancing" or "pro-poor" and a confusion over what LED should practically mean in terms of actions by LGs. More recently, the bigger cities have had some successes in terms of implementing LED actions that create a supportive business environment. By contrast, most of the smaller centers have been implementing small projects that have not led to sustained job creation, due to their service delivery or social welfare nature. LED Forums, which bring together actors from public, private and civil society sectors to discuss and implement LED strategies, were established in most localities, but are now often not active or, if active, are not resulting in the PPPs expected by LGs[12]. It is, therefore, important to take stock of why LED efforts have not been as successful in Sub Saharan Africa, in order to learn lessons for future implementation.

LED programs implemented in Uganda and other African countries made two assumptions that so far have not materialized in reality: 1) that stakeholders are interested to rally behind a common LED strategy and

[11] Local Governments Act 1997 CAP 243, Second Schedule, Part 2-3.

[12] South African Local Government Association (2010). Key Issues in Local Economic Development in South Africa and a Potential Role for SALGA. And Rogerson, C. M. (2010) Turning Around LED in South Africa: Key Strategic Challenges. University of Johannesburg.

contribute their own resources to implementing it, and 2) that the private sector had the capacity and resources to make investments towards the enhancement of the local economy. While this is more realistic in developed countries (where the LED approach was initially developed), these assumptions actually turned out to be killer assumptions, which did not materialize in the Ugandan or, generally speaking, in the African context. As the evaluation of the LED pilot project in Uganda indicated[13], developing such wide-ranging LED strategies that no one department or Government entity has the responsibility for implementing, has led to their lack of implementation. Also relying on local private sector and civil society actors to contribute the funding to finance the strategies has proven unrealistic, given their weak capacity and major constraints.

Arguably, another reason that LED programs in Africa have produced suboptimal outcomes is that they focused more on the institutional aspects of LED strategies and Forums, etc. and less on what LGs need to economically do. The DDPIII pilot project in Uganda faced major implementation constraints due to a shortage of funding. Nonetheless, the performance of the local LED projects implemented indicates that the focus on the institutional over the economic did not produce the desired results for the local economy. Numerous quick win and catalytic projects were funded by the pilot, designed to invest in prominent local sectors, but these were prioritized by the LED Forum rather than being based on any value chain or sectoral analyses on the constraints that need to be alleviated. The pilot focused more on creating enterprises in partnership with the LG (such as establishing Sesame and Beekeeping Cooperatives in Arua) rather than on making investments that would alleviate the constraints faced by the sector as a whole. On the other hand, infrastructure project ideas like a mini hydro-dam in Arua, which could have made a big difference to local firms in terms of access to electricity were not able to attract the necessary funding to be implemented. As a result, as MoLG and LG officials explained, most of these projects are now either not functional or did not produce the economic impacts desired. The couple of exceptions, such as the milk processing project in Mbarara[14] show that improving access to finance for the private sector to make larger investments in manufacturing and value addition to local produce might be a more viable focus. Finally, it is important to note that the institutional structures created by the pilot are not functional (LED Forums in the five Districts, the National LED Propagation Team[15], etc.), as stakeholders did not see how they were directly benefiting from their participation.

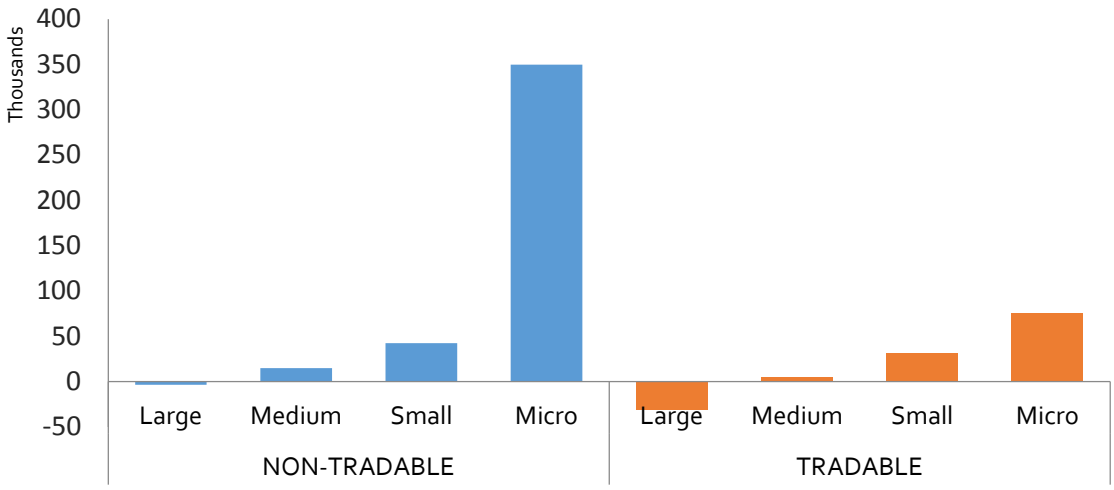
In order to tailor the LED approach to African and Ugandan realities, it is important to reflect on the main economic challenges facing target localities. While Uganda has had a robust growth record in the last twenty years, leading to significant poverty reduction and the achievement of MDG1, employment growth has not been able to keep pace with the mushrooming population. Uganda has the third fastest growing population in Africa, with the population doubling around every twenty years.[16] Young people are entering the workforce at a rate of 4 million people per year, which is forecasted to increase to over 8 million by 2040[17]. Urbanization is proceeding at a fast pace (4.5% growth per annum), and the urban population is projected to nearly double between 2010 and 2030.[18] However, urbanization has not led to the predicted increases in productivity and job creation in Uganda. As a result, a high proportion of the population is either unemployed (13.5% of the urban labor force) or has resorted to informal employment (58% of the working population outside agriculture). [19]

More jobs are needed in firms that can take advantage of economies of scale, particularly in the tradable sector. The tradable sector has more potential to generate higher wages and higher productivity jobs compared with the non-tradable sector, where sales are limited to the local market. Also, the productivity benefits of firm sizes that can take advantage of economies of scale and an efficient division of labor in internal production is

[13] UNCDF (2012). Mid Term Program Review – Third District Development Program in Uganda. February 2012.
[14] Where MoLG and UNCDF are partnering with Stanbic Bank and NSSF to support Ugandan Crane Creamers Cooperative Union to access financing for the establishment of a milk processing facility.
[15] Including the MoLG; Ministry of Finance, Planning and Economic Development; Ministry of Trade, Industry and Cooperatives; Ministry of Agriculture, Animal Industry and Fisheries, Ugandan Local Governments Association, development partners, NGOs and private sector representatives.
[16] USAID (2015) Ugandan Decentralization Policy and Issues Arising in the Health and Education Sectors: A Political Economy Study. October 2015. And Moyer et al (n.d.) Advancing development in Uganda: evaluating policy choices for 2016-21 and selected impacts to 2040. Frederick S. Pardee Center for International Futures.
[17] Ibid.
[18] World Bank (2011). Planning for Uganda's Urbanization. Inclusive Growth Policy Note 4.
[19] Uganda Urban Labor Force Survey (2009)

well established in economic literature. Yet, as Figure 3 below shows, the opposite type of jobs are being created in Uganda, with the share of employment in large and medium scale firms as a proportion of total employment in Uganda having declined in recent years, while there has been a massive growth in employment in micro enterprises. Moreover, across all firm sizes, there has been more job growth in the non-tradable sector compared to the tradable sector, particularly for micro-enterprises. This is a major cause for concern given that medium and large firms are not fulfilling their potential for creating higher value added jobs and the majority of people are being forced to engage in survival activities, whether or not there is a market for them. It is therefore critically important for Uganda to gradually achieve structural transformation into tradable sectors, and to increase the proportion of its medium and large firms.

Figure 3: Change in Employment by firm size and sector in Uganda (2001-2011)

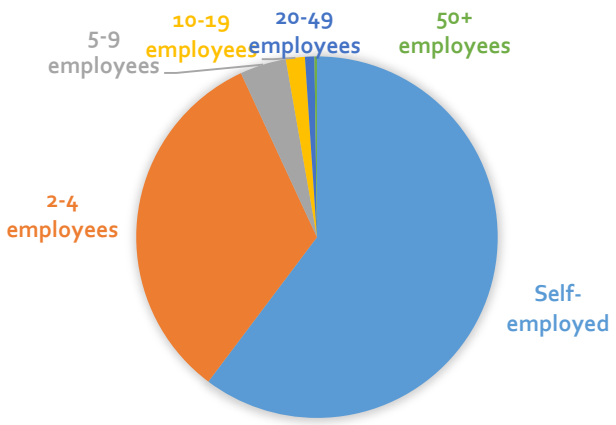


Source: Merotto and Blankespoor (2013)[20] using COBE 2011 Data

Like other African countries, however, the private sector in Uganda is weak and in need of support and nurturing. As figure 4 below shows, the proportion of medium to large firms (of over fifty employees) in Uganda is minuscule. The vast majority of firms consist of self-employed people or micro-enterprises of less than five employees. This is a major issue for the private sector, as it means they are currently not benefiting from economies of scale in production, which is a pre-requisite for increasing productivity. There needs to be some realism, therefore, when talking about PPPs and leveraging the resources of the private sector, etc. We must be mindful that the private sector itself is weak and in need of support to remove the barriers to its expansion and competitiveness.

Figure 4: Breakdown of firms in Uganda, by size of employees

[20] Merotto and Blankespoor (2013)[20] cited in World Bank (2015). Uganda Economic Update 5th Edition. The Growth Challenge: Can Ugandan Cities Get to Work? Report No. 94622. Washington D.C.



Source: Uganda Bureau of Statistics (UBOS), Census of Business Establishments 2011

A good reason for optimism in Uganda, though, is that several tradable sectors are emerging, with good economic potential to expand and create more jobs. The growing agribusiness subsector in Uganda provides an excellent opportunity for a transition from subsistence to commercial agriculture, value addition and industrialization. For example, in Ricardo Hausmann's paper on how should Uganda Grow?' he applies a model of industry sophistication and growth sequencing to Uganda and identified food processing, packaging, and processed agricultural inputs, as low risk, labour intensive, activities on the verge of development.[21] The Ugandan manufacturing sector, critical to structural transformation, has been growing on average by 9.4% per annum since 1990[22], while tourism has also seen high growth in recent years (9.6% per annum[23]).

So the question is what is the best LED approach to support the growth and expansion of these high potential sectors? Some relevant ideas can be elicited from the case of South Africa, where several reviews and a LED turnaround strategy were undertaken, providing the following insights[24]:

- LED should be an overall strategy / approach – rather than a project
- Greater emphasis should be placed on the importance of the private sector (compared with civil society and community participation) in the development of LED investments
- Greater focus should be put on improving the environment for business to allow the private sector to perform its role as engine of economic growth and job creation
- LED functions outside of the bigger cities, should be reduced and simplified to take account of the capacity and resource constraints of smaller municipalities and districts

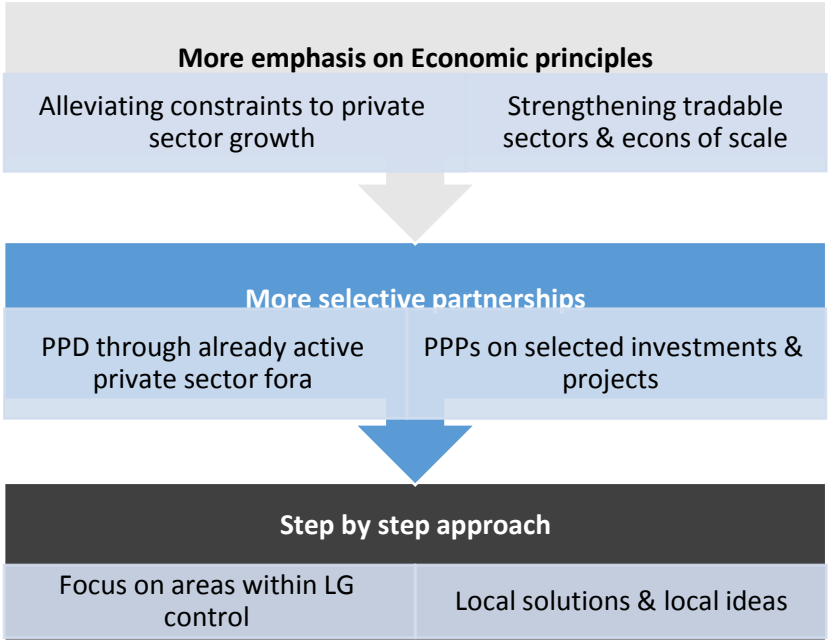
A LED approach that is more tailored to the Ugandan context would go a long way in clearing the considerable confusion among stakeholders as to what LED is. There was considerable confusion among national and local Government officials consulted in this assignment on what exactly LED is and what does it mean in terms of practical actions by LGs. It is unsurprising that this confusion exists given that the LED definitions and projects that have been implemented so far have not provided enough details as to what a desirable role for LG is and is not. A more simplified and practical version of LED for the African and Ugandan context should therefore be implemented.

Figure 5 below presents some ideas of what this LED approach could look like. Based on the principles of sound economics, the main case for Government intervention is in alleviating market failures or supply constraints that hinder the performance of the private sector. Also, given the importance of tradable sectors and activities to sustainable job creation, there could be a role for Government in promoting international competitiveness in tradable sectors. Increasing economies of scale and specialization in the informal economy

[21] Hausmann, R., Cunningham, B., Matovu, J. M., Osire, R., & Wyett, K. (2014). How should Uganda grow? Facultry Research Working Paper Series. Harvard University. February 2014.
[22] Although the average annual growth rate has fallen to 3.6% from 2009 till today
[23] UN World Tourism Organization E-Library for 2009-2013
[24] South African Local Government Association (2010). Key Issues in Local Economic Development in South Africa and a Potential Role for SALGA. And Rogerson, C. M. (2010) Turning Around LED in South Africa: Key Strategic Challenges. University of Johannesburg.

is also important. On the other hand, the conventional LED approach mainly focused on LGs convening all stakeholders together to agree and implement a common strategy, but this has not achieved much success to date. More focused meetings between private sector and senior Government representatives have demonstrated better results in changing Government policy[25]. Private sector representatives are also more likely to be interested in specific PPP opportunities, such as infrastructure projects or the promotion of a local sector like tourism, than in attending a general LED Forum to discuss how all parties can improve the economic prospects of the locality[26]. A step by step approach to LED by LGs would be more feasible, starting with supporting LGs to intervene in areas within their jurisdiction first, while building their capacity to partner, coordinate and advocate with others responsible for the areas outside their control. Finally, it is important that LED interventions are based on local solutions and ideas coming from the local private sector itself.

Figure 5: Tailoring the LED approach to the Ugandan Context



Uganda is now at a critical juncture, where it has a good opportunity to provide more detailed guidance to LGs and re-position them to implement a version of LED that is more tailored to the local context. To do this, stakeholders need to reflect on the Ugandan economic and institutional context, and on the opportunities and challenges at District and Municipal levels in order to provide practical guidance. The starting point of this assignment was, therefore, to identify local sectors with potential in target localities and to consult private sector firms in those sectors on the main market failures and supply constraints affecting them and what LGs could do to alleviate them. Local firms provided a wealth of information, presented in this study, which makes the actions needed to re-position LGs for economic growth quite clear.

[25] For example, the Presidential Investors Roundtable in Uganda where the President meets with private sector representatives, including large firms as well as associations of SMEs, through the Private Sector Foundation of Uganda (PSFU)

[26] This approach has worked in more developed countries where the private sector is stronger, but seems to have been unrealistic in Africa where the private sector itself needs support and faces major constraints in the operating environment for business.

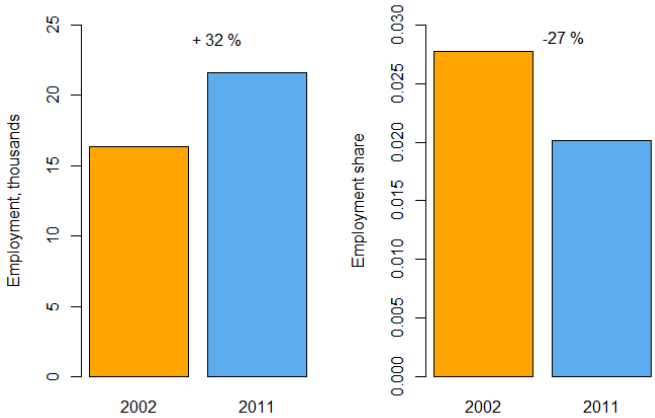
4. Jinja Municipality

4.1 Economic Potentials and Challenges

Jinja is a small city of approximately 89,700 people and a land area of 25 km^2.[27] Jinja historically had an industrial background prior to the 1970s, then it experienced industrial decline after the period of political instability that the country went through, where many Indian owned businesses in particular closed down. In 2011, the COBE captured 21,636 jobs in Jinja, which is equivalent to about 18% of employment[28], a similar proportion of employment found in Kampala. We therefore consider the sectors captured to be representative of employment in Jinja Municipality. Also, key informant interviews with Municipal Government staff confirmed that the industries identified are representative of the growth areas in Jinja's economy.

Figure 6 shows that employment in Jinja Municipality increased by 32% between 2002 and 2011. Since Jinja's population grew at a lower rate than the national average (2.4% per annum between the two last censuses 2002 and 2014), and job growth averaged 3.1% per annum, job creation in the Municipality did keep up with labor force growth. This is relatively low compared to the national growth of employment, however, which reached 83% - mostly driven by the North of the country where the civil war ended between the two censuses (Figure 7). The share of employment in the Central region, therefore, fell including Jinja Municipality, where it decreased by 27%.

Figure 6: Employment Performance in Jinja (2001-2011)

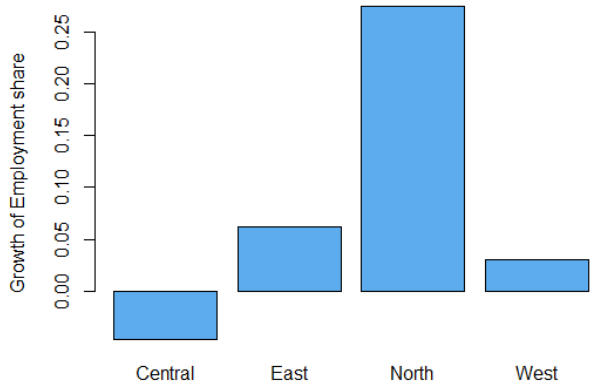


Source: World Bank staff calculations based on the Ugandan Censuses of Business Establishments (2001 & 2011)

[27] Source: Jinja Municipality Statistical Abstract (2013)

[28] World Bank staff calculation based on the COBE 2011, Jinja's statistical abstract and the World Bank World Development Indicators (WDI) national labor force participation rate (% of total population ages 15-64) (International Labor Office estimate).

Figure 7: The Northern region led the growth in regional shares of employment



Source: World Bank staff calculations based on the Ugandan Censuses of Business Establishments (2001 & 2011)

Quantitative analysis indicates that Jinja has a comparative advantage in food processing and other manufacturing over the rest of the country (with tourism possibly being an emerging sector). Jinja Municipality's labor force was mainly employed in the trade industry in 2011, followed by manufacturing and accommodation and food services (Table 2). But while these sectors employed most of the labour force in Jinja, the trade and accommodation & food services sectors did not have a higher concentration of labour in these industries compared to the national economy. On the other hand, the manufacturing subsector had this higher concentration of labor, indicating Jinja's comparative advantage in manufacturing. Moreover, the manufacturing subsector was the biggest job creator in Jinja (Table 3). The other sector in which the labour force was twice as much concentrated was food processing. Since in the last few years, qualitative information indicates that tourism has been growing in the municipality, the location quotient in that industry might now be above one (which indicates that a locality has relatively more employment in that sector than in the national economy). Note that real estate and business services had this advantage, which could indicate take off in the tourism sector (between 2001 and 2011, the labour employed in that sector increased by 44%).

Table 2: Jinja Municipality industry profile

Industry	Share of employment	Location Quotient
Agriculture	0.49%	0.17
Forestry	0.06%	0.95
Fishing	0.02%	0.01
Mining & Quarrying	0.15%	0.50
Food Processing	9.16%	1.94
Other Manufacturing	15.35%	1.87
Utilities	0.24%	1.20
Construction	0.39%	0.29
Trade	36.77%	0.89
Transport & Storage	1.86%	1.48
Accommodation & Food Services	12.80%	0.89
Information & Communication	1.51%	1.13
Financial & Insurance Services	2.54%	1.01
Real Estate & Business Services	10.12%	2.05
Education, Health & Social Work	4.05%	0.53

Recreation & Personal Services	4.49%	0.60

Source: World Bank staff calculations based on the Ugandan Censuses of Business Establishments 2011

Table 3: Top 5 sub-sectors in job creation in Jinja

Four-digit industry	Regional Shift
Manufacture of other chemical products n.e.c.	293
Manufacture of structural metal products	153
Other monetary intermediation	123
Manufacture of veneer sheets and wood-based panels	107
Radio broadcasting	95

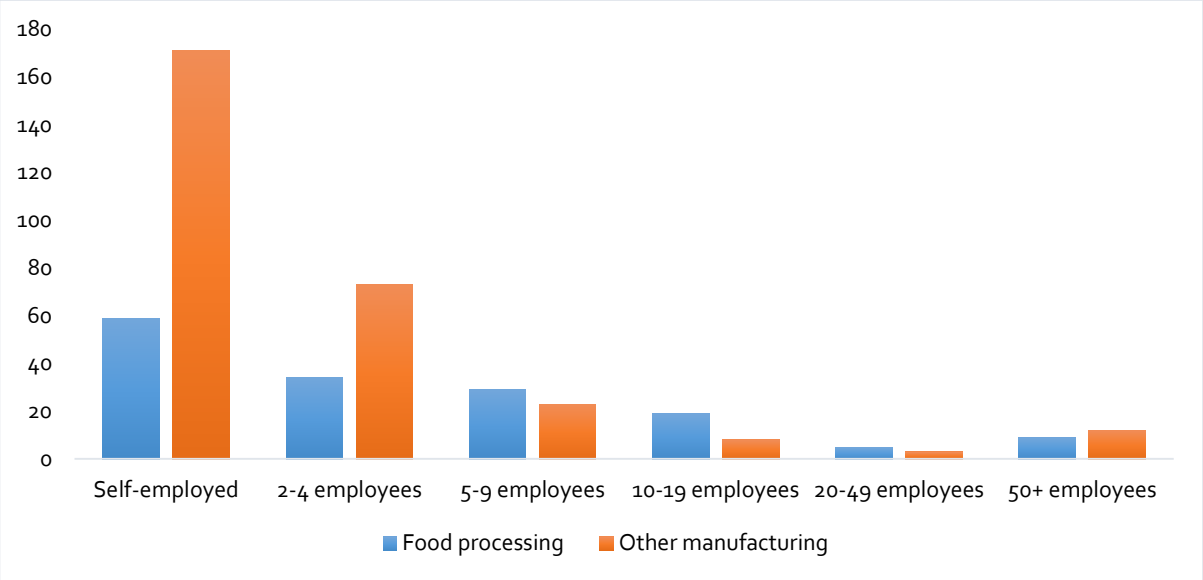
Source: World Bank staff calculations based on the Ugandan Censuses of Business Establishments 2011

4.1.1 Industry in Jinja[29]

Despite the last few decades of industrial decline, Jinja is still one of Uganda's main industrial hubs. However, increasing Jinja's competitiveness in order to reverse this decline will require LG to institute a friendlier business environment. Industrial firms are producing both for the local market as well as exporting to neighbouring countries, mainly specializing in low cost, basic quality products. Firms reported that manufacturing is now growing again in Jinja. Several big investors have recently established themselves, some even receiving support of the President himself, who secured their access to land. Other factors that attracted investors to Jinja included the availability of low cost, skilled labour, given Jinja's industrial past, as well as Jinja's strategic location, and close proximity to Kampala. But micro and small firms are still the majority. In 2011, there were about 56 firms with more than 10 employees and 389 small enterprises involved in industry – including agro-processing, manufacture of wearing apparel, furniture and metal products. Self-employed workers account for more than half of these firms (see Figure 8). Also, while of course these industries had some backward and forward linkages, these were not as developed as needed to achieve maximum benefit to the rest of the economy. For example, leather factories rely on traders and middlemen for collecting hides and skins from livestock owners, even though a more direct linkage with livestock owners would be beneficial for both the factories and the smallholders.

[29] This section includes responses of participants from both the foreign investors as well as the industry FGDs, given that the majority of foreign investors present were involved in industrial activities. The information gathered on individual industrial value chains is limited, however, because very few firms agreed to attend the FGD. Information was gathered from those who attended, particularly on the leather and textiles industries.

Figure 8: Manufacturing firms' size distribution in Jinja



Source: World Bank staff calculations based on the Ugandan Censuses of Business Establishments 2011

Within the industrial sector, excluding food processing, Jinja has a comparative advantage in the manufacture of chemical, leather, metal and wood products over the rest of the country.

Table 4: Industrial subsectors where Jinja Municipality is highly specialized

Description	Location quotient	Share of labor
Manufacture of veneer sheets and wood-based panels	49.02	2.77%
Tanning and dressing of leather; dressing and dyeing of fur	29.81	1.27%
Manufacture of other chemical products	28.74	2.01%
Manufacture of basic iron and steel	9.02	2.00%
Manufacture of structural metal products	2.06	3.01%

Source: World Bank staff calculations based on the Ugandan Censuses of Business Establishments 2011

Firms reported that there were critical barriers affecting their ability to operate profitably in Uganda and Jinja and the top rated constraint was the lack of access to finance. This was the main factor inhibiting business expansion according to firms, as interest rates at commercial banks (currently in the range of 26-29%) were felt to be prohibitive for the medium to longer term investments needed. Any plans for expansion therefore needed to be financed from own savings, which is limiting the current size and expansion potential of firms.

Another critical area of constraints related to the high levels of taxes and the difficult tax administration system. Manufacturing firms listed paying the following taxes to the LG: 1) trading license, 2) property rates, 3) ground rent, 4) operational license, 5) lorry unloading charge (it was known to Government officials at the meeting that the latter two taxes were unlawful and that firms should not have been charged for them. However, it seems that some corrupt officials were still asking firms to pay). In terms of national Government taxes, manufacturing firms paid: 6) infrastructure levy, 7) Value Added Tax (VAT), 8) import duty, 9) corporate income tax, 10) investment license (for foreign firms only). Firms felt that there were too many separate taxes and that their levels were high and exerted a major cost on firm operations and profitability. VAT on manufacture inputs, in particular, was felt to be acting as a double tax on manufacturing and reducing the competitiveness of products against cheap imports. A fortified flour manufacturer that we spoke to explained how his product is no longer competitive in the local market due to the import duty he has to pay on wheat

plus the VAT he has to charge consumers – which is not only detrimental to his business, but also to food security among the local population who would have benefited from the fortified flour. Firms felt that VAT exemptions on manufacture inputs would be an important measure to encourage local manufacturing.

Firms explained that even though on paper they should be allowed duty free importing of manufacturing inputs under COMESA and EAC treaties, in practice, customs officers on the borders require them to pay the duty and then seek reimbursement. This process for reimbursement is complicated, and involves travel to Entebbe and Kampala, with firms often spending a number of days trying to do it and still failing in the end. The process of reimbursement of withholding tax is also difficult (again involving travel to Kampala), with most firms reporting that they often abandon the process without getting reimbursed. The high number of taxes and their fragmentation in terms of administration and collection by various Government officials and agencies was also felt to be increasing opportunities for corruption. At the same time, firms reported that while government officials were strict on the payment of import duties by domestic businesses, they were too lax in appropriately taxing artificially cheap imports, particularly from China. For example, one firm manufacturing socks for the local market mentioned that a Uganda Revenue Authority (URA) customs official was undervaluing Chinese socks at USD $0.10 a dozen, which is reducing the competitiveness of their products.

Other challenges firms mentioned were the increase in price of raw material imports as a result of the devaluation of the Ugandan Shilling against the dollar. Also, the lack of skilled labor and poor attitude of young workers. Infrastructure issues, particularly the high cost of electricity and poor road infrastructure were also mentioned as constraints (but of a lesser priority to participants in this FGD).

Firms made several recommendations that need to be implemented by LG in order to improve the environment for business in Jinja. These were mainly around easing government bureaucracy and reducing corruption in the tax administration process. Firms suggested that providing online payment options for local taxes, particularly for foreign investors could reduce opportunities for corruption and requests for extra-legal payments. To lessen the time spent processing import duty reimbursement paperwork, firms recommended the decentralization of customs related functions such as issuance of certificates of origin and duty exemption paperwork to the LG level. This would reduce the time and cost spent by firms in travelling to Kampala or Entebbe to process such bureaucratic requirements.

At the national level, industrial firms in Jinja mainly recommended the need for improving workforce quality and employability skills through better educational and vocational training standards. They emphasized the need for better harmonization and rationalization of the tax regime at the national and the local levels to reduce the number and level of taxes that industrial firms had to pay, and improve the ease of tax administration.

4.1.2 Tourism in Jinja

Jinja's emerging tourism sector continues to grow and generate local revenues and employment. In the last twenty years, several foreign investors recognized Jinja's tourism potential and established guesthouses and businesses focused on water sports and adventure tourism. The Government's development and marketing of the source of the Nile in Jinja as a tourist attraction has also succeeded in attracting both domestic as well as foreign tourists to the area. This has led to an increase in the number of businesses establishing themselves in the tourism sector, such as numerous crafts shops, lodging, restaurants and other services for tourists. The LG has also played a positive role in supporting local communities to take advantage of the sector, for example by offering land to craft sellers at the Source of the Nile attraction. Uganda's Tourism Master Plan (2014-2024) has identified the upgrading of the Source of the Nile attraction and the establishment of a Nile Adventure Trail as one of the main flagship projects to be implemented[30].

Participants of the tourism FGD in Jinja Municipality described the sector as growing, with increased numbers of foreign and domestic tourists, hotels, handicraft sales, etc. They felt that the main factors enabling this growth included Jinja's strategic location at the source of the Nile; its proximity to Kampala; increasing disposable income among middle class Ugandans; recent road infrastructure investments in Jinja; and the

[30] Under the South-Eastern TDA, one of sixth areas to be nationally prioritized for investment.

marketing and promotion of the area by private sector led events such as the Jinja Annual Carnival as well as motorsport and golfing contests. The sector is employing an increasing number of people as hotel staff, craft sellers, tourist guides, transportation providers and water sports and adventure tourism specialists. Backward and forward linkages are emerging, benefiting the local formal and informal sectors. For example, hotels mentioned establishing relationships with local farmers to supply them with food products (albeit still facing problems due to farmers' lack of capacity to supply the required quantity and quality). Hotels also link tourists with informal service providers such as local guides, transport providers, boat drivers, etc. The Hotels also felt well linked to tour operators in Kampala and Jinja who marketed them to tourists.

There is, however, an urgent need for further investments in the tourism sector, if it is to continue to grow and attract increasing numbers of tourists. The constraint that participants of the Tourism FGD in Jinja ranked the highest is the lack of developed tourist sites, products and attractions needed to encourage tourists to stay longer and spend more in the local economy. While Jinja has numerous sites that could be interesting to tourists - such as extensive wetlands with eco-tourism potential; and cultural sites such as Mpumudde hill, the Kyabazinga's palace and the Kirinya Man-made Hill - the focus currently remains on the Source of the Nile, water sports and adventure tourism because the other sites lack infrastructure. Critical infrastructure needed includes good roads leading up to the sites, toilets, craft stalls, etc. Currently, other opportunities for local value addition are also being missed. For example, the crafts sold in Jinja tend to be manufactured in Kenya, rather than locally, and local agro-products like organic honey, jam, etc. are not usually branded as made in Jinja or packaged in an attractive way for tourists. The need for quality upgrading, branding, packaging and marketing of local products was therefore emphasized.

National level constraints mentioned by tourism firms in Jinja included the lack of access to finance and skills. Again, lack of access to finance was the main factor inhibiting business expansion according to firms due to the high interest rates at commercial banks. Moreover, firms mentioned that the conditions to access the funds available to support the tourism sector through the Private Sector Foundation of Uganda (PSFU), with the support of the World Bank, were difficult because the funds are availed as a refund and firms usually cannot afford to put up the initial investment. Participants also mentioned the need for investing in skills development, particularly the training and certification of local guides and hotel staff, which were felt to be lacking in the levels of skills needed to compete with other tourism destinations in East Africa.

The promotion of tourism as a sector with potential to generate economic growth and employment is already on the national and local agenda, but LGs need to improve their support to the sector, if its potential is to be truly realized. There is an important role for LGs in investing in local tourism infrastructure and undeveloped sites, as well as in marketing and promoting local tourism potentials in conjunction with national government and the private sector. In addition, participants emphasized the importance of LGs keeping local communities involved in the process. For example, while upgrading the "Source of the Nile" attraction in Jinja has been planned for implementation under the national Tourism Master Plan, and is being coordinated with the involvement of the Jinja LG's Tourism Officer, local firms operating at the attraction (restaurant owners, craft sellers, boat drivers, etc.), complained of long delays and of not being informed of what the national plans meant for them. Uganda's Tourism Master Plan already recognizes an important role for LGs but, currently, the major barrier to Jinja Municipal Government's ability to invest in promoting the tourism sector is the lack of financial resources (see Section 4.3 below).

4.1.3 Agribusiness in Jinja

While Jinja has a comparative advantage in agribusiness and agro-processing, the subsectors in which it is most specialized were actually found to have lost or not created employment in the past decade. The agribusiness subsector in Jinja developed based on Uganda's comparative advantage in agricultural products and Jinja's past as an industrial hub. Agro-processing sub-sectors where Jinja Municipality is more specialized in than the national economy are shown in Table 6. In particular, manufacture of grain mill products, vegetable and animal oils and fats and the processing and preserving of fish, crustaceans and mollusks employed most labor in the food processing industry in Jinja and have more workers, relative the national economy. However, those very same subsectors, were the worst performing ones in terms of job loss or lack of job creation in recent years (Table 7), which indicates declining competitiveness in those sectors.

Table 6: Agribusiness subsectors in which Jinja is most specialized

Description	Location quotient	Share of labor
Manufacture of vegetable and animal oils and fats	18.25	1.60%
Manufacture of prepared animal feeds	6.61	0.28%
Distilling, rectifying and blending of spirits	6.22	0.54%
Processing and preserving of fish, crustaceans and mollusks	5.74	1.21%
Manufacture of malt liquors and malt	5.17	0.21%
Manufacture of cocoa, chocolate and sugar confectionery	3.97	0.13%
Manufacture of grain mill products	3.73	3.83%
Tea Processing	1.00	0.61%

Source: World Bank staff calculations based on the Ugandan Censuses of Business Establishments 2011

Table 7: Jinja Municipality agribusiness subsectors that lost or did not create jobs between 2001 and 2011

Four-digit industry	Regional Shift
Manufacture of dairy products	6
Manufacture of soft drinks; production of mineral waters and other bottled waters	3
Manufacture of cocoa, chocolate and sugar confectionery	2
Processing and preserving of meat	-15
Manufacture of prepared animal feeds	-17
Manufacture of grain mill products	-24
Manufacture of bakery products	-28
Manufacture of vegetable and animal oils and fats	-344
Processing and preserving of fish, crustaceans and molluscs	-434

Source: World Bank staff calculations based on the Ugandan Censuses of Business Establishments (2001 & 2011)

Today, the subsector mainly consists of two types of firm, the first being formal, large agro-processors, such as Nile Agro and NMK Quality Feeds and Millers, producing animal feeds, vegetable cooking oil, wheat flour, etc. The second type are small scale, usually informal, farmers involved in processing products such as poultry, eggs, dairy products, etc. Both small and bigger firms reported that the sector was profitable due to the high demand and constrained supply of agro-processed products in Uganda, and that their revenues and numbers of employed staff have been increasing (albeit slowly due to constrained access to finance). While agribusiness has the potential for major backward and forward linkages, benefiting other actors in the local economy, these are currently weaker than desired. Bigger agro-processors need raw materials from farmers, but rather than a direct backward link, traders and middlemen capture much of the value which could be accruing to the farmers. Also, while bigger agro-processors have good forward linkages to bulk buyers of agro-products, packaging industries, etc., small scale agribusinesses (largely household based) have very weak forward linkages and still rely on middle men to market their supply.

Agribusinesses in Jinja reported that the biggest constraint inhibiting their potential for expansion and value addition was lack of access to finance. The main issues were that interest rates were too high for medium to long term investments and that loan terms were not well adapted to agriculture activities (given the absence of seasonality considerations and appropriate grace periods to suit the agricultural calendar). Smaller agribusinesses also felt that MFIs and Savings and Credit Cooperative (SACCO) loans were not adapted to their needs in the agricultural sector – due to high interest rates, collateral requirements and short grace periods. This is locking small holders in a situation where they cannot take any advantage of economies of scale in production.

"I get small loans from Centenary Bank, for my day to day expenses, but I do not apply for bigger loans to expand my business because the loan terms are not appropriate for agriculture – they do not accept to wait until harvest time for repayments and the interest rate at 29% is too high to get a bigger loan." (Poultry producer, Jinja Municipality)

Small-scale agribusiness producers face a myriad of other capacity challenges, which current Government programs are not addressing. Perhaps one of the most important challenges facing smallholders, is their lack of aggregation or bulk marketing and, consequently, their lack of bargaining power with traders and middlemen. At the moment, smallholders mainly sell at variable farm gate prices based on their (weak) power of negotiation with traders. This is further exacerbated by their lack of market and price information, which puts them at a disadvantage when negotiating prices. Individual farmers also do not have the resources to invest in cold storage facilities, which further forces them to sell immediately and lowers their bargaining power. Another important area of challenges relates to the lack of access to quality inputs due to insufficient Government enforcement of quality and standards regulations. For example, poultry producers mentioned they had incurred considerable losses due to adulterated feeds from local suppliers, which killed the poultry. Lack of access to basic modern agricultural machinery and technologies is also lowering productivity, with the majority of small holders still relying on traditional agriculture methods.

FGD participants, particularly smaller agribusinesses, therefore, made a strong case for the need for the revitalization of the role of LG in supporting agriculture and agribusiness. Re-activating the role that LG had played in the past in providing extension services and support to agricultural cooperatives was felt to be crucial in alleviating the constraints individual farmers face, through improving their access to price information, cold storage facilities, and collective bargaining to obtain good prices from traders. Encouraging contract farming and out-grower schemes were also suggested, as a way to establish better backward linkages between bigger agro-processors and local farmers (see Box 2 under section 7.3.1 for a successful case study in this area).

At the national level, firms highlighted high electricity prices and lack of affordable finance as the key areas requiring action. High electricity prices were emphasized as a big constraint for larger agro-processors, which felt that this was risking making their products uncompetitive compared to neighbouring countries. FGD participants also highlighted the need to focus on increasing access to affordable and appropriate finance for the agribusiness sector.

4.1.4 Informal Economy – Cottage Industry

In addition to the above formal sector activities, there was a desire to analyse informal activities given that they employ the majority of the population in Uganda. However, it is important to note that the previous formal sectors also involve many informal employees and enterprises[31]. When talking of informal firms, therefore, we used the standard definition by the Uganda Bureau of Statistics (UBOS) of micro-enterprises employing less than 5 employees, which ae not registered for VAT payment or possess final accounts. While this sector involves a huge number of people and variety of economic activities ranging from subsistence agriculture to survivalist household enterprises, motorbike *"boda boda"* transport providers, and small scale traders and fabricators, this research narrowed down the focus to look at the subset of informal firms most likely to grow, expand and contribute to value addition. These were considered to be small-scale fabricators and cottage industries involved in some value addition in terms of manufacturing or processing. The majority of firms that attended the FGD were engaged in carpentry and furniture manufacturing and blacksmiths/metal fabrication e.g. metal windows, doors, children's lunchboxes, etc.

Small-scale fabrication activities seem to be experiencing declining competitiveness in Jinja, by contrast to Arua where these firms seem to be performing better. Firms in Jinja were very aware of the declining popularity of their products compared with imported products such as machine made wood frames for construction or windows and doors manufactured in South Africa. They explained that the number of people joining blacksmithing, carpentry, etc. has increased due to population growth, and people needing jobs, as this work

[31] Even the COBE data, used to analyze the formal sectors, contains a high proportion of informal enterprises with fixed premises.

does not require academic qualifications. Market demand, however, has gone done because of the availability of better products in the market.

"I used to get UGX 30,000 a day - at that time there were only 4 welders in Jinja. Now I only make 7,000 UGX a day because I am competing with hundreds of other welders". (Welder, Jinja Municipality)

Rather than having entered the business due to a perceived market opportunity or gap, most FGD participants said they had started this work because it was a family tradition or they had to drop out of school due to financial hardships and this was a sector which had low entry costs. The fact that this sector is more successful in Arua is perhaps consistent with the lower level of development in Arua as well as its neighbouring markets in DRC and South Sudan, which makes the low price, low quality products produced by small-scale cottage industries attractive and competitive. In Jinja, this is not the case, given the higher purchasing power of local consumers and their proximity to Kampala, where they can easily purchase better quality competing products.

While this sector is unlikely to contribute to Jinja's international competitiveness, the informal economy employs the majority of the local population in Uganda, therefore, supporting it to achieve greater scale and specialization is important from the perspective of employment creation and poverty reduction for the majority of the urban working population. Perhaps the biggest problem facing this sector is the lack of any economies of scale in production or specialization in differentiated products. The biggest constraint rated by small-scale fabricators as responsible for their lack of expansion or growth / consolidation from microenterprises to small or medium enterprises, was the lack of access to finance (which got almost triple the votes of the next most important constraint). Firms explained that loans available from commercial banks and MFIs have prohibitive interest rates, while loans from SACCOs also still had high interest rates and difficult repayment conditions and were too small for expansion purposes. This led each firm to stay at a micro or small enterprise level, rather than being able to consolidate into a fewer number of bigger firms that can take advantages of economies of scale in production.

Other factors firms felt were to be contributing to the declining profitability in their sector, were the *lack of modern machinery*, which inhibited their ability to produce more modern designs and products, that are now in higher demand than their traditional designs. With the main reason that they could not invest in this machinery going back to the lack of access to finance.

"Nowadays people come with a design that they have seen on their (internet) phone and ask us to reproduce it. But with our old machinery, we can only produce the old traditional designs, which are not in demand anymore." (Member of Jinja Blacksmiths Association).

When asked about the *markets* for their goods, firms explained that they mainly sold to passers-by or to middlemen who came with bulk orders and procured a few pieces from each small scale fabricator (as none of them could produce the required quantities). Firms mentioned that middlemen were increasingly squeezing their profit margins, but that they had to accept their prices due to their lack of access to other marketing options and to the high levels of competition with a large numbers of firms producing the same products. When prompted as to why they do not group themselves together or form an association or cooperative to benefit from economies of scale in production and increase their bargaining power, many of them said that no one had introduced them to this idea. The blacksmiths had, however, already formed an association of 25 firms, employing a total of 417 people. But the reason they had formed it had more to do with alleviating the tax burden on individual firms, than with any strategy to take advantage of bulk marketing or increase bargaining power.

The *number and level of taxes* that firms had to pay was also an issue mentioned as a constraint, defying the misconception that these microenterprises, usually defined as informal, do not pay taxes. In fact, while it is true that the majority of these firms reported not being registered with URA for payment of national taxes (VAT and corporate income tax), they were in fact paying a variety of other taxes to the LG. Namely, they listed paying: 1) trading license, 2) property rates, 3) ground rent, 4) local service tax. Also, they explained that having to now pay VAT on their production inputs has further squeezed their profit margins, because they do not feel they can transfer this additional cost to consumers. Non-transparent tax assessments and corruption by some municipal tax officials within the tax administration process is also an issue. During the FGD itself,

the Blacksmiths Association mentioned that they had been asked by a Municipal Government official to pay 30,000 UGX per business for their Trading License (a total of 750,000 UGX for the 25 businesses in the association). This amount was known to be too high to the Municipal staff present who stated that the correct amount should have been 200,000 UGX in total.

Firms, therefore, suggested several ways in which the LG could alleviate the constraints inhibiting their ability to improve scale and specialization: (i) LG support in improving their access to finance, particularly seed capital to start and expand a business and to acquire more modern machinery; (ii) support on technical skills development, quality improvement and product upgrading and marketing; (iii) better working premises[32]; (iv) coaching towards cooperative development and collective marketing; (v) harmonizing taxes into more obvious and transparent brackets and making such information publicly available in obvious places within the Municipality; and (vi) incorporating more local content clauses[33] in LG procurements to benefit local Micro, Small and Medium Enterprises (MSMEs).

4.2 Drivers of economic competitiveness

4.2.1 Infrastructure and land

Access to land is a major constraint to the establishment of new investment projects, not just in Jinja, but everywhere in Uganda. This is well recognized by the President, who personally tasked the LG in Jinja with securing access to land for various new investments – for example, a finished leather products factory, as well as a planned car assembly and shipbuilding yard projects that we were informed about by the Town Clerk. However, for the majority of firms, getting access to land to establish new investments is a major difficulty. Even a major agro-processor, who has established 27 factories throughout Uganda, reported major difficulties in obtaining a new piece of land to establish a new factory in Jinja.

"We've already secured the loan for the factory and we were meant to start the project last year but we still haven't due to the land access issues. I want to ask, are the planners of the District and Municipality doing their job? This is becoming a case study of bad handling of land issues in Uganda." (Foreign investor, Jinja).

This was confirmed by Municipal officials themselves, which rated access to land in the Municipality as the biggest constraint for business. This is due to the very limited amount of land under the Municipality's control, and the difficulty in persuading customary institutions or private individuals to sell their land to investors. Some consulted firms reported major issues of political interference in land acquisition, wherein some politicians reportedly instigated the local population to protest against investors for "taking their land" with the aim of undermining projects affiliated with government bodies that are politically not aligned. Communities in many cases demand for the return of land or refused to vacate land for development under the influence of politicians. Municipal staff, including the Mayor, also felt that the Municipality did not have a good working relationship with the Jinja District Government Land Board, and called for more autonomy to be given to the Municipality in allocating land to investors. Currently, investors are waiting a long time and still sometimes not securing access to land. ***The Municipality should strengthen cooperation with the District Land Board, local communities and the Ugandan Investment Authority (UIA) on facilitating access to land for investors (see Box 2 for a successful case study from Nwoya District). The wider issue of land tenure regularization and titling also need urgent efforts.***

While firms noted improvements to the road infrastructure within Jinja, they emphasized the need for improvement within rural areas and to undeveloped tourist sites. Jinja Municipal Council has recently rehabilitated a main road within the town with the support of the World Bank, which was widely regarded as important. Firms, however, emphasized the deficits in the feeder road infrastructure within the rural areas, which affects the time and cost of transporting agribusiness raw materials, and increases vehicle maintenance costs. Municipal staff also pointed to the poor condition of the major roads leading to and from Jinja, which are maintained by Uganda National Roads Authority (UNRA), which apparently are maintained once in every

[32] For example, one participant involved in metal fabrication explained that when it rains, they lose a whole working day due to the lack of shelter.
[33] Domestic preferences.

five years. While firms did not report problems with electricity cuts or shortages, the high cost of electricity was particularly affecting industrial firms' profitability and cost competitiveness. The need for tourism infrastructure at undeveloped sites was emphasized as a critical need for the success of the tourism industry in Jinja. The prioritization of Jinja under the Tourism Master Plan is a major opportunity, given the planned upgrading of the Source of the Nile attraction and the Nile Adventure Trail. But this is only one area of Jinja, and further infrastructure investments in other sites and areas are needed.

Some major national infrastructure investments that have recently commenced will provide opportunities for Jinja – but the locality also needs to complement these with investments into local infrastructure to be able to take advantage of the opportunities. Two projects that will link the city with markets in Uganda and East Africa are the standard gauge railway line linking various East African countries (to be completed in 2025) and the New Nile Bridge at Jinja. The Kampala-Jinja Expressway will also greatly increase connectivity with Kampala. However, without improvements in the local infrastructure and in the enabling environment for business and competitiveness of local firms, Jinja would risk that this connectivity benefits Kampala and other bigger cities more than Jinja, as it becomes cheaper to supply the Jinja market from these areas.

The Municipality should therefore prioritize economic infrastructure investments in its Municipal Development Plan, building on recent successful investments in road infrastructure. The Municipality should consider transitioning to infrastructure that has been prioritized by local firms as critical to business success. As the above analysis shows, for Jinja, these would include:

- ***Tourism infrastructure i.e. roads to tourist sites, site development, craft markets, etc.***
- ***Feeder roads in rural areas***
- ***Serviced industrial park for larger industry (in conjunction with the Jinja District Government who has already earmarked the land for this purpose)***
- ***Industrial premises for small scale fabricators***

4.2.2 Skills and innovation

While skill levels did not emerge as the most binding constraints to the success of local firms and sub sectors, firms in the industrial and tourism sectors still mentioned low skill levels as a problem. In particular, industrial firms felt that they could not find workers with the required skills for industrial jobs. One firm explained that, even university graduates in relevant disciplines seem to be graduating without attaining the required minimum level of skills (e.g. they interviewed an electrical engineer that did not know the common voltage of power sockets in Uganda). Firms therefore have to bear the cost of training employees, knowing that many leave after they are trained. Soft skills and people's attitude to work were also felt to be problematic, whereby many youth, in particular, are not interested in industrial jobs requiring hard work, and often drop out soon after recruitment. Firms in the tourism FGD highlighted the fact that many local tour guides were informal and not adequately trained or certified in any way. Similarly, local craft producers, hotel staff and others were felt to be lacking in the levels of skills needed to compete with other tourism destinations in East Africa.

Informal, small scale fabrication firms felt that their low skills levels were a major impediment to success. They particularly recognized their skills deficit in the areas of product quality upgrading and marketing, which they felt was leading to the declining competitiveness of their products. While the lack of economies of scale in production is likely to be the biggest factor in their declining competitiveness, low skill levels undoubtedly also contribute to their problems.

4.2.3 Enterprise support and finance

By far, the most prominent constraint mentioned by firms to be inhibiting firms' ability to expand their business or upgrade into higher value added production, was their lack of access to affordable finance. This was the number one constraint ranked by participants in four of the five FGDs undertaken in Jinja. Also, according to the World Bank Enterprise Survey data[34], more firms in Jinja identified access to finance as a major constraint than in other parts of Uganda (36.6% of firms in Jinja compared to 17.4% in Kampala and 19.4% in Wakiso).

[34] Last undertaken in Uganda in 2013.

Firms also felt that the lack of access to BDS was constraining them from upgrading their productivity and ability to access finance. For example, firms in the tourism sector highlighted the need for upgrading marketing and product quality of local crafts, agro-products, etc. to better appeal to a wide variety of tourists. Informal firms also highlighted their lack of financial literacy, as well as the need for coaching towards preparing business plans for financial institutions, formation of cooperatives and increasing collective marketing, etc. While some participants also made the case for selective firm level incentives, such as tax breaks and holidays for strategic economic activities, these were not their top most recommendations.

As per the new structure for LGs currently being proposed to Parliament by MoLG, the Municipality should empower the Production Office for the implementation of LED. This would entail an increase in the budgets of the Commercial, Tourism and Agriculture Officers to enable them to re-activate the services that the Municipal Government is designed to deliver to local businesses in these sectors. Namely, agricultural extension, support to cooperatives, financial literacy and other BDS for MSMEs.

Access to finance was a critical issue for firms, but is one where the LG has very limited capacity to work on. It is therefore recommended that the LG concentrates on raising awareness of the available sources of funding in commercial banks, MFIs, etc. (which local firms seem often unaware of).

4.2.4 Institutional and regulatory environment for business

As the above findings from the firm level qualitative research indicate, the Municipal Government in Jinja is not currently playing the role that local firms need from LG in terms of improving the environment for business and supporting the private sector. National level agencies have also to date not been able to tackle some of the most issues businesses are facing. Arguably, at the root cause of this is, *government officials' attitude to the private sector as a source of resources for the Municipal Government, as opposed to actors that need to be supported to generate economic growth and jobs in the locality*. The majority of interventions that the Municipal Government considers as LED investments (e.g. PPPs on a municipal taxi park or leasing land to craft sellers at the Source of the Nile) are actually revenue generation ventures for the Municipality. While these do give employment to a limited number of people, they do not address the wider constraints in the enabling environment for business to stimulate wider job creation. Firms, in the manufacturing sector for example, felt that the LG is not interested in the needs of the business community and cited the delays and problems in land allocation, tax administration, etc. A change in approach would give a signal to the private sector that the LG is serious about investing in improving the environment for business in the locality. This is more likely to stimulate formalization and the payment of taxes than the current approach. Right now, firms explained they resent paying taxes to Government, when they do not see any material improvement in local infrastructure or any support to the local economy as a result of tax payment.

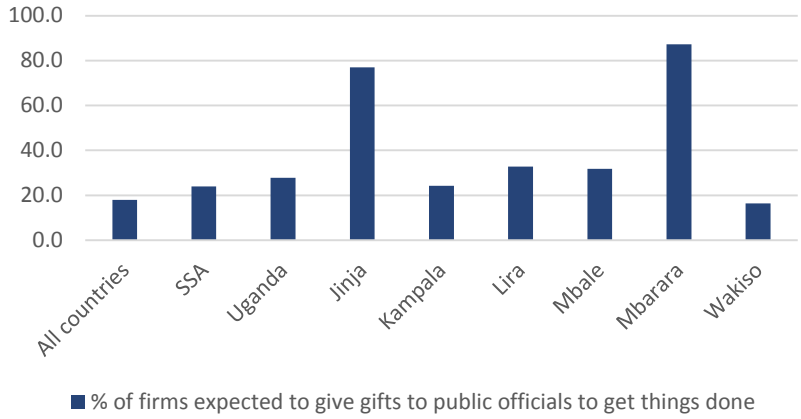
"Why do I have to pay the local infrastructure tax, when I don't feel that the infrastructure is improving?" (Manufacturing firm, Jinja)

The current tax regime and administration system is increasing firms' transaction costs and vulnerability to corruption. While firms complained that tax levels were high, particularly for VAT, and impacted their profitability and competitiveness, they were more concerned with the high transaction costs of tax administration and the non-transparent process for tax assessment (see Section 4.1.3 above). Harmonizing taxes into more obvious and transparent brackets and consolidating them into a lesser number of taxes would reduce the need for individualized tax assessments and multiple interactions with numerous officials, which are currently opening more avenues for corruption. Making such information available online and in an obvious place at the Municipality would also improve firms' access to information and reduce their vulnerability to corruption and exploitation.

Corruption by government officials, particularly in the tax administration process, is currently exerting major costs on firms and damaging their profitability and basic ability to operate. As Figure 9 shows, 77% of firms in Jinja reported being expected to give gifts to public officials to "get things done", which is high by Ugandan as well as international standards. Foreign investors in particular reported considerable harassment and requests for extra-legal payments by division level local officials. Disconcertingly, they reported paying LG taxes, such as

trading licenses, in cash to Government officials who came to their premises, rather through an official bank account (which was the normal procedure for firms in Arua, for example).

Figure 9: Firm perceptions of corruption



Source: World Bank Enterprise Surveys (2013)

"When the officials come to collect tax, they start with an exorbitant amount and then we have to bargain them down to a more acceptable figure. We shouldn't have to haggle to pay tax - tax should be a fixed amount!" (Foreign investor, Jinja)

Finally, another issue highlighted by firms was the *lack of LG enforcement of government regulations on consumer protection*. For example, firms in the agro-processing sector complained of considerable losses due to adulterated animal feeds, particularly for poultry. The animal feed producer we spoke to also complained of unscrupulous suppliers, who mix fish with sand and stones to increase its weight. The lack of government enforcement of standards and regulations and the resultant low quality feeds were blamed for lowering productivity in the livestock agribusiness sector.

Unsurprisingly, the *forum established for Public Private Dialogue with the Municipal Government, has not been successful*. In order to meet the MoLG indicator requirement of establishing a LG forum for dialogue with the private sector, Jinja Municipality established the Jinja Investor Forum. But both the Mayor of Jinja as well as the Head of the Jinja Indian Investors Association reported great difficulties in convincing firms to participate. Given all of the above issues which are creating a negative of view of and reducing trust in the LG among the private sector, it is not surprising that firms did not want to attend. This is further evidenced by the fact that firms in Jinja reported being active in more independent business associations, such as the Ugandan Manufacturers Association.

"No we don't want to join any investors forum. Once you raise your head and you are seen by Government, you'll become a source of money. You'll start getting calls from Government officials asking for things. We once even got asked to buy new tires for the truck of the District Council official." (Foreign investor, Jinja)

Some *firms, in the tourism and agribusiness FGDs in particular recommended a cluster approach to PPD, where regular and meaningful dialogue with the LG could take place on their specific sector*. This way, the issues discussed would be of most relevance to each sector and more practical recommendations and actions are more likely to emerge. For example, Jinja's Tourism Officer could organize regular meetings for dialogue with local tourism actors (both large and small scale), and similarly, the Agriculture Officer with Agribusiness firms, and so on. Firms also recommended an increased interaction between Local Councillors (elected politicians) and local businesses to improve the Councillors' appreciation of the challenges affecting the local private sector and their role in supporting it. Firms suggested if they had such a productive dialogue with the LG, they might be more interested in Public Private Partnerships. Whereas the LG's current approach of asking the private sector to donate funds for municipal projects, such as the Jinja Beautification Project[35], is not getting the desired levels of support.

[35] Which the Mayor of Jinja complained did not attract enough funds from the private sector.

On the whole, therefore, the LG in Jinja is currently not playing a positive role in the institutional and regulatory environment for business in the city. This is not to say that there are no competent and committed individual members of staff who want to play a positive role in supporting the local private sector. On the contrary, various staff exhibited a high level of interest and commitment in doing this, but did not feel empowered to significantly activate their role in this regard (see section 4.3 below).

The Municipal Government should establish a One Stop Centre (OSC) for local businesses (including Government bureaus such as the Uganda Revenue Authority (URA), Ugandan Registration Services Bureau (URSB), Ugandan National Bureau of Standards (UNBS), and relevant Municipal Departments) to streamline and reduce the time and cost involved in business registration, tax administration, customs clearance, product certification, and other procedures. The OSC would also have an important role in providing access to information, particularly on tax bands and legal tax requirements to reduce firms' vulnerability to corruption.

Tax administration e-service for payment of LG taxes should also be piloted in Jinja, whereby local firms can file returns and pay taxes online, building on URA's successful implementation of this for corporate income tax.

Instituting a more effective PPD approach will be important in increasing the capacity and understanding of Municipal Government officials and elected Councillors on the constraints facing the private sector and the role they need to play to support economic growth and employment creation. As the experience with establishing the Jinja Investment Forum shows, creating a forum by itself does not guarantee effective participation or interaction, without there being trust between the Government and the private sector. A more effective approach would be to focus on the above areas of actions and reforms, which will show the private sector that the LG is serious about supporting them. *At the same time, the* ***LG should have regular dialogue with the private sector through two main avenues: 1) regular meetings with already active private sector associations such as the Jinja Chapter of the Uganda Manufacturers Association, or the Indian Investors Association, etc., and 2) cluster meetings for each sector led by the Agriculture Officer (for agribusiness), Commercial Officer (for industry and cottage industries / informal firms), and Tourism Officer.***

4.3 Jinja LG SWOT Analysis

The "Strengths, Weaknesses, Opportunities and Threats" (SWOT) Analysis session facilitated for the staff of the Jinja Municipal Council (with participation of the Jinja District), provided an opportunity for reflection on the extent to which the LGs were well positioned to undertake LED, and the main constraints they face in their ability to do so.

Several strengths were identified by LG staff including the willingness of the LGs' political and technical leadership to implement LED initiatives; the existence of educated human resources at the Municipal Government; and of some funds for infrastructure investments. The fact that the GoU has embraced LED and established a LED Policy at the national level also provides an opportunity for LGs to focus on it.

However, *a number of challenges and constraints were identified as weaknesses in the Municipal Government's capacity to implement LED. At the very top of these were Municipal financing constraints and the low budget* with which to deliver basic municipal services, let alone LED. The Municipality has a low local revenue base (2.9 billion UGX out of a total revenue of 17.5 billion in 2014/15)[36]. These are mainly spent on recurrent expenditure, staff and Local Councillors' salaries, and municipal services. Most of the Municipality's funding comes from conditional transfers from the central Government (14.4 billion UGX[37]) for earmarked government and donor funded projects. Given the higher priority for delivering critical services such as health and education, the budget for the Production Office (responsible for support to agriculture and MSMEs, etc.) is minuscule (representing only 1.3%[38] of the Municipality's expenditure in 2014/15. This prevented staff like

[36] According to the Jinja Municipal Council Final Accounts Statement for 2014/15, which was provided to us.
[37] A balance of 239 million UGX came from donors directly to the Municipal Government.
[38] Or 168 million UGX out of a total expenditure of 12.7 billion.

the Commercial Officer from undertaking any outreach activities such as financial literacy trainings for MSMEs last fiscal year, due to the shortage of budget.

Human resource issues were also emphasized by staff, who felt that staff motivation levels were low due to the low remuneration they receive. Consequently, staff said there was a poor working culture in terms of delivering on staff job descriptions. Staff also felt that they lacked the adequate economic knowledge and skills to implement the more complex agenda of LED. The high turnover of political leaders every election cycle and their poor attitude to delivering on the role that the population expects of them, was felt to interfere greatly with the ability of the Municipality to deliver on their development objectives. The lack of minimum educational qualifications for Local Councillors means they often do not understand the recommendations of technical staff and interfere in negative ways with the development process.

Finally, there was felt to be a *weak relationship with the local private sector* and lack of staff capacities on how to communicate with firms (aside from tax collection). Some staff called on others during the session to change their attitude to the private sector from seeing it merely as a resource for tax collection, to recognizing its role as an engine for economic growth and job creation, which needs to be supported. The lack of an institutional structure to support the private sector such as a one stop center was also considered a weakness.

Jinja Municipal Council SWOT Analysis

STRENGTHS	OPPORTUNITIES
(i) Government has embraced LED and there is a policy in place (ii) The Investment forum is effectively supporting linkage with the private sector (iii) Available human resource at the Municipality. Teamwork amongst the staff (iv) Good and willing political and technical leadership (v) There are other funds at the LG, like capacity building fund	(i) Availability of market for products (ii) Robust road network within the Municipality (iii) Strategic location of Jinja, at the source of the Nile, Lake Victoria as well as the River Nile (iv) The countries main power source is located in Jinja (v) Presence of all Micro-Finance Institutions and banks (vi) Industrial culture as well as location of many large scale industries within Jinja (vii) Good weather (viii) Presence of air strip in Jinja (ix) The proposed standard gauge railway line is passing through Jinja (x) All business support agencies like URA, customs office, etc. are all located in Jinja (xi) The proposed Jinja Express highway (xii) The proposed City status will boost business growth not only in Jinja but the entire region
WEAKNESSES	THREATS
(i) Very low budgets and funds available for LED (ii) Low local revenue base (iii) Poor relationship with the private sector (iv) Poor work culture (v) Poorly motivated staff due to low salaries (vi) Lack of adequate skills and required human capacity to deliver LED (vii) No one stop investment support centre (viii) Poor working relationship with the District, more so in land allocation for investment (ix) High turnover of political leaders (x) Poor attitude of some of the political representatives at local levels towards	(i) Insufficient housing infrastructure (ii) Insufficient investment capital (iii) Poor attitude towards work (iv) Education system, that emphasis theory over practical skills (v) Increasing competition in tourism with other Districts and countries (vi) Overly liberal economy and reduction in regulating role of government (vii) High national level duties and taxes (viii) Poor road infrastructure, especially those maintained by UNRA

	development	
(xi)	Need for a LG mind-set change on the need for support to the private sector	

5. Arua District

5.1 Economic potentials and challenges

Arua is a District of about 782 thousand people and a geographical area of 4343 km2.[39] Arua town has a strategic location on the border with South Sudan and the DRC and is a major distribution point for goods and services to the Uganda's West Nile Region as well as neighbouring countries. Emerging from the post-conflict reconstruction phase, Arua continues to experience strong economic performance as the return to peace and security has stimulated growth and expansion of several economic sectors and new activities.

However, the Arua District and the West Nile Region overall is starting from a very low base and still faces major challenges across all facets of development and poverty reduction. The West Nile is the second poorest sub-region in Uganda, with a poverty incidence of 42% of the population compared with the national average of 19.7% or 0.7% in Kampala[40]. Estimates suggest that northern Uganda would need to grow at 10% a year for 30 years just to close the income gap with the rest of Uganda[41]. Over 80% of the population in Arua District are involved in subsistence agriculture, while formal employment represents 9%, petty and formal trade employ 3.8% and 0.7% respectively, cottage industry employs 2.3% and the remainder is other types of employment[42].

The quantitative analyses for Arua is only representative of formal employment in Arua town. Since Arua District is mostly rural, the 2011 census only covered about 2% of the share of the expected labor force in Arua. If we consider only the population of the city, coverage reaches 24%, which is closer to Jinja and Kampala's shares (equivalent to 18,415 jobs). Key informant interviews with Municipal Government staff and members of the Arua Chamber of Commerce indicated that the data from the COBE was indeed not reflective of the local realities of the wider district. This is not surprising given the high share of the population reliant on subsistence agriculture in the local economy. This means that the sectoral specialization analysis cannot be said to be representative of the population at large in Arua District, but only the small subset of formal (likely urban) employment. The analysis also looked at the main agricultural crops in which the District specializes in, based on the Ugandan Census of Agriculture (2008/2009). The census data provided information on what crops are cultivated by districts, including area and production. Other data problems encountered were that:

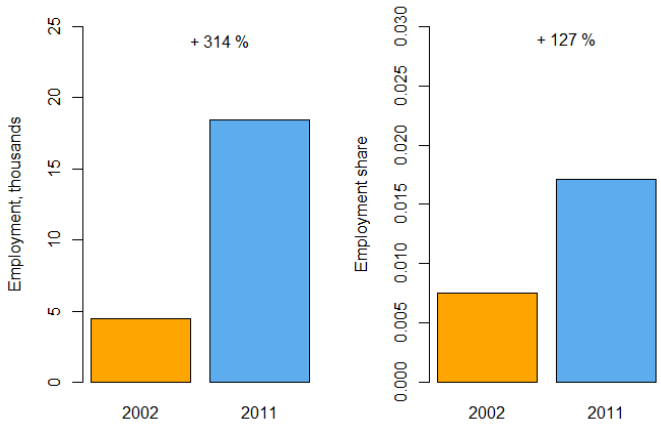
(1) the 2011 census includes less counties than in 2002, as the District was divided in the process of new District creation, and lost Koboko and Maracha counties;

(2) the 2001 economic census is likely to not have been exhaustive due to insecurity in Arua at that time.

Notwithstanding these data issues, employment in Arua (town) grew substantially between 2002 and 2011, both in absolute terms and as a share of national employment (Figure 10).

[39] 2014 Ugandan Population Census.
[40] Uganda National Household Survey 2012/13.
[41] Northern Uganda Economic Recovery Analysis Oxford Economics, 2014, for DFID and GoU.
[42] Arua District Development Plan (2015-2020) pp.8-9.

Figure 10: Employment Performance in Arua (2001-2011)



Source: World Bank staff calculations based on the Ugandan Censuses of Business Establishments (2001 & 2011)

While the quantitative data does not yet show any comparative advantage or specialization in any tradable or industrial sector in Arua, the qualitative analysis identified the agribusiness and tourism sectors as emerging sectors with potential for value addition and upgrading. In 2011, the labour force in Arua (town) was employed mainly in non-tradable services. Half of formal employment was involved in trading activities, which includes both retail and wholesale trade. Another 14% was in accommodation and food services and 11% in education, health and social work. This is understandable given Arua town's strategic location as a trade hub and its recent post-conflict status (explaining the high proportion of social work activities). The share of employment in manufacturing and food processing is lower, and Arua's share of labour in these sectors is lower than in the national economy. While these activities are nascent, however, qualitative data gathered indicated that (a) several agro-processing firms are emerging and adding value to local produce such as cassava, honey, chilli, sesame and livestock products; (b) there is a ready market for processed products locally and in cross-border markets (due to high transport costs to capital cities and local demand for cheaper products).

Table 8: Arua District industry profile

Industry	Share of employment	Location Quotient
Agriculture	0.30%	0.10
Fishing	0.09%	0.07
Mining & Quarrying	0.06%	0.20
Food Processing	1.64%	0.35
Other Manufacturing	6.53%	0.80
Utilities	0.13%	0.65
Construction	0.21%	0.16
Trade	49.54%	1.19
Transport & Storage	1.70%	1.36
Accommodation & Food Services	14.50%	1.01
Information & Communication	1.23%	0.92
Financial & Insurance Services	2.44%	0.97
Real Estate & Business Services	3.33%	0.67
Education, Health & Social Work	11.30%	1.49

Recreation & Personal Services	6.99%	0.93

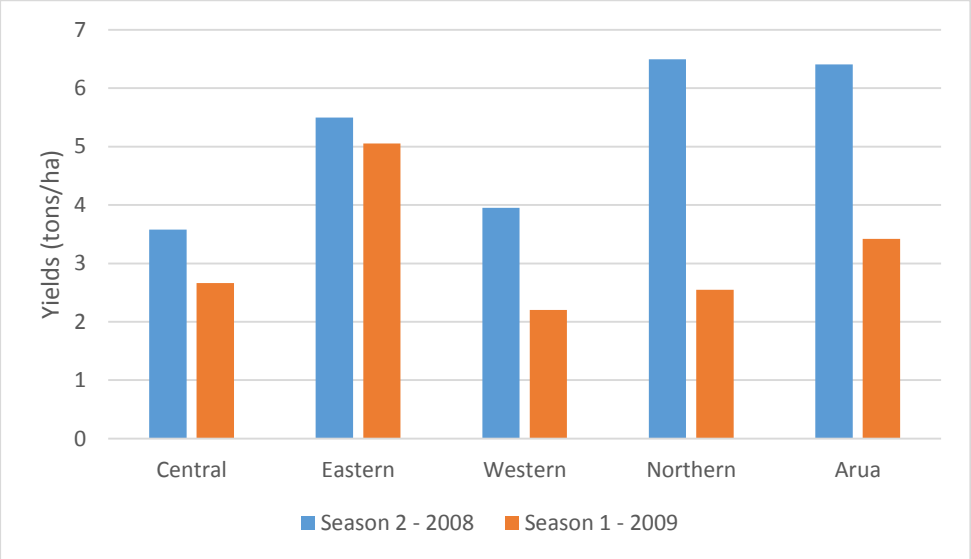
Source: World Bank staff calculations based on the Ugandan Censuses of Business Establishments 2011

The sectors and sub sectors chosen for the FGDs were based on the interviews with key informants in order to identify tradable sectors which had recently seen growth and which have the potential to support the structural transformation of the District from subsistence agriculture to commercialization and industrialization. From the qualitative analyses, based on FGD discussions with those sectors and desk based review of secondary studies, the following findings emerged in terms of promising economic sub sectors and activities:

5.1.1 Crop Agribusiness in Arua

Supporting the agro-processing subsector presents the best opportunity for the desired structural transformation in Arua, from subsistence farming to increased commercialization and manufacturing. The traditional government / donor approach of targeting subsistence farmers alone will not achieve this transformation; given the magnitude of challenges that farmers face. However, supporting agro-processors to establish themselves and expand is likely to produce major multiplier effects in terms of generating employment and commercial outgrowing opportunities for farmers. The main agribusiness products in Arua include Cassava, one of Uganda's ten national priority value chains, with the country being the 6th largest producer of Cassava in the world. Cassava is consumed as a staple food in Uganda and also sold to traders from the DRC and South Sudan. It can be processed as pellets and chips for livestock feeds, which have a good international market[43]. In 2008/2009, Arua's Cassava production share was among the highest areas in the country (5.08% of total production in both seasons). Yields from both seasons were higher than the average of the country and the region.

Figure 11: Yields of Cassava in Arua (2001-2011)



Source: Ugandan Census of Agriculture (2008/2009)

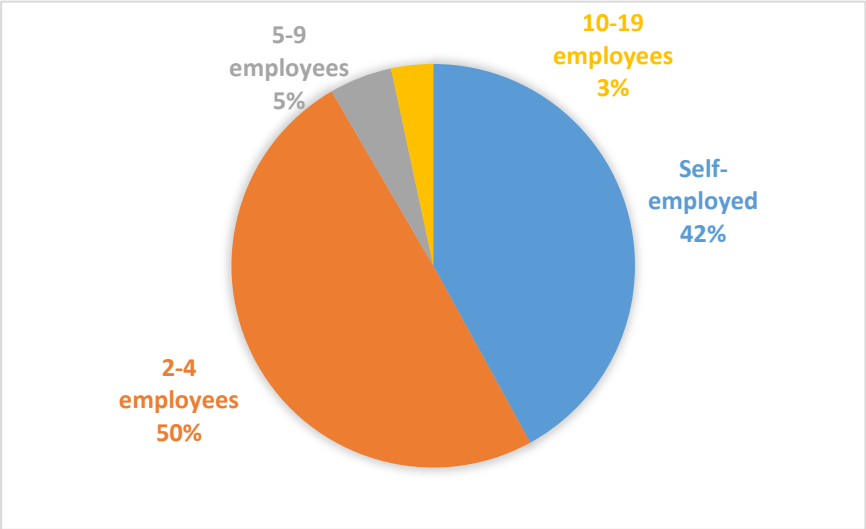
Honey is another prominent product, where locals have practiced beekeeping for the last 200 years, and the West Nile Region is said to have very high quality honey. About seven honey processing and packaging firms are present in Arua, but the majority of the honey is still sold unprocessed by smallholders directly to traders who take it to Kampala for processing and packaging. While there is a high demand for honey in the national as well as the export market, agro-processors do not have the capacity to produce enough quantities to meet the demand. Chilli is another high value crop, which has a ready market nationally and internationally and can

[43] The global trade in Cassava is worth 43.4 billion USD, with pellets and chips constituting 70% of international trade, starch and industrial use 29% and fresh roots only 1%. Africa controls only 12% of the global trade in cassava but Uganda contributes less than 1% of the African trade (UNDP 2012. A Value Chain Analysis of the Cassava Sub-sector in Uganda).

be grown at a large scale by small scale producers. So far chilli is produced by smallholders and most of it is sold directly to traders who take it to Kampala for processing. Finally, sesame and sesame products are also produced locally and have a ready market nationally and for export to China, Europe and the Middle East, with relatively good prices. Again, most of the sesame is sold unprocessed to traders and middlemen and only a very small proportion is processed in Arua into sesame (and peanut) butter, etc. Most of these activities were not prominent in the quantitative data due to their emergent nature and the small numbers of people currently employed in them.

The sector is extremely nascent and in need of intensive support. All the above value chains were reported to have experienced growth in terms of market demand and revenues in recent years, but they continue to face major challenges. For example, the sesame business over the last 10 years has grown at an exponential rate, with prices increasing from UGX 2000 per Kg around 6 years ago to UGX 5000 in 2014. But the market has recently dropped back to UGX 2000 due to the adulteration of produce by middlemen and producers who add sand to increase volumes. The new sesame markets in China and the Middle East are now being lost due to these quality concerns. Cassava production also continues to be constrained by the low levels of production due to land fragmentation and small land holdings, and most cassava producers sell it as fresh roots and do not add value to it in any way due to the lack of capacity and finance. This is preventing Uganda from entering the global trade in cassava products. Importantly, apart from less than a handful of bigger agribusinesses[44], this sector in Arua mainly consists of micro and small firms (Figure 12), which is a major barrier to reaping the productivity benefits of economies of scale in production.

Figure 12: Agro-processing firm size in Arua



Agribusiness producers in Arua face a myriad of challenges, which current Government programs are not adequately addressing. FGD participants rated *access to finance* as their top constraint (with almost double the number of votes of the next constraint), due to the stringent collateral requirements, very high interest rates (26%-29%) and financial products not adapted to agricultural activities (short grace periods and repayment schedules that do not take harvest times into account). They also explained that bank officers were not adequately informed on agricultural value chains and therefore mainly focused on supporting national priority chains, ignoring other local value chains with potential. Also, the fact that BDS is almost absent from the District, means that agribusinesses most often do not have the skills to prepare good quality business plans to secure financing. Finally, participants highlighted the issue of *poor infrastructure,* particularly rural feeder roads, as well as the total lack of electricity in many of areas of the District.

The fact that the sector is dependent on farmers as out-growers is also an issue as the majority of farmers lack the resources to move from subsistence to commercial farming - due to the increased fragmentation of land and their lack of access to finance, technology and inputs. Farmers are also vulnerable to exploitation due to their

[44] E.g. a water bottling company and a fruit juice agro-processor who is yet to start operating.

low bargaining power against traders and their lack of collective bargaining, marketing ability and access to market information. This underlines the importance of a functional agricultural extension system, which was felt by participants to be totally absent. Participants also highlighted the problem of *poor quality inputs* such as seeds and fertilizer and the lack of government enforcement of regulations that protect consumers from counterfeit products.

FGD participants made several recommendations on how LGs could support the crop agribusiness sector. They particularly emphasized the need for better Government enforcement of bylaws governing the quality of inputs and protecting farmers from counterfeit products. Unscrupulous traders, which have nearly destroyed the sesame market by adding sand to increase its weight (and, adulterating honey with sugar) should be seriously penalized by the authorities. In the absence of such government enforcement, businesses in Arua are losing some of their key markets.

Another major recommendation was on the need for a functional extension system that supports farmers upgrade the quantity and quality of production in local value chains. Given the current absence of such a system at the LG level, the issue of whether the bigger agribusiness firms could play more of a role in training farmers and improving their capacity as out-growers was discussed. Some firms are interested in this model but feel that they themselves have limited capacity or resources to invest in this, even though it would benefit their operations in the future. Also, given that training of farmers is a public good, where social returns exceed private returns, there is a clear case for government support to farmers, in conjunction with any training that can be provided by the bigger agribusinesses. This is particularly the case for Arua, where there are hardly any big agribusinesses and the majority are MSMEs that need support themselves. Firms also called for more intensive infrastructure investment by LGs in feeder roads and electricity generation. Finally, they asked for more interaction with LG on issues affecting their sector, which is felt to be currently absent.

5.1.2 Livestock Agribusiness in Arua

While livestock rearing and agribusiness in Arua is a relatively new sector, it has recently exhibited success for those engaging in it. Pig rearing, cattle keeping and milk production are all new activities for the area, but increasing numbers of people are getting involved. FGD participants involved in these activities explained that they are experiencing major market demand for these products, as people's disposable incomes increase and they seek more protein products. This is in addition to increasing demand in these products from South Sudan and DRC. However, current production cannot even satisfy the local market in Arua, let alone be sold to other markets. For example, there is only one milk processing business in the District - therefore traders regularly bring milk from Kampala and central Uganda for sale in Arua. Also, despite increased demand by local hotels for beef, pork and milk products, local markets are unable to produce the required quantity and quality. As with the crop sector, most livestock agro-products are still being sold unprocessed, due to the minimal amount of processors operational.

The wholesale of agricultural raw materials and live animals sub-sector employed three times as much labour in Arua than in the rest of the country. It participated to the creation of 220 jobs between 2001 and 2012, which can be attributed regional factors. Overall, employment in this subsector grew from a recorded 28 employees in 2001 to 254 in 2011 (COBE 2001, 2011).

However, the sector is extremely nascent and in need of a lot of support if it is to be able to grow and fulfil its potential for job creation and value addition. A major constraint ranked by participants was the *lack of appropriate products in financial institutions* for medium and large scale agribusiness project investments such as milk processing plants. One participant explained that, while he sees a big market opportunity for establishing a milk processing plant in Arua, he has not been able to raise the financing for it, given that the repayment of the loan would be beyond his financial means. *Poor infrastructure* including the lack of *irrigation* schemes, electricity, rural livestock markets and feeder roads was also felt to be reducing productivity. The lack of irrigation infrastructure was leading to many cattle being lost during the dry season, which could be prevented. Also, animals are losing weight while being trekked for long distances until the nearest market, and farmers lack access to *markets* for their goods. For urban businesses, such as one small scale meat processing firm we spoke to, the complete of lack of access to *electricity* from the local grid has locked the

firm into staying at the micro level for many years. Similar to the crop agribusiness sector, livestock owners act individually with *no collective bargaining*, bulk marketing or access to price and market information to increase their bargaining power. Middle men are therefore buying milk from individual farmers at reduced prices and transporting it to milk processing companies in Kampala and faraway places for a healthy profit margin[45]. FGD participants also emphasized the poor veterinary services in the District and the *absence of extension advice* and linkage of livestock owners with research on viable breads, etc. Similar to the crop sector, this highlights the importance of a functional extension service and support to agricultural cooperatives.

Most recommendations made by livestock agribusinesses for LG interventions were in the areas of infrastructure investment, extension services & BDS support: (i) For urban based agribusinesses such as meat and milk processors, LG investment in serviced industrial parks would greatly help firms who are trying to establish themselves in this sector and currently lack access to electricity or a good road[46]. Establishing an industrial park would limit the area that the LG needs to ensure is serviced in the short term, making it easier to support small industries. (ii) LG investment in market infrastructure, particularly for livestock markets at sub county level, would also help livestock owners avoid animals being trekked long distances to market and offer them an alternative to the traders which often offer them bad prices. (iii) LG investments in water and irrigation infrastructure would help mitigate some of the effects of drought, and (iv) investment in feeder roads, would reduce transport costs for agribusinesses. (iv) Technical support to livestock agribusinesses was another area emphasized, particularly BDS service provision through support to MSMEs and cooperatives. Firms feel they particularly need support in developing bankable business plans for financial institutions. They also called for a reactivation of the LG's extension system for the livestock sector. (v) Finally, participants asked for LGs to be more responsive to the needs of local business and try and support these activities which are creating jobs and contributing to structural transformation. They would welcome increased dialogue with the LG and would appreciate participating in the planning and development of District Development Plans (DDPs) to ensure the needs of the agribusiness sector are adequately represented.

5.1.3 Tourism in Arua

The nascent tourism sector in Arua has been experiencing some growth. Local tourism businesses emphasized Arua's strategic location on the border with DRC and South Sudan, increased security and stability, and recent improvements to the road network as key factors enabling this growth. The presence of other undeveloped tourism potentials such as a forest reserve & crater lake, with the potential for activities such as hiking, bird watching, etc., and cultural sites such as the ancestral home of Iddi Amin were also highlighted. MoTWA has also prioritised Arua as one of 13 Districts with tourism potential in the country[47]. FGD participants reported an increase in the number of hotels in Arua, which entered the sector after perceiving a hotel infrastructure gap, due to the increasing demand for lodging from NGO workers and other visitors from neighbouring countries. Hotels in Arua are attractive to these customers both as a weekend getaway and as a venue for meetings and conferences. This has also resulted in a proliferation of arts and crafts producers, which entered the sector to take advantage of the increased opportunities to sell to tourists, but also as a strategy for job creation, particularly for unemployed youth.

Table 9 shows that retail sale, private security, short-term accommodation and restaurant have a certain advantage in Arua and employ a large share of formal employment. The district also had the necessary amenities to host tourists (clinics, availability of medicine and some security).

Table 9: Arua District promising sub-sectors

Description	Location Quotient	Share of labor

[45] and then transporting the processed milk back again to sell to consumers in Arua!

[46] When firms in Arua talk of an industrial park, their expectations are actually very modest (given that most firms are MSMEs), and just entail the zoning of land for industrial purposes, establishing basic physical structures, electricity, road, and water connection.

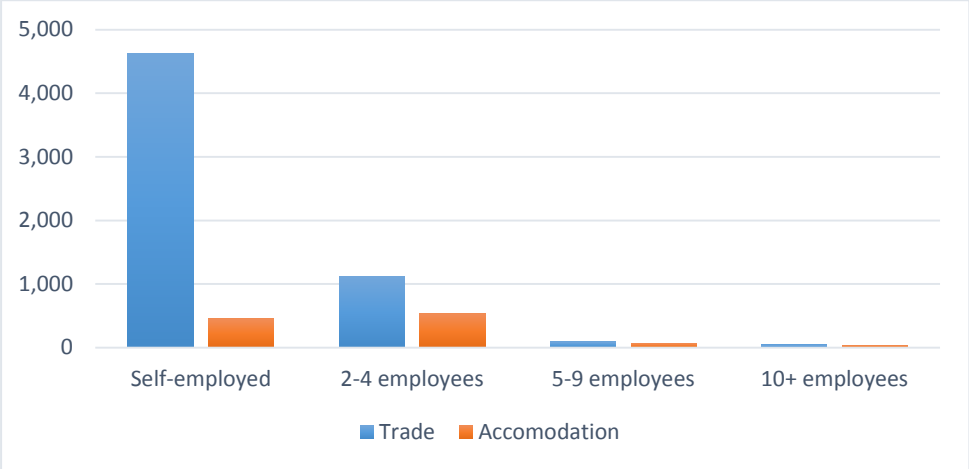
[47] World Bank (2012). Uganda Tourism Sector Situational Assessment: Tourism Reawakening.

Retail sale via stalls and markets of textiles, clothing and footwear	5.34	2.23%
Retail Sale of Fish	4.09	2.22%
Retail sale via stalls and markets of second hand clothes, textiles, shoes	1.93	2.01%
Retail sale via stalls and markets of food, beverages and tobacco products	1.91	6.71%
General Clinic	1.61	3.71%
Retail sale of pharmaceutical and medical goods, cosmetic and toilet articles in specialized stores	1.25	3.09%
Short term accommodation activities	1.21	3.13%
Manufacture of wearing apparel, except fur apparel	1.20	2.19%
Private security activities	1.20	1.73%
Restaurants and mobile food service activities	1.04	7.68%

Source: World Bank staff calculations based on the Ugandan Censuses of Business Establishments 2011

The firms engaged in trade and accommodation services are mostly of a micro-enterprise and family business nature (Figure 13).

Figure 13: Firm size in the trade and accommodation industries



More data and information is still needed on the tourism sector in Arua. Market segmentation information is currently lacking on the profile of tourists that are coming, their reason for visiting, what services and attractions they could be attracted to, etc. This would allow a better assessment of the likely extent of growth and expansion of this sector in Arua. Tourism operators consulted described growth in the sector as slow but steady, with the number of hotels slowly increasing and occupancy rates fluctuating throughout the year, but having busy periods around public holidays and festivals. A more accurate forecasting of future demand is needed, particularly based on the future plans of NGOs located in Arua and neighbouring countries, as well as on prospects for international tourists who currently come for safari as far as Nwoya District but could potentially be interested in Arua. Given its distant location from Uganda's main international airport in Entebbe (an 8-hour drive), the area is unlikely to attract as many tourists as Jinja, Nwoya and other areas, which are closer to the airport or have more wildlife attractions.

The current lack of support to the tourism sector in Arua was highlighted as the main constraint. Lack of financial support from donors, national and LG for *tourism infrastructure* and attraction development in Arua was felt to be the main issue holding back the potential of the sector. This was followed by constrained *access to finance* for the establishment and expansion of tourism businesses from commercial banks and other financial institutions. The main problems, similar to other sectors, were the high and fluctuating interest rates, collateral and cash flow requirements. The high number of *taxes* that firms have to pay and the difficult tax administration process were also felt to be impacting profitability. They also highlighted the informal nature and *lack of training and certification* for local tour guides and the *lack of marketing or profiling* of tourist attractions available or the development of possible tourist attractions and products.

Firms recommended that more attention be given to Arua's tourism industry in District and Municipal Development Plans. As mentioned above, firms felt that data collection and improved understanding about the tourism industry in Arua and the West Nile region is very much needed in order to better support the development of the sector. The recently formed Arua Tourism Association aims to work on this, including undertaking simple studies on tourist trends, etc., but the organization is new and in need of support and capacity building in order to play an effective role.

The biggest priority for LG investment was felt to be tourism infrastructure such as tourist site development (including roads, toilets and other service facilities at undeveloped sites), as well as establishing a gazetted market for local art and craft products. At the moment, craft producers are not easily visible to tourists as they locate in whatever premises they can find, often far away or hidden from the main roads tourists frequent. Gazetting a specific area for craft sellers would be a tourist attraction in itself as well as providing better access to marketing opportunities for these local producers. Firms also recommended more regular interaction between the LG and the private sector engaged in tourism, with the most useful forum suggested as a regular sectoral or cluster meeting under the aegis of the local Chamber of Commerce in Arua. The District LG should also discuss the need for recruitment of a Tourism Officer to work on supporting the sector and marketing local potentials, etc. – either at the District level or at the Regional Level, depending on the latest approach being adopted by the Tourism Master Plan.

5.1.4 Informal economy / cottage industry in Arua

Similar to Jinja, this research narrowed down the focus to looking at the subset of informal firms most likely to grow, expand and contribute to value addition. Small-scale fabricators and cottage industries with a fixed premises and involving some value addition in terms of manufacturing or processing were therefore selected for participation in the FGD. FGD participants in Arua encompassed a wide range of activities, including bakery, sesame and peanut butter processing, professional printers, a simple machines manufacturer, blacksmiths, carpenters, etc.

When talking of the industrial sector in Arua, small-scale processors and fabricators represent the vast majority of industrial firms. Firms reported steady growth trajectories in their economic activities enabled by the return to peace and stability, increase in disposable incomes, the construction boom, and availability of market demand from neighbouring countries - South Sudan and the DRC. Backward and forward linkages with the rest of their value chains are present, where agro-processors, for example, get all their raw materials from local farmers and markets, and then sell on to the bigger, formal sector supermarkets, hotels, and wholesale traders from neighbouring countries.

Given Arua's level of development, these small-scale processing and fabricating businesses represent Arua's best chance to upgrade value addition and gradually achieve structural transformation into tradable economic activities. In contrast to similar firms in Jinja who reported a situation of decline in demand for their goods and the wages they earn, firms in Arua reported an increasing growth trend. This is perhaps consistent with the level of development that Arua and its neighbouring markets in DRC and South Sudan are at – which makes the low price, low quality products made by such small scale cottage industries attractive and competitive. Most firms in Arua said they started their business because they saw a gap in the market (whereas in Jinja people were mainly starting these businesses due to family tradition or lack of other alternatives for school dropouts). For example, a printing firm said that before they entered the market, all packaging labels, receipt books, etc. were printed in Kampala. Carpenters and blacksmiths said that the construction industry had been facing constraints in procuring all their supplies from Kampala (windows, doors, wood and metal frames, etc.), given high transport costs and delays in procurement, so they have developed local products to satisfy this demand and are now regularly supplying construction firms. All firms stated that there is more demand for their products from the local area and buyers from neighbouring countries that they are currently not able to satisfy, due to the small number and size of firms engaged in industrial activities.

The sector is, however, nascent and faces many challenges and constraints, particularly regarding the ability of firms to transition from micro enterprise to larger size enterprises that can take advantages of economies of scale in production. The top constraint ranked by firms in the FGD was the lack of access to a reliable and affordable

electricity supply due to the low capacity of the local supplier, leading to regular cuts, which had damaged the machinery of various firms we spoke to, or was leading to firms being idle for periods of up to a whole working day at a time, while they wait for the electricity to come back on. Firms also complained of the high costs of electricity tariffs. Lack of *access to finance* at affordable interest rates was again mentioned as one of the top constraints, after the electricity issue. Finally, firms mentioned the high number and levels of *taxes* that they pay. While the majority of these firms reported not being registered with URA for payment of VAT and corporate income taxes, they were paying a variety of other dues and taxes. Firms particularly emphasized the seemingly non-transparent manner in which firms were assessed for payment of trading licenses, with firms not having access to the information on the criteria applied for assessing their level of tax liability.

At the national level, the firms requested a solution to the electricity problems faced by the West Nile region. Firms also emphasized the very high transaction costs involved in getting their products certified for sale by UNBS. Certification cost one firm, involved in the production of sesame and peanut butter, 1.5 million UGX for only one product. Finally, firms requested for Government intervention to ensure financial institution interest rates were affordable for medium to longer term investments.

At the LG level, firms requested support to help them grow and expand. Their priority areas for support included: (i) BDS to help them develop bankable projects for upgrading machinery and production technologies, and business incubation centres to help them with quality upgrading and modernization. (ii) Firms also mentioned the need for a mind-set / attitudinal change among the local population, who tend to prefer products coming from Kampala, regardless of whether there are good quality or cheaper local alternatives. One recommendation was, therefore, for the LG to spearhead a "buy local" campaign in conjunction with local radio stations. (iii) Firms also strongly recommended better municipal zoning and town planning and the creation of industrial parks[48] to ensure certain areas are designated for these industries and therefore serviced with the required infrastructure, particularly electricity.

5.2 Drivers of economic competitiveness

5.2.1 Infrastructure and land

By far the main infrastructure constraint inhibiting firms from being able to establish or expand in Arua is lack of electricity. The only electricity provider in the region is West Nile Rural Electrification Company (WENRECO), to which the GoU gave a long term concession for power provision in the West Nile Region (from 2003-2023). Undoubtedly, electricity provision in Arua has substantially increased over the last decade, given that before WENRECO came on board, firms had to rely on generators to power businesses. After the commissioning of the 3.5 MW Nyagak I hydropower plant in 2012, electricity supply increased to 24 hours a day and by the end of 2014, the number of connections rose to 5,900, an increase of 4,600[49]. This, however, only covers a tiny proportion of the population of Arua, let alone the rest of the West Nile. Participants in four of five FGDs rated electricity as a major constraint and mentioned the deep dissatisfaction with WENRECO's customer service, which they believe is due to the monopoly that the company has on power generation. The complete lack of access to electricity in many areas of Arua continues to constrain firm establishment and start-ups, as well as severely lowering the productivity and expansion potential of existing firms. At the same time, unreliable supply and continuous power cuts in the areas that do have access to electricity is also severely lowering productivity and incurring losses at the firm level.

In the absence of more effective service provision by WENRECO, local firms called for LG intervention to attract investment for local power generation projects. Stakeholders met expressed their frustration that even though the region had the hydrological resources needed for local power generation, there has not been movement in this area. Firms listed potential power generation sources including Nyagak 1 (3.5MW), Ag01, Ag02, Alla 1, Alla 2 and Illa3, Meria Adoa, Olewa, Koki, and Amua. Firms questioned why these facilities could not be invested in locally to increase competition in electricity supply in the region. The Karuma Hydroelectric Power Station, a 600 megawatts project currently under construction, will hopefully solve the electricity problems of the West Nile Region once completed by connecting it to the national grid (target date 2018). However, in the

[48] building on successful *Jua Kali* industrial parks for informal firms in Mbarara and Njeru, etc.
[49] Agha Khan Development Network (n.d.) Generating Hope for Brighter Future. Bringing Electricity to Arua Uganda.

meantime, the lack of electricity is a major impediment to industrialization in the District. It is therefore recommended that the District LG could invest in PPPs for local power generation projects. ***Advocacy with the national Government is another important avenue, and all local stakeholders particularly emphasized the need for more advocacy efforts by the LG towards improving the performance of the electricity provider WENRECO.***

Firms also explained how the limited potential for land ownership is a major disincentive to investment and business expansion. Land constraints are disproportionately affecting Northern Uganda, where 93% of land is under customary tenure[50]. This presents a clear barrier to investment, particularly in agribusiness, as firms have to individually negotiate rental leases with customary institutions and landlords, which can sometimes be unstable. Land disputes are common and there are many examples of failed commercial land investments – for example, 85% of respondents in a study on the Northern region reported having their ownership of land threatened[51]. ***The District LG should prioritize the improvement of cooperation between local communities and local businesses to facilitate access to land for firms establishing an investment, particularly in a tradable sector (see Box 2 on the successful case study from Nwoya District). This is particularly important if Arua is to be able to attract larger scale agribusinesses in the future that can have a major impact on the local economy through out-grower schemes in the same way as in Nwoya District.***

Effective urban planning and zoning in Arua town and the establishment of industrial parks or zones, could greatly alleviate land and infrastructure shortages faced by industrial firms. Particularly in Arua town, firms commented that currently they have to establish wherever they can find land or premises for rent and are at the mercy of landlords who may throw them out. They felt that if the town was better zoned for industrial, residential and other activities, this would increase their bargaining power with landlords. A first best scenario, would be if the LG could invest in establishing an industrial park where firms could own premises or at least have secure long term leases. This would also make it easier for the Municipal Government to ensure these industrial areas have good electricity provision, and other municipal services. Finally, industrial parks or zones would allow firms to take advantages of clustering and increase backward and forward linkages with other firms in their sector.

Other economic infrastructure needed includes rural feeder roads and tourism infrastructure. The main road to Arua has recently been upgraded by the World Bank, and firms reported this had increased linkages with Kampala and other areas of the country and made it easier for visitors to come to Arua. While connectivity improvements with other cities is important, in the absence of improvements in the performance and competitiveness of Arua's firms and subsectors, Kampala will be the one benefiting from the reduced transport costs – not Arua[52]. This is because as transport costs come down, it becomes cheaper for people in Arua to access products from Kampala, which people prefer due to their higher quality. For this reason, investing in upgrading infrastructure within Arua is now a priority. Arua District has been making progress, with over 3 billion UGX (almost $900,000) spent on construction and rehabilitation of over 20 roads in the last 5 years. But there are clearly huge investment needs in this area, which the LG is unable to satisfy due to the limited budget for roads. As mentioned in Section 5.1.3 on Tourism, there is also a need for investments in site development, craft market, etc. to develop the tourism potential of the District.

Building on successful investments in road infrastructure, when preparing District Development Plans, the LG should consider transitioning to infrastructure that has been prioritized by local firms as critical to business success:

- ***Local electricity generation projects***
- ***Tourism infrastructure i.e. roads to tourist sites, site development, craft markets, etc.***
- ***Serviced industrial park for emerging small or large scale industries (particularly with access to electricity capable of supporting industry)***

[50] DFID (2015). Northern Uganda: Transforming the Economy through Climate Smart Agribusiness. Business Case and Intervention Summary.

[51] Moyer et al (n.d.) Advancing development in Uganda: evaluating policy choices for 2016-21 and selected impacts to 2040. Frederick S. Pardee Center for International Futures.

[52] This is sometimes referred to as the "two way road effect" where a new road is designed to improve access to markets for cities in the periphery (such as Arua), but instead ends up improving market access for core cities (like Kampala) in peripheral cities.

- ***Feeder roads in rural areas***
- ***Irrigation schemes***
- ***Livestock markets***

5.2.2 Skills and innovation

In contrast to Jinja, the issue of skills did not come up prominently in the FGDs with Arua's main economic subsectors. This could be because of the lower level of development of firms and subsectors in Arua compared with Jinja, whereby firms in Arua do not need a more sophisticated level of skills at the current stage in their development. It could also be because the other constraints, such as electricity, land, access to finance, etc. are more binding than skills. Nonetheless the low levels of skills among the local population in Arua is likely to hinder investment in new activities and sub sectors that could accelerate structural transformation. Only 18% of the population in Arua progressed beyond primary schooling[53] and 36% of the population of the Northern Region are illiterate[54].

5.2.3 Enterprise support and finance

The lack of affordable finance for business establishment and expansion was rated as the highest or second highest constraint in all five FGDs in Arua. While many donor and GoU funded programs on access to finance are active in Arua, firms are either unaware of their existence or know that the conditions of access exclude MSMEs. Numerous commercial banks are active in Arua and many are in receipt of donor and GoU funding for on-lending with more favourable interest rates, to agribusinesses in particular (see Section 7.3 below for more information on the various funds). Representatives of the commercial banks we spoke to explained that the main problem with disbursing the funds was the absorption capacity of firms in the District, because:

- Many of the funds were targeted at bigger agribusiness (over 50 employees and large turnover, etc.) rather than MSMEs
- Local firms lacked the capacity to produce good quality business plans
- Local firms are not coming in to the bank in the first place to ask about the funds

However, all the businesses we spoke to in Arua (which were mainly MSMEs) were totally unaware of the existence of those funds, even though they had an interest in obtaining credit. It is therefore important that the Financial Institutions (FIs) in receipt of such funds publicize these opportunities in a more obvious manner. There does not, however, seem to be much incentive for them to do so compared with lending of their products at the higher commercial interest rates.

While the LG had partnered with local FIs to finance youth and women's entrepreneurship, these funds did not produce the desired impacts. The commercial banks we spoke to indicated that they were struggling with extremely low repayment rates on Government funds they were on-lending, such as the Youth Venture Capital Fund, given their politicization by local politicians who told communities to not repay the loan as this was a grant to them from Government. Other relevant funds disbursed by LGs to support micro-enterprises (such as the Youth Livelihoods Fund and the Community Driven Development grants) were also felt to have achieved very limited impacts as they were not targeted towards microenterprises based on their potential but on welfare or other considerations.

The second big issue affecting firms under the area of enterprise support, was the non-functional agricultural and livestock extension system or commercial office support to MSMEs and cooperative development. Firms in 3 out of the five FGDs highlighted this as a major factor lowering their productivity – particularly for the agribusiness sector. The GoU's Operation Wealth Creation (OWC) implemented by the army to replace the dysfunctional National Agricultural Advisory Services (NAADS) extension system, is active in the District. But local firms and District staff indicated that the inputs provided were often not appropriate to the local context.

[53] Arua District Local Government Statistical Abstract.
[54] Uganda National Household Survey 2009/10

"In any case Operation Wealth Creation is only input supply. I think we can safely say that the extension system in now dead." (Agribusiness firm, Arua District)

As per the new structure for LGs currently being proposed to Parliament by MoLG, the District should empower the Production Office for the implementation of LED. This would entail an increase in the budgets of the Commercial and Agriculture Officers to enable them to re-activate the services that the District LG is designed to deliver to local firms in these sectors. Namely, agricultural and livestock extension, support to cooperatives, financial literacy and other BDS for MSMEs.

Access to finance was a critical issue for firms in Arua, but is one where the LG has very limited capacity to work on. It is therefore recommended that the LG concentrates on raising awareness of the available sources of funding in commercial banks, MFIs, etc.

5.2.4 Institutional and regulatory environment for business

As the above findings from the firm level qualitative research indicate, the LG in Arua is currently not playing the role needed from it to improve the environment for business and support the private sector. While national level agencies and programs are also struggling to make an impact on the market failures and supply constraints affecting the private sector. Firms in Arua do not seem to suffer with the same sort of corruption issues as firms in Jinja reported, but the main institutional issue in Arua is more the absence of the LG in key areas of support needed by local firms.

There is still a lack of understanding by LG of the role it should play in instituting an enabling environment for the private sector, in order to create jobs and economic growth. The LED pilot that Arua District Government implemented has visibly increased the capacity of District Government officers, elected councillors and others to understand their local economy and which sectors have potential for competitiveness (e.g. through the development of the LED strategy, establishment of the LED Forum, implementation of quick win and catalytic projects, etc.). But due to the LED approach taken, the focus was more on trying to set up PPPs on specific enterprises. For example, 40 million UGX was allocated to two communities to purchase beekeeping equipment and form a SACCO, which remains engaged in honey production but are somewhat struggling with their marketing. Another 40 million were allocated for a sesame cooperative, but it was not a good season for sesame production and the seed funding provided to the cooperative has since stopped revolving. Arguably, these projects achieved suboptimal results due to their piecemeal nature and lack of a broader focus on improving the enabling environment for all business in Arua.

Firms in Arua strongly advocated for a more regular and meaningful dialogue with the LG. By contrast to Jinja, where firms were trying to avoid more interaction with the Municipal Government, firms in Arua were very interested to interact more with the LG and advocate for the support they need. Effective PPD is important in increasing the capacity and understanding of District LG officials and elected Councillors of the constraints facing the private sector and of the role they need to play to support economic growth and employment creation. However, as the experience with establishing the LED Forum under the DDPIII pilot shows, creating a forum by itself, does not guarantee effective participation or interaction, especially when a "big tent" approach is taken, where stakeholders do not have common issues to collaborate on and do not directly see how they will benefit from their participation. A more effective approach would be to focus on the above areas of actions and reforms, which will show the private sector that the LG is serious about supporting them. ***Consulted firms suggested regular dialogue using the cluster approach, where firms in each sub sector meet regularly with the relevant government official for their subsector. The Chamber of Commerce, which is the strongest and most active organization in Arua, could coordinate private sector participation in these fora. However, the lead must come from the LG. Currently, there are some active cluster groups on apiculture and cassava, which are remnants of the LED pilot in Arua. Private sector players are attending these meetings alone as they have seen their value in collaborating on issues that benefit them, whereas LG officials have stopped attending them.***

More practically, government action to enforce the regulations on quality of agricultural inputs is needed for the success of the local crop and livestock agribusiness sector. As outlined above, these sectors are

incurring huge losses due to the adulteration of produce by unscrupulous traders to increase their profits. While the appropriate by-laws and ordinances exist, LG needs to increase its enforcement capacity.

"I once lost 1000 chickens because of adulterated feeds, now I rely on mixing my own feeds." (Livestock agribusiness, Arua District).

While tax administration issues were not as prominently mentioned as problems in Arua by comparison to Jinja, firms still raised the need for better transparency in the tax assessment process. Harmonizing taxes into more obvious and transparent brackets and consolidating them into a lesser number of taxes would reduce the need for individualized tax assessments and multiple interactions with numerous officials, which could open avenues for corruption. Making such information available online and in an obvious place at the Municipality would also improve firms' access to information and reduce their vulnerability to corruption.

The District LG should establish a One Stop Centre (OSC) for local businesses (including URA, URSB, UNBS, and relevant District Departments, including the Production Office) to streamline and reduce the time and cost involved in business registration, tax administration, product certification, and other procedures. The OSC would also have an important role in providing access to information, particularly on financial products funded by the GoU and Donors available in local FIs; and on tax bands and legal tax requirements, etc.

5.3 Arua LG SWOT Analysis

The half day, Strengths, Weaknesses, Opportunities and Threats (SWOT) Analysis session facilitated for the staff of the Arua District Government (with participation of the Arua Municipal Council Town Clerk), provided an opportunity for reflection on the extent to which the LGs were well positioned to undertake LED, and the main constraints they face in their ability to do so.

Several strengths were identified by LG staff including the availability of human resources and established administrative structures at the District Government. The fact that there was a LED Policy in place at the national level and a focus by the MoLG was also felt to provide a conducive environment for action. LG was also assessed to be strong on having enacted relevant laws and ordinances for the efficient administration and development of Arua.

However, a number of challenges and constraints were identified as weaknesses in the LG's capacity to implement LED. At the very top of these were financing constraints and the low budgets with which to deliver basic services, let alone LED. The District has a low local revenue base, representing just 1% of total revenue (566 million UGX out of a total revenue of 50 billion UGX in 2014/15)[55]. These mainly have to be spent on recurrent expenditure, staff and Local Councillors' salaries, and municipal services. Most of the District's funding comes from conditional transfers from the central Government (43 billion UGX[56]) for earmarked government and donor funded projects. Given the higher priority for delivering critical services such as health and education, the budget for the Production Office (responsible for support to agriculture and MSMEs, etc.) is minuscule, representing only 1.7%[57] of the District's expenditure in 2014/15. This prevented staff like the Agricultural or Commercial Officer from undertaking any outreach activities for farmers, agribusinesses, or MSMEs (due to the lack of budgets for fuel needed to undertake outreach activities, etc.).

Several human resource issues were also highlighted, including weak staff capacity to work on complex economic development issues and be able to identify intervention priorities; low motivation levels of staff; and the need for a change in their mind-set towards the private sector. One issue that had also been identified by firms in the tourism sector was the lack of a Tourism Officer to lead the profiling and marketing of tourism potentials in the District, similar to the one that had been recruited in Jinja. At an institutional level, the lack of a one stop center to support businesses was also felt to be a weakness in the support provided by LG.

[55] Arua District Development Plan, p.25.
[56] A balance of 6 billion UGX came from donors directly to the District Government.
[57] Or 890 million UGX out of a total expenditure of 50 billion.

Arua District Government SWOT Analysis

STRENGTHS	OPPORTUNITIES
(i) Human resource availability (ii) Established Administrative structures (iii) Political support for LED from the central level (iv) Available laws in place and ordinances enacted	(i) Central Government transfers/ financing from the centre (ii) Presence of development partners (iii) Prevailing peace and stability (iv) Presence of training institutions (v) Existing policies (vi) Strategic location in with access to neighbouring country markets (vii) Presence of financial institutions (viii) Prevailing peace and security (ix) Favorable climate (x) Potential natural resources like dam sites, fertile soils etc. (xi) Available labor force both skilled and unskilled (xii) Available educational system for human skills development (xiii) Responsive private sector (xiv) Improved availability of transport and other infrastructure
WEAKNESS	**THREATS**
(i) Inadequate funds to meet LG needs (ii) Inadequate human resource and capacity challenges (iii) Mind-set and attitude of staff (iv) Priority identification challenges (v) Failure to realize local revenue planned (vi) Lack of one stop business centre (vii) Lack of business incubation centre	(i) Changing Government policies (ii) Unpredictable weather/Climate change (iii) Uncontrolled and unplanned population growth (iv) High interest rates from financial institutions (v) Macro-economic instability (vi) Political interference (vii) Lack of land for industrial parks (viii) Insecurity in neighbouring countries (ix) Unreliable electricity (x) High business costs (taxes, interest rates and high transport costs (xi) Inadequate water supply to attract industrial development (xii) Poverty rates very high, low purchasing power of communities

6. Nwoya District

6.1 Economic potentials and challenges

Nwoya is a District of approximately 128,094 people and an area of 4,171 square kilometres[58]. The district is characterized by abundant natural endowments, including the availability of large and un-fragmented fertile land for agribusiness production; a national park with wildlife resources for tourism; commercial quantities of oil and gas being explored; and good road connectivity giving market access to the rest of Uganda and bordering countries.

Similar to Arua, Nwoya District is also emerging from the post-conflict reconstruction phase, and has experienced a relatively good economic performance in recent years, and the return of peace and security has prompted growth of all sectors. However, the Nwoya District and the Northern Region overall is starting from a very low base of development and still faces major challenges across all facets of development and poverty reduction. Poverty rates in the Northern Region (42%) are twice the Ugandan average (19.7%)[59] and estimates suggest that the northern Uganda would need to grow at 10% a year for 30 years just to close the income gap with the rest of the country[60].

The quantitative data available for Nwoya was subject to major limitations because:

(1) the District of Nwoya was only created in 2010. This prevented the analysis of employment growth trends over time (shift share analysis) using COBE data

(2) the 2011 census only covered about 0.3% of the share of the expected labour force in Nwoya[61], as only 600 jobs were recorded by the COBE. Considering only the urban population in the district, the coverage rises to 3%, which is still very low. Sectoral specialization is therefore not representative of the population, but likely to be representing the small subset of formal employment. This was confirmed by Key informant interviews with Municipal Government staff who indicated that the data from the COBE was not reflective of the local employment realities.

Among these 600 jobs, trade, accommodation and food services, and education, health and social work were the ones with most labour force. Nwoya's accommodation and Food services employment's share was more than twice has high as in the rest of the country, supporting the resurgence of the tourism sector in the District (Table 10).

Table 10: Nwoya District industry profile

Industry	Share of employment	LQ
Food Processing	1.85%	0.39
Other Manufacturing	5.70%	0.70
Trade	34.23%	0.82
Accommodation & Food Services	35.07%	2.45
Information & Communication	0.34%	0.25
Financial & Insurance Services	4.53%	1.80
Real Estate & Business Services	0.34%	0.07
Education, Health & Social Work	10.57%	1.40
Recreation & Personal Services	7.38%	0.98

Source: World Bank staff calculations based on the Ugandan Censuses of Business Establishments 2011

[58] Nwoya Statistical Abstract 2014-2015
[59] Uganda National Household Survey 2012/13
[60] Northern Uganda Economic Recovery Analysis Oxford Economics, 2014, for DFID and GoU
[61] World Bank staff calculation based on the COBE 2011 and the World Bank World Development Indicators (WDI) national labor force participation rate (% of total population ages 15-64) (International Labor Office estimate).

Since subsistence agriculture in Northern Uganda accounts for 87% of the local economy[62], data from the agricultural census was used to outline Amuru's District agricultural profile, which in 2008/2009 was regrouping two counties: Amuru and Nwoya that became separate districts in 2010. Given their proximity, we will assume that both counties had a similar agricultural profile.

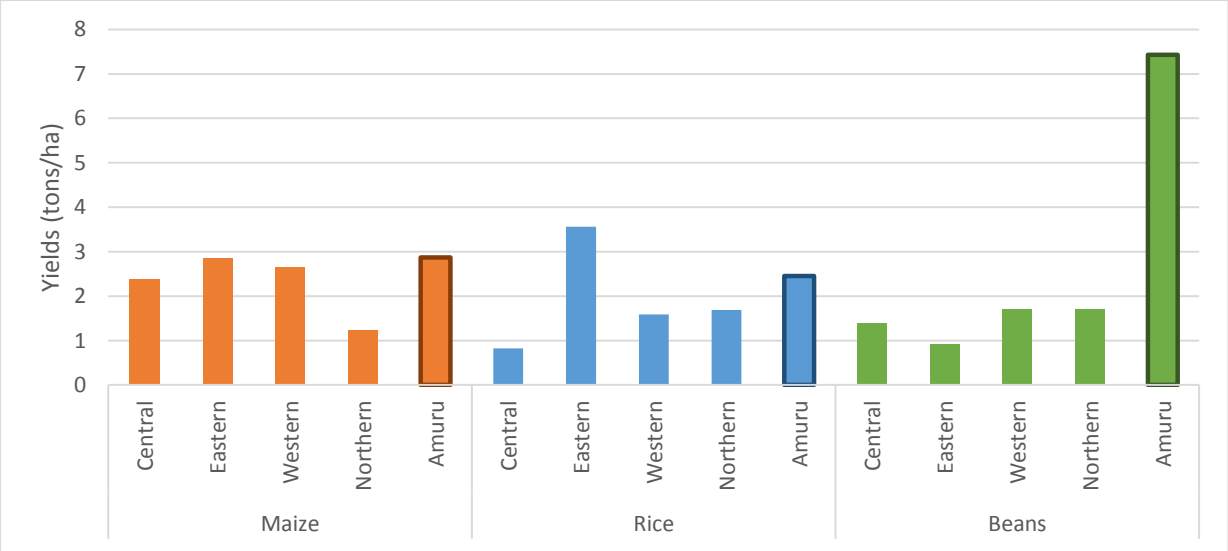
In order to identify emerging tradable sectors and sub sectors that have potential for industrialization and structural transformation in Nwoya, the study relied on the interviews with key informants and subsequent FGDs.

6.1.1 Large Scale Agro-Processing in Nwoya

Nwoya has recently shown success in attracting and retaining large-scale agro-processing industries to the District, which is something many other localities in Uganda are trying to achieve. Agro-processing has good potential for competitiveness in Northern Uganda, with ready markets for these goods locally, nationally and internationally. Prominent products include rice, maize, oil seeds, fruit and beans. FGD participants reported growth in their operations, with land acreage and numbers of out growers steadily increasing. Some excellent examples of backward and forward linkages have been created by a number of large agribusinesses[63], who have set up out-grower schemes benefiting local farmers. For example, the South African investor AFGRI[64] partners with land owners (especially larger scale ones) by using a contract farming approach where AFGRI provides the agricultural inputs, and input credit, and local farmers are contracted to supply the company with certain volumes of produce. During the FGD with large scale agro-investors, they explained that a key attraction to Nwoya was the availability of vast amounts of fertile, flat land, good weather and a ready workforce. Good working relationships with local communities as a result of facilitation by the LG were also a key factor in their success.

In 2008/2009, 10% of the rice production of the country took place in the Nwoya and Amuru counties, which is the third largest district producer. The agricultural census reports Amuru to be one largest bean producer (Figure 14).

Figure 14: Major crop yields in Nwoya 2008/2009



Source: Ugandan Census of Agriculture (2008/2009)

[62] DFID (2015). Northern Uganda: Transforming the Economy through Climate Smart Agribusiness. Business Case and Intervention Summary.
[63] Processors of rice, maize and fruit.
[64] https://www.afgri.co.za/

However, the sector still faces some big challenges, the biggest of which, according to FGD participants in Nwoya, is the communal *land tenure* system, which makes it difficult for investors to get access to land. As a result, conflicts with community members over land is a regular occurrence. Other factors include, *high duty* on imported farm implements, which has increased the price of agriculture machinery, at a time when Government is meant to be promoting agricultural mechanization. *Infrastructure deficits* were also a big issue for agro-processors in Nwoya due to the poor feeder road infrastructure, making input delivery to out growers and nucleus farms difficult. Participants also felt that the lack of access to *electricity* in the District is constraining industrial growth by constraining agribusiness start-ups, while there was big potential for more firms to enter the market. Inadequate *access to finance* was also highlighted by FGD participants as a constraint to business expansion, due to the prohibitive interest rates, demand for collateral and lack of banking infrastructure in the District on the one hand – and to the limited financial literacy among farmers on the other. Other issues mentioned (but ranked lower in terms of their importance) were the post-conflict mind-set of farming communities, and the expectation of free hand-outs, which makes it difficult for agro-processors to enforce contract farming arrangements. Finally, poor internet and telecommunication connectivity, affects marketing activities.

FGD participants in Nwoya recommended a more proactive role for LG to facilitate access to land for investors and reduce conflicts with communities, through a collaborative approach with the UIA. They also called for more action by the LG to support the growth of the agribusiness sector through re-activating their role in agricultural extension and support to cooperatives.

6.1.2 Small scale agribusiness / informal economy in Nwoya

The successful establishment and expansion of large-scale agribusinesses in Nwoya depends on the wider agriculture and farming sector, which is mainly informal. Higher value agricultural products with market potential in the District include ginger, fruits and vegetables, pig rearing, grinding of flour, etc. For example, while ginger used to be mainly sold to the local market, FGD participants reported that there are now large-scale buyers looking for produce. The firms consulted reported growth and expansion in their operations over the past years. They were however finding it difficult to meet the quantity and quality demand of the larger buyers due to their small-scale nature and capacity constraints.

Yet the small scale farming sector faces major challenges in its ability to move from subsistence production to commercial farming. The greatest challenge according to FGD participants is the lack of *finance* to scale up business operations, due to high interest rates and collateral demands of FIs, which lock firms into being smaller than their potential. At the same time, financial illiteracy also makes people fearful of borrowing or exploring other options to improve their access to finance, such as VSLAs. In the area of *infrastructure*, the lack of markets infrastructure is a challenge, as most supplies and inputs come from a long distance away (either from Gulu or Masindi), and these transport costs increase the prices of firm inputs. The absence of local grid *electricity* in the District is also hindering firm establishment and expansion, even though there is good potential for hydro-power electricity generation in Nwoya. In terms of *farmer's knowledge and capacity*, the decreasing soil fertility for production of high value crops like Ginger in Nwoya is an important problem, yet the general mind-set is that Nwoya soils do not need fertility improvement. Also, the issue of farmers' weak bargaining power vis a vis middlemen and traders was mentioned – whereby farmers are price takers due to their lack of access to transport and markets and lack of collective approach. This has been particularly acute in the recent environment of commodity price volatility, which led traders to try and recover their losses by offering worse prices to farmers.

These issues underline the importance of activating the LG role in agricultural extension and support to agricultural cooperatives, which was felt to be absent. Small-scale agribusinesses complained of the lack of support from LG and the low level of interest to improve service provision. They emphasized the need for government support to farmer and producer organizations, including extension services and financial literacy training. Also creating an office for MSME support within the District to support enterprises with BDS, marketing, access to financial products tailored to the needs of MSMEs, etc. The need for government oversight and regulation was also mentioned, given that foreign middle men and traders from Sudan, Kenya and other countries are allowed to buy produce at farm gate and at times the crop is purchased even

before its maturity. In the area of infrastructure, participants emphasized the importance of bringing electricity to the District.

6.1.3 Tourism in Nwoya

The tourism sector in Nwoya has recently seen growth and new businesses continue to emerge and establish themselves. According to the District Government, the number of tourists visiting Nwoya has increased from 30,000 to 100,000 per annum in the past few years. Local firms cater to both international tourists coming for safaris within Murchison Falls National Park, as well as to domestic visitors seeking lodging and restaurants in Nwoya town. Key factors enabling the recent growth of the sector include Nwoya's beautiful natural endowments of a forest reserve, national park, and wildlife resources, which makes it an attractive destination to tourists. The return of peace and security in Northern Uganda has undoubtedly been a key factor in the re-emergence of the tourism sector. The Tourism Master Plan has prioritized this area (North-Western TDA) as one of six priority areas for nationally led tourism development efforts.

In 2011, Nwoya's workers were concentrated in tourism related activities such as restaurants and short-term accommodation activities, and had the necessary amenities to host tourists (clinics and availability of medicine).

Table 11: Tourism-related activities in Nwoya

Description	Location Quotient	Share of labor
Other retail sale in non-specialized stores	1.51	16.78%
Restaurants and mobile food service activities	2.11	15.60%
Short term accommodation activities	4.29	11.07%
General Clinic	4.29	9.90%
Beverage serving activities	2.05	8.39%
Retail sale of pharmaceutical and medical goods, cosmetic and toilet articles in specialized stores	1.57	3.86%

Source: World Bank staff calculations based on the Ugandan Censuses of Business Establishments 2011

However, there are currently few backward linkages to benefit the rest of the local economy. Tourism FGD participants explained that foreign tourists mainly come through international tour operators or travel agents based in Kampala. While the workers in local hotels are from local communities, there are no local tour guides or vehicle rental services, as these are covered by the tour operators. Hotel owners also explained that local farmers do not have the capacity to supply hotels with the quantity and quality of food they need, which incurs costs for the hotel owners to get the majority of supplies from Kampala (five hours away by road) or Gulu (1 hour away). There has also been a lack of efforts to date to foster community based tourism and ensure local communities adequately benefit from tourists coming to the area. Heritage hotel has recently begun trying to organize communities to offer cultural options such as cultural dances, but has faced the difficulty of the poor infrastructure in communities to handle tourists. Unsurprisingly, therefore, communities are not incentivized to protect tourism resources, particularly wildlife, and poaching practices as well as human / wild life conflict is leading to a reduction in wild life resources. This is of serious concern given that the wildlife is the main tourist attraction in the area.

The sector faces major challenges to its competitiveness, which need action by local and national government. The greatest challenge was felt to be the poor local *infrastructure*, which was felt to be inconveniencing and pushing away tourists. This includes poor roads to tourist sites and hotels. Also, the lack of electricity connection to hotels, means they have to run on solar power, which provides very low capacity and cannot properly run hotel machinery and equipment. Poor waste management is also an issue, particularly sewage disposal, as the LG does not have the required septic tank facilities. Finally, a lack of piped water in the hotels remains a big challenge, and while hotels have tried to treat water locally, tourists have continued to complain about water quality. The high numbers and levels of national and local *taxes* were felt to be increasing the cost of tourism products and services and reducing their competitiveness. This is worsened by the fact that businesses do not see the link between their tax payment and Government efforts to develop the District and

help the tourism sector expand. Also, the lack of *access to finance* to be able to develop more products for tourist attraction like boat rides, handicrafts, community based tourism, etc. was another constraint.

Tourism businesses, consulted in the FGD in Nwoya particularly recommended action by LG on infrastructure, especially road construction and maintenance around the tourist / hotel sites, waste management and electricity connection for hotels. They also particularly emphasized the need for action on land conflict resolution and clarity on land ownership rights. Finally, they requested more regular dialogue between LG and local tourism actors and would like to see LGs playing a more active role in supporting the success of the sector. The District LG should discuss the need for recruitment of a Tourism Officer to work on supporting the sector and marketing local potentials, etc. – either at the District level or at the Regional Level, depending on the latest approach being adopted by the Tourism Master Plan.

"*As a matter of fact the tourism industry in Nwoya is growing without any attention from Government, except when they want taxes. At times, we are even forced to work on the roads ourselves because the Government is not doing it!*" (Hotel Manager, Nwoya District)

6.2 Drivers of economic competitiveness

6.2.1 Infrastructure and land

LG action on facilitating access to land for agribusiness investors is a best practice that other LGs in Uganda should learn from. Land conflict is particularly pronounced in Northern Uganda and, specifically, in Nwoya District, where 44% of farmers reported being involved in land disputes - implying many hundreds of thousands of idle acres of land[65]. Firms in the tourism sector highlighted conflicts between the Acholi and the Jonaam tribes due to the lack of clear land ownership, which is causing insecurity and deterring tourists from visiting. Nonetheless, the Nwoya District LG has had some success in tackling this issue through the establishment of community structures (such as Area and District Land Committees) to facilitate registration and titling, which have improved the security of tenure in the District. While most of the land in Nwoya remains communal, the LG has found ways to work with communities to successfully allocate land to investors, which have contributed to job creation and economic development in the District (see Box 2 in Section 7.3.1 below).

Continued support by the LG to avoid land conflicts after the initial establishment of the investor needs to be improved, *however*. LG support in enforcing court resolutions and laws to protect investor's interests is still weak. Communities still do not adequately understand the land policy and are therefore vulnerable to exploitation by some politicians who have incited them to violently oppose land allocation to investors. Firms consulted also reported poor coordination and harmonization between the Community Land Committee, the Sub-County Land Committee and District Land Boards, and many times decisions made by the District Land Committee are disowned or challenged by Community Land Committees. Firms called for a fully-fledged land office in the district that can provide information to people on land policy and laws.

Building on the success of the District LG in the area of cooperation with local communities and land allocation to investors, the LG should continue working to improve coordination between the various tiers of land management committees in order to protect investors' land rights. Wider efforts on tenure regularization and titling should also intensify based on the recent successes.

On the infrastructure side, the deficits in Nwoya are huge and need urgent investment. As already mentioned above, FGD participants in the tourism and large-scale agribusiness sectors, are facing major constraints to their productivity and expansion potential due to deficits in the electricity, water, sewage and feeder roads infrastructure. Smaller scale agribusinesses also prioritized irrigation infrastructure. In addition, the LG has already planned to acquire land for the establishment of an industrial park to accommodate the increasing

[65] Moyer et al (n.d.) Advancing development in Uganda: evaluating policy choices for 2016-21 and selected impacts to 2040. Frederick S. Pardee Center for International Futures.

number of investors, but currently lack financing to service the park in terms of electricity, roads and water supply.

Building on successful investments in road infrastructure, in preparing District Development Plans, the LG should consider transitioning to infrastructure that has been prioritized by local firms in Nwoya as critical to business success:

- ***Local electricity generation projects***
- ***Water and sewage treatment facilities***
- ***Tourism infrastructure i.e. roads to tourist sites, site development, craft markets, etc.***
- ***Serviced industrial park for large scale investors as well as emerging cottage industries (particularly with access to electricity capable of supporting industry)***
- ***Feeder roads in rural areas***
- ***Irrigation schemes***

6.2.2 Skills and innovation

In contrast to Jinja, the issue of skills did not come up prominently in the FGDs with Nwoya's main economic subsectors. Similar to Arua, this could be because of the lower level of development of firms and subsectors in Nwoya compared with Jinja, whereby firms in Nwoya do not need a more sophisticated level of skills at the current stage in their development. It could also be because the other constraints, such as electricity, land, access to finance, etc. are more binding than skills. Large scale agribusiness firms commented that even though the local workforce were not skilled, they are *"people who want to work"* and have a good work ethic. Nonetheless the low levels of skills among the local population in Nwoya (with 36% of the population of the Northern Region being illiterate) is likely to hinder investment in new activities and sectors that could accelerate structural transformation[66].

6.2.3 Enterprise support and finance

The lack of affordable finance for business establishment and expansion was emphasized as an important constraint in Nwoya, particularly for small agribusiness firms and producers. Only one commercial bank is operating in the District[67]. There are 6 SACCOs but they are still weak, with only two accessing financing for on-lending. The high interest rates are the biggest factor inhibiting firms from accessing the financing they need, and agribusiness firms felt that commercial banks were not interested in financing their activities or to tailor products to this sector, given the high risks involved in agricultural activities[68]. On the other hand, large scale agro-processing and tourism firms were constrained by the lack of medium-long term investment financing (for infrastructure expansion, etc.) with more reasonable interest rates.

The other major issue affecting firms under the area of enterprise support, as previously mentioned, was the non-functional agricultural and livestock extension system or commercial office support to MSMEs and cooperative development. Firms in the small and large agribusiness FGDs highlighted this as a big factor lowering their productivity. ***The Municipality should, therefore, empower the Production Office for the implementation of LED. This would entail an increase in the budgets of the Commercial and Agriculture Officers to enable them to re-activate the services that the District LG is designed to deliver to local firms in these sectors. Namely, agricultural extension, support to cooperatives, financial literacy and other BDS for MSMEs. Given that LED in Nwoya is currently implemented by the Community Development Office, LG leadership should reflect on how relevant staff could be brought under the Production Office.***

Access to finance was a critical issue for firms in Nwoya also, but is one where the LG has very limited capacity to work on. It is therefore recommended that the LG concentrates on raising awareness of the available sources of funding in commercial banks, MFIs, etc.

[66] Uganda National Household Survey 2009/10.
[67] Post Bank Uganda.
[68] due to drought and other climactic shocks.

6.2.4 Institutional and regulatory environment for business

By contrast to Jinja and Arua, the LG in Nwoya is making more of an effort to support investment attraction. Even though Nwoya did not implement the original LED pilot, the approach that MoLG and UNCDF developed with the LG in Nwoya centred on investment attraction and improving the enabling environment for business (particularly relating to land) turned out to be more successful[69]. Given the need for a more tailored approach to LED, which is locally relevant to the Ugandan context and realities, learning from Nwoya's experience is useful in this regard. Private sector dialogue in Nwoya was centred on concrete investments that had a mutual benefit to the investor as well as to job creation and development in the District. Also, LG intervention was specifically aimed at alleviating the constraints that firms face, rather than the development of LED strategies or LG start-up of specific enterprises in partnership with the private sector which has had a much more mixed record of success in LED pilot Districts as well as internationally.

The main institutional issue in Nwoya has more to do with the absence of the LG in key areas of support needed by local firms. More mainstream support from the LG to private sector actors in Nwoya is still weak, while national level agencies and programs are also struggling to make an impact on the market failures and constraints affecting the private sector. This is particularly stark in the lack of an extension system, support to cooperatives, BDS to MSMEs, etc. Firms particularly called for a more active role for the LG in facilitating and promoting the growth of prominent sectors through targeted support. The effective extension support provided by the LG to out-growers working with the new investors (which was supported by the MoLG and UNCDF project) needs to be expanded into a systematic service that the LG offers.

Firms in Nwoya specifically commended the LG for low levels of corruption. For example, large scale agribusiness firms mentioned the relatively lower corruption level as a factor attracting them to Nwoya and enabling their success.

"Local Government is very approachable in Nwoya. We do not fear coming to them, as they are transparent and there are no funny things going on" (Large scale agribusiness, Nwoya District).

Firms in Nwoya strongly advocated for a more regular and meaningful dialogue with the LG. By contrast to Jinja, where firms were trying to avoid more interaction with the Municipal Government, firms in Nwoya were very interested to interact more with the LG to advocate for the support they need. Nwoya LG seem to have developed a successful Investors Forum and effective PPD, particularly with large scale agribusiness investors. This is a best practice example that other Districts in Uganda should learn from. Firms in the smaller scale agribusiness and tourism sectors, however, complained of lack of interaction with LG, except when they come to collect taxes:

"Actually this meeting for me was the first time the District is inviting me! I was actually surprised and at the same time excited when I saw the invitation and said to myself, may be they are now going to improve their act" (Tourism firm, Nwoya District).

Similar to other localities, firms spoke of the need for a mind-set change by LG staff to understand their role in supporting local economic sectors. They also highlighted that LG needs to better understand their local stakeholders, including the private sector, and to improve coordination. ***The focus in Nwoya should be on increasing inclusion of smaller scale firms in PPD mechanisms. Consulted firms suggested regular dialogue using the cluster approach, where firms in each subsector meet regularly with the relevant government official.***

From the experience of the other localities, it is also recommended that the District LG establish a One Stop Centre (OSC) for local businesses (including URA, URSB, UNBS, and relevant District Departments, including the Production Office) to streamline and reduce the time and cost involved in business registration, tax administration, product certification, and other procedures. The OSC would also have an important role in providing access to information, particularly on financial products funded by the GoU and Donors available in local FIs; and on tax bands and legal tax requirements, etc.

[69] By comparison to Districts like Arua, where the LED pilot has not resulted in a similar change in the role of the LG in facilitating investment, for example.

Advocacy with the national Government is another important role for the LG, in the areas outside of its control, such as better access to finance and electricity for local firms, for example.

6.3 Nwoya LG SWOT Analysis

The half day, Strengths, Weaknesses, Opportunities and Threats (SWOT) Analysis session facilitated for the staff of the Nwoya District Government, provided an opportunity for reflection on the extent to which the LG was well positioned to undertake LED, and the main constraints they face in their ability to do so.

Several strengths were identified by LG staff including the conducive environment for investment in Nwoya as a result of positive local policies and the supportive attitude of the LG. Also, Nwoya's political and technical leadership was felt to have the political will to implement LED. Recent successes including land allocation for agribusiness investors and the creation of an Investment Forum, and a Secretariat for Investment in the District.

However, a number of challenges and constraints were identified as weaknesses in the LGs capacity to implement LED. At the very top of these were financing constraints and the very low budgets with which to deliver basic services, let alone LED. The District has a low local revenue base and most of its funding comes from conditional transfers from the central level for specific government and donor funded projects. Given the higher priority of providing basic services such as health and education, the budget allocated to the office in charge of LED is minuscule.

Several human resource issues were also highlighted, including shortage of key staff to work on LED - particularly the land management sector is not fully staffed and equipped. Weak staff capacity and skills to work on complex economic development issues were also mentioned, as well as the low motivation levels of staff and poor attitude to work. Staff recommended instituting a fully-fledged LED department, with the required positions filled, and technical support to be provided by MOLG. The need for training and technical capacity building on economic development, value addition, trade, and business management was also emphasized for both the private sector as well as LG staff (including political leaders).

Nwoya District Government SWOT Analysis

STRENGTH	OPPORTUNITIES
(i) Conducive environment for investment (positive local policies, supportive LG) (ii) Creation of the Investment forum, and secretariat for Investment (iii) Willing and supportive political and technical leadership	(i) Availability of large and un-fragmented land for production (ii) Nwoya is a tourist District as it borders a national park (iii) Abundant unskilled labor (iv) Political stability in the District (v) Positive and receptive communities to investment and visitors (vi) Commercial quantity of oil and gas (vii) Good connectivity by national roads and railway to other countries and Districts (viii) Availability of at least one Bank (Post bank) (ix) Most Financial Institutions are willing to come to Nwoya (x) Other agricultural and tourism based investors willing to come to Nwoya (xi) Support to LED in Nwoya from MoLG and UIA (xii) Strategic geographical location along the highway, bordering a national park and the River Nile (xiii) Easy access to external markets like DRC, South Sudan, etc. (xiv) Availability of donors and NGOs and their confidence in the District. (xv) Construction of Ayago and Karuma Hydro Power dam and station
WEAKNESSES	**THREATS**
(i) Low level of staff skills (ii) Land management sector is not fully staffed and equipped. (iii) The District is poorly staffed especially key staff to promote LED. (iv) Low financial capacity of the District to support LED (v) Poor attitude towards work among staff	(i) Climate change, affecting agricultural production (ii) Wildlife destroys crops and farms (elephants) (iii) The land policy, that land belongs to the people, makes allocation for investment a challenge (iv) Over liberation, allowing foreign traders to purchase produce at the farm gate (v) Youth unemployment, youth now spend more time in anti-social activities (vi) Poor infrastructure to support LED, water, telecom, housing, road, industrial parks, electricity (vii) Lack of irrigation facilities (viii) High rate of environment and natural resource degradation (ix) Alcoholism and drunkenness, and drug abuse in the community members (x) Land conflicts and problems (xi) High HIV/AIDS prevalence in the communities (xii) Poor attitude towards among communities, post conflict mind-set and aid dependency

7 Common trends and recommendations towards repositioning LGs for enhancing economic growth

As the above analyses for each of the targeted localities shows, most of the constraints to the growth of prominent sectors and in the enabling environment for business are similar. It is therefore important to reflect on the similar trends that have emerged across the localities so as to develop some common recommendations for national level stakeholders, particularly the MoLG, on how LGs across Uganda could be better re-positioned to effectively contribute to economic growth and job creation.

The growing number of Districts in Uganda has undermined LGs already weak capacity to carry out basic service delivery functions. The number of LGs increased from 45 Districts, 13 Municipalities and 65 Town Councils in 1997 to 111 Districts, 22 Municipalities and 174 Urban Local Governments in 2012[70]. This increase has not been matched with corresponding growth in administrative, human resource and financial capacity. As the LG Sector Strategic Plan for 2013-2023 indicates, this is, therefore, putting a strain on the financial, human and material resources available and LGs ability to deliver their mandates.

Another issue severely impacting prospects for development are the persistent intra LG conflicts, Since the restoration of multi-party politics in 2005, one unintended negative consequence has been the commercialization of politics and a lack of intra-elite cooperation in public policy. Conflicts are common between political leaders and technical staff; between Resident District Commissioners and area MPs; and among elected leaders themselves along party lines[71]. This frequently paralyzes service delivery as well as LG LED attempts, particularly with regards to land allocation for investors. This political economy situation is undermining prospects for LG success in LED efforts and for Uganda's ability to uphold good conditions for economic growth in general.

For LGs to be able to effectively contribute to LED, there are some minimum institutional and policy level pre-requisites that should be in place. This section will therefore start by analysing those pre-requisites and the extent to which they are met in Uganda – before then moving on to what specific actions and investments should LGs made to enhance economic growth and job creation. This way, the recommendations for LG action are more grounded in what they can realistically achieve within the prevailing institutional context.

7.1 Institutional and policy context for LED promotion by LGs in Uganda

From international experience and lessons learnt from LED implementation around the world, the following factors are generally accepted to be minimum pre-requisites for effective LED implementation:

- The existence of a national level policy or legal framework giving LGs the mandate for LED
- The availability of financial resources with which LGs can execute this mandate
- The availability of human resources within LGs with the capacity to understand and implement economic development

7.1.1 Policy Framework for LED in Uganda

The Uganda LED Policy clearly establishes LGs LED mandate and responsibility, but its aims seem to be somewhat mixed. The policy mixes a Vision of working towards economic benefits in the wider society, with Aims that are more focused on enhancing revenue generation for LGs. While enhancing LG revenue is important, focusing on this will not generate the wider impacts on job creation and poverty reduction that the policy is designed to achieve. Two of the stated Aims of the LED Policy are (1) the growth of private sector investment in LGs (which is unrealistic, even in developed countries), and (2) the increase in locally generated taxes & LG own revenue generating ventures. While the aim of increasing the local tax base in the long term as a result of successful LED implementation is somewhat feasible, the short term expectation that LED is a mechanism for generating a high amount of additional LG revenue is unrealistic, given the weak capacity of the private sector in Uganda.

[70] Ministry of Local Government (2013). Local Government Sector Strategic Plan, p.22
[71] ibid, p.23.

The LG Planning Guidelines and the Local Government Sector Strategic Plan seem to focus on more relevant areas, outlining LGs roles as supporting commercialization of agriculture through increased production and productivity, designating land for factories and industrial parks, supervising infrastructure development and ensuring efficient and effective service delivery[72].

The issuance of a short and practical LED implementation handbook for LGs to supplement the LED Policy is therefore recommended in order to provide more details on the role expected from LG, particularly in improving the environment for business and supporting the private sector.

7.1.2 Financial resources for LED implementation by LGs

Within the current LG financing climate, LGs do not have the necessary financing to invest in LED. As the Local Government Finance Commission (LGFC 2012) study explains, the sources of finance available to LGs allow them very little fiscal autonomy for expenditure based on local priorities (including LED). LGs have four main sources of financing:

1) Conditional grants from central government, which represent 90% of LG financing and are earmarked for expenditure on specific areas, mainly prioritizing delivery of basic services.
2) Unconditional grants from central government, which only make up 7% of LG financing and are overwhelmingly spent on the wage bill for technical and political officials and other recurrent costs of basic service delivery.
3) Equalization grants, for Districts lagging in social indicators and service delivery but is minuscule in size (0.1% of central Government transfers)
4) Own source revenues, representing less than 3% of all LG financing despite continuing local revenue enhancement efforts

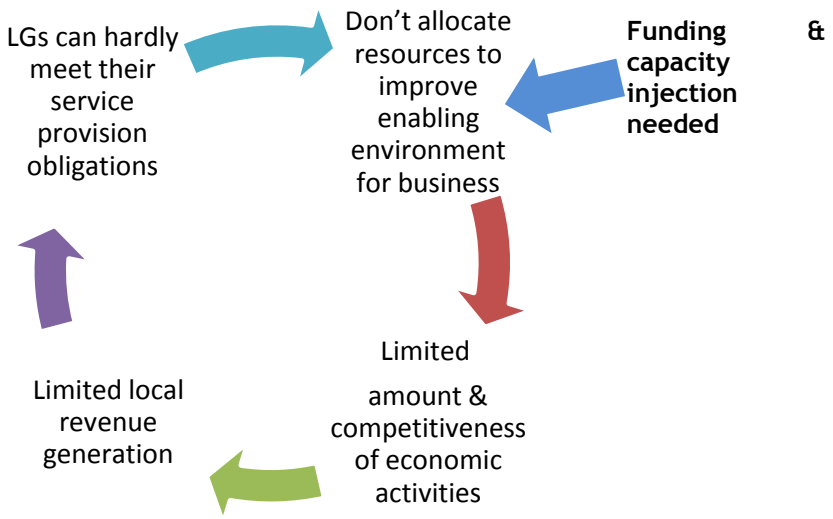
Moreover, the financial resources that LGs receive for service delivery have been declining in real terms. While central level transfers rose in nominal terms (from 37 million UGX in 1993/4 to 1.6 trillion in 2011/12, this is not commensurate with the increase in service demands due to population growth. Given the high rate of population growth and LGs service delivery needs, on the one hand, and the increase in the wage bill (as a result of new LG creation)[73] on the other, this has led to big financing gaps in LGs' ability to meet its service delivery requirements (estimated at 54% or 2.1 billion UGX for the average District)[74]. LGs have not shared the growth in national revenues in the same way as the central level. While the national budget increased by 248% (from 2.9 trillion UGX in 2003/4 to 10.1 trillion in 2012/13, LG transfers only increased by 43.4% (from 741.5 billion to 1.64 trillion UGX in the same period). At the same time, LG own revenues have plummeted over the last decade, since the abolishment of the Graduated Tax., which has made LGs much more reliant on the centre for their financing. As a result, LGs continue to suffer the burden of unfunded mandates, leading to unsatisfactory service delivery[75].

Without additional funding for LED, LGs are stuck in a vicious cycle, where they do not invest in improving the enabling environment for business because they do not have sufficient budgets to even meet their service provision obligations. This impacts the number and competitiveness of economic activities in their localities, which in turn leads to a limited tax base and to insufficient LG budgets (see Figure 15 below). In particular, the minuscule budgets allocated to the Production Office (mandated to play an active role in implementing LED in the LG structure), is severely impeding the implementation of any activities. While a recent communication from the Ministry of Trade, Industry and Cooperatives was sent to all Districts and Municipalities establishing higher minimum levels of budget allocation for commercial services, this is unlikely to materialize, given competing service delivery priorities and the fact that the overall funding pie is not increasing.

[72] Ministry of Local Government (2013). Local Government Sector Strategic Plan, p.12
[73] Wage transfers increased from 541 billion to 1 trillion UGX (up by 98% in the last 7 years)
[74] Local Government Finance Commission (2012). Review of Local Government Financing: Financing Management and Accountability for Decentralized Service Delivery, p. b.
[75] Ministry of Local Government (2013). Local Government Sector Strategic Plan, p.16

"There is a vehicle but no budget for fuel to undertake outreach activities for farmers' groups. The only thing I can do is come and sit in my office every day. I'm demoralized because I can't do my job or help people in my District" (Agriculture Officer)

Figure 15: LGs are stuck in a vicious cycle in the absence of more funding for LED



The study therefore recommends careful budgeting of the cost of investments that LGs need to make in the areas of economic infrastructure, improving the regulatory environment for business and enterprise support. The unconditional transfer to LGs then needs to be increased to accommodate this budget. While LG own revenue generation is important, the weak capacity of the local private sector and the narrow tax resource base means that central level resources are needed to cover these investments in the medium term so as not to exert further taxation costs on local firms, which would impact their economic performance.

MoLG should also explore opportunities for fundraising from development partners for LED investments as well as for technical capacity building support for LGs in this area, given that it is a new mandate where LGs lack experience and knowledge.

Instituting performance based LED budgeting for LGs is also critically important, with budget allocations being contingent on good performance against a set of objective criteria. These criteria should include the level of satisfaction of local firms with the enabling environment for business and with the LG support to the private sector. Penalties should be instituted for corruption and non-compliance, political interference and obstruction of development.

7.1.3 Human resources and capacities for LED within LGs

LGs are generally short staffed and the current institutional structure does not empower staff to implement LED. On average, only 57% of established LG posts are filled, and staffing levels are even lower in newly created Districts[76]. Moreover, as mentioned, above the lack of budget for the Production Office means that Commercial Officers and Agriculture Officers are hardly able to implement any activities requiring outreach to local businesses.

LG staff also lack the capacity and motivation to implement complex economic development activities. LG staff in all three localities visited mentioned the lack of staff with economic and business understanding as a major impediment to the implementation of LED. The MoLG's plans to recruit LG staff with skills in investment, business development, economics and trade under the new structure presented to Parliament is a step in the right direction. Another important effort is MoLG's plan to cascade a LED training and handbook to all

[76] USAID (2015) Ugandan Decentralization Policy and Issues Arising in the Health and Education Sectors: A Political Economy Study. October 2015.

technical and political officials. Care must be taken, however, to ensure that this training presents a practical and realistic approach to LED in Uganda (see Section 3 above) to avoid further exacerbating the existing confusion among LG officials on what LED is and should entail.

Key actions needed include:

(i) Approving the new structure for LGs that has been proposed to Parliament by MoLG as a more effective structure towards re-positioning LGs for facilitating economic growth. Since the structure proposes establishing strategic staffing at the regional tier, this will facilitate the recruitment of higher calibre staff with capacity for LED. Another important aspect of the proposed structure is the empowerment of the Production Office with sufficient staffing and financial resources. This is a pre-requisite to any LED activities being effectively implemented.

(ii) Cascading of training to LGs which clearly focuses on their expected role in improving the enabling environment for business. A lot of the focus recently has been on emphasizing PPPs and the need for obtaining resources from the private sector. This will not produce the desired results until the private sector increases its level of trust in LGs and satisfaction with LG efforts to institute a more enabling environment for business. LG officials therefore urgently need to be trained on what their role should be in supporting the private sector. The training needs to be cascaded to both technical as well as elected political officials, given the importance of both in facilitating or hindering the local development process. Mayors and District Chairpersons also have an important role to play in locality promotion and investment attraction and strengthening their capacities in these areas should be part of the training.

(iii) Cascading the analysis done in this study for Jinja, Arua and Nwoya to other LGs in Uganda so that each LG has a clearer idea of its economic sectors with potential and what it needs to do to support them. The methodologies used in this study were simple and inexpensive and could easily be undertaken by LGs with support from MoLG.

7.2 The role of LGs in supporting important economic sectors

Achieving a structural transformation into more tradable economic activities and jobs is critical to the achievement of Uganda's development goals. This study therefore focused on analysing tradable subsectors of targeted localities, particularly tourism, agribusiness, industry and informal micro-enterprise fabrication. FGD discussions with local firms in these sectors highlighted the important support needed from LG to alleviate the constraints they face.

7.2.1 Support to the Tourism Sector

Given tourism's strong multipliers on job creation and the important role that LG can play to complement national level investments, activating LG investment in tourism should be a priority. The greatest constraint that tourism firms identified to the growth of the sector was the lack of investment in tourism infrastructure and site development (roads to sites, toilets, restaurants and other facilities, crafts market premises, etc.). LGs are particularly well placed to take action in this regard, as infrastructure is an area directly under their mandate and remit, building on their recent improvements in road infrastructure. Also supporting community tourism and promoting backward linkages to the local population needs action at a local level. LGs could play a key role on this but will need the support of international and national experts and NGOs to undertake this effectively, given current levels of capacity. Implementing this support to the tourism sector would entail including tourism as a key sector for support in DDPs. Firms in the tourism sector in all three localities also requested to participate in the formulation of DDPs through PPD in a tourism cluster.

Uganda's Tourism Master Plan proposes a regional approach to tourism development, with key resources and plans to be incorporated into District and Municipal development plans. It suggests that LGs should:

- support the development of tourism products;
- build the capacity of tourism enterprises;

- zone, conserve and promote investment in tourist attraction areas by facilitating infrastructure and incentives;
- promote local enterprises and attractions;
- coordinate and support local communities to conserve and develop their attractions[77].

However, the Master Plan does not outline where LGs would obtain the financial resources to make these investments, and given their constrained budgetary environment, additional financing for LGs to invest in the tourism sector at the local level is very much needed. Stakeholders in Arua and Nwoya called for the recruitment of Tourism Officers for the District as Jinja has done. Given the fragmentation of Districts, and the new regional structure being proposed in parliament, one possibility is that these officers could be at the regional level. This would attract people of a higher calibre and ensure economies of scale and synergies in tourism promotion throughout the region.

Care, however, needs to be taken to ensure that LGs do not over-emphasize the contribution that tourism can make to economic growth and job creation in these localities. Jinja Municipality staff, for example, indicated that they see Tourism developing as the main sector in Jinja's economy over the next five years, etc. This is severely undervaluing the bigger contribution that industrial activities make to employment creation and economic growth in the town (see Section 4.1.3). The Tourism Master Plan itself does not anticipate the creation of more than 150,000 jobs in the next ten years for the whole of Uganda. The impacts of the sector on local economies is therefore likely to remain low in the medium term.

Exploring the opportunity of working with MoTWA on rolling out a LG tourism development project, with support from donors, international tourism experts, NGOs, etc is recommended. Such a program could focus on integrated actions needed from LG including investments in tourism infrastructure, community based tourism, locality promotion, and development of tourist products and attractions. The project would need to come with additional resources, however, given the constrained financing environment for LGs in Uganda.

Actions needed by other actors at the national level include reviewing the conditions for accessing tourism development funds from PSFU to explore whether they could be made more accessible to small and medium tourism operators.

7.2.2 Support to the Agribusiness Sector

Agribusiness is recognized as a major opportunity to help Uganda achieve a gradual industrialization and structural transformation but is currently not receiving adequate support from LGs. Firms we spoke to particularly emphasized the lack of Government action in enforcing regulations on agriculture input quality standards. Another study has shown that 100% of fertilizer samples from 50 shops did not reach the advertised level of active ingredient and that 30% of hybrid seeds purchased were fake[78]. This is leading to substantial productivity losses for local firms and lowering Uganda's performance compared to neighbouring countries – for example, fertilizer usage in Uganda is one tenth of the Kenyan rate. ***Supporting LGs to improve the enforcement of regulations on quality standards of agricultural inputs is important. Given that some Districts (e.g. Masindi) have taken positive actions in this regard, MoLG should promote experience sharing to provide ideas to other LGs on what they need to do.***

Local firms also emphasized the need for a functional extension service and support to agricultural cooperatives that supports local value chains. Firms complained that, even for the products zoned by the Ministry of Agriculture, Animal Industry and Fisheries (MAAIF) as having promotion potential (e.g. honey in the West Nile region), there is no support being offered to the sector[79]. This is not an easy task, given that Government extension has been troubled by underfunding and mismanagement for a long time – with the Auditor General's report, for example, stating that the rural farmer in Uganda appears largely untouched by

[77] Uganda Tourism Development Master Plan (2014-2024), p. 82.

[78] DFID (2015). Northern Uganda: Transforming the Economy through Climate Smart Agribusiness. Business Case and Intervention Summary.

[79] as it is not one of the 13 commodities prioritized under OWC.

NAADS[80]. Moreover, support to cooperatives has been stifled. Within this context, one model that could be explored is PPPs between LGs and agribusiness investors, building on the successful experience with investor / out-grower schemes implemented in Nwoya (See Box 2, Section 7.3.1). Investors supply the agricultural inputs, input credit and the ready market; while LGs support out-grower mobilization and provision of extension advice. ***Activating the role of the Production Office in the provision of support to the agribusiness sector is therefore critical. This mainly entails extension service support from the Agriculture Officer to prominent local value chains with market potential. Given the current absence of a functional extension system at the local level, efforts could start by LG support to the establishment of linkages between agro-processing firms and their out-growers and provision of extension to those priority farmers at least. The activation of this support is, however, contingent on increased funding to the Production Office (which currently only represents 1% of expenditure in Arua and Nwoya, for example).***

7.2.3 Support to the Industrial Sector

The GoU has prioritised the industrial sector as a major vehicle through which to achieve Vision 2040 but again the LG's role has not been activated. Among the key strategic priority sectors in the 5-year National Industrial Sector Strategic Plan are to develop natural resource-based industries; promote agro-processing for value addition in niche markets; and support engineering for capital goods, agricultural implements, construction materials, and fabrication operations. While a locality like Jinja contained important industries producing for both the local and export markets, micro and small firms were still the majority and self employed workers accounted for more than half of firms. Rather than direct support to this sector, however, the firms we spoke to emphasized the need for better access to finance as well as an improved enabling environment for business. ***Recommendations to LGs were mainly around the need for easing government bureaucracy and reducing corruption in the tax administration*** (see section 7.3.4 below).

7.2.4 Support to Informal Firms

Finally, given the dominance of informal firms in the local economy, LGs should also alleviate the constraints faced by these firms, particularly those involved in tradable activities. In a city like Jinja, where small scale fabrication activities are experiencing declining competitiveness, yet the sector still employs the majority of the local population, supporting firms to achieve greater scale and specialization is important from the perspective of employment creation and poverty reduction for the majority of the urban working population. Whereas, in a less developed locality like Arua, these small scale processing and fabricating businesses are actually very competitive in local as well as cross-border markets and represent the best chance for upgrading value addition and gradually achieving structural transformation into tradable economic activities. In terms of LG support, firms particularly requested BDS to help them develop bankable projects for upgrading machinery and production technologies, and business incubation centres to help them with quality upgrading and modernization. Firms also strongly recommended better municipal zoning and town planning and the creation of industrial parks[81] to ensure certain areas are designated for these industries and therefore serviced with the required infrastructure, particularly electricity.

Activating the role of the Commercial Office in the provision of support to the informal fabrication / cottage industry sector is therefore critical. This would mainly include the provision of BDS support such as financial literacy training, business plan development, cooperative establishment, collective bargaining, and quality upgrading advice. Existing businesses should be prioritized for support, rather than attempting to create them through group formation of youth, etc.

Box 1 - Example of Success – Cluster Based Approach to supporting informal enterprises in Addis

[80] DFID (2015). Northern Uganda: Transforming the Economy through Climate Smart Agribusiness. Business Case and Intervention Summary.

[81] building on successful *Jua Kali* industrial parks for informal firms in Mbarara and Njeru, etc.

Ababa

The Addis Ababa city administration is using a cluster-based approach as an instrument to monitor and help urban micro and informal enterprises to overcome constraints to growth. In Kaliti, a sub-city within Addis Ababa, there are 270 informal traders operating within Government-supplied temporary sheds. Interviews carried out with the traders revealed that these were street vendors who had been relocated by local authorities. One of the street vendors stated that he has now been operating in Kaliti for almost four months – before this, his modus operandi involved walking around, selling his goods, while trying to avoid attention by the police or formal authorities. In his words, *"If they had caught me, they would have confiscated my goods".* Not only were traders given temporary sheds, but they were also organized into savings groups – and interestingly, were exempt from any taxes, business registration and licensing fees.

The city is able to regulate informal activities, albeit partially, by limiting activities into spatially concentrated pockets. There is also a better understanding of the sector, which was previously almost entirely in the shadows.

Source: World Bank-GWU Capstone Project "Addis Ababa: Spatial Determinants of Growth" in World Bank (2015) Ethiopia Urbanization Review

A major general point that needs to be emphasized is that the support of LGs to prominent sectors should not take the shape of government involving itself in production or the running of enterprises. International and historical experience has shown that Governments are not efficient at running enterprises or at picking winners in terms of business investments. In an environment where corruption is an issue, there is also a high risk that investments are targeted in a way that does not necessarily benefit the population at large. Investing in productive enterprises should be left to the private sector and the Government should concentrate on its comparative advantage, which is to alleviate the constraints that the private sector faces.

7.3 The role of LG in improving the drivers of competitiveness

Investors, domestic and foreign, are attracted to Uganda's economic potentials and favourable macroeconomic and political stability. Uganda was one of the first African countries to undertake important economic reforms to institute a competitive market economy led by the private sector, and in the 2011 Investor Survey, findings suggest that the major factors that influenced investors' decision to invest in Uganda were favourable macroeconomic and political stability (74%); access to domestic and regional markets (65%); and affordable labour (56%).

However, this study has found indications of dissatisfaction with LG performance in instituting an enabling environment for the private sector. The sections below highlight some of the most important findings and recommendations.

7.3.1 Infrastructure and land

Even though the establishment of new manufacturing, agribusiness and other investments are a priority for the Government of Uganda, the majority of firms still face major difficulties in getting access to land to establish their investment. As evidenced in recent studies on land in Uganda, the failure to register a greater proportion of Uganda's land and the weak institutional capacities of land administration agencies have resulted in illiquid land markets and have acted as constraints on the development of the country's financial systems. Both of these factors are negatively affecting the country's ability to transform its agricultural sector; to build efficient cities; and to achieve higher levels of productivity more generally[82]. Only 18% of private land was titled in 2006; 37% of land could not be sold, 34% could not be rented, and 44% of land could not be used as security

[82] World Bank (2015). Searching for the "Grail": Can Uganda's Land Support its Prosperity Drive? Uganda Economic Update. Sixth Edition. September 2015, p.15.

for a loan. This is partly attributed to the predominance of the mailo land tenure system, which is beset by overlapping land rights between those who are registered owners and the lawful or bona fide occupants. This is a major barrier to large-scale investments, particularly since the implementation of the 2010 Land Amendment Act, which increased the powers of tenants over landlords through the introduction of the concept of "bona fide" occupants, making it very difficult for landlords to evict tenants. In the western, eastern, and northern regions, customary land tenure systems restrict the sale of land to individuals from outside the community. Moreover, the urban authorities do not have the land required for the necessary public works and social infrastructure and cannot afford the high compensation rates for privately owned land[83].

In all localities visited, firms and LGs cited the problems including the limited land under the control of the LG; the difficulty in persuading customary institutions to sell their land to investors; political interference in land allocation; and the lack of good cooperation between the various actors involved in land allocation. Firms in Jinja and Arua in particular complained that the lack of access to secure land was inhibiting business establishment and investments in expansion. The lack of serviced land for industrial activities in Arua is severely constraining firm establishment and productivity, due to the lack of electricity connection in rural areas. Some foreign investors complained that, even when they had entered into formal agreements with UIA and obtained land leases from communities, which were compensated, problems still usually ensued. The allocation of land to investors is also sometimes further exacerbated by political interference from some Local Councillors who seek to undermine projects affiliated with government bodies that are politically not aligned. These Councillors have sometimes played a negative role by inciting communities to take back their lands from foreign investors, which has often led to violence. Finally, there is a lack of good collaboration between Local Government Land Boards and community structures.

It is very important that LGs improve their performance in the area of land management in addition to the policy reforms needed at the national level. There are major local level vested interests, suspicion, and fear of disruption to livelihoods from communities, activism against any form of land reforms, and sensitivities related to the location of investment projects. All these issues are a source of major tension, and sometimes, violence in the process of access to land for investment. LGs must therefore be incentivized by MoLG to play a more positive role in land management and facilitating access to land for investments that are beneficial to development.

Improving LG implementation of national land policies is critical to improving land management and access to land. The World Bank's Sixth Uganda Economic Update (2015) recently identified the main local level priorities as: (i) improving dispute resolution systems to fill the institutional vacuum in areas where such capacities are particularly lacking, especially in northern Uganda and the Albertine region, by fully staffing zonal and district land offices; building competent formal institutions by providing adequate staff, budget and training to the judiciary throughout the country; and strengthening the Local Council Courts and their interface with traditional institutions; (ii) further strengthening land administration systems, including through the application of new technologies to improve documentation, information storage and retrieval, and valuation. The issue of valuation is particularly critical for urban areas, where a credible system for documenting and valuing land will go a long way towards streamlining transactions and eliminating speculation; and (iii) strengthening the management of local urban authorities' finances to acquire land and pay for infrastructure improvements.

Recent successes in facilitating access to land for agribusiness investors in Nwoya, however, is a best practice example that should be cascaded to other LGs (see Box 2 below). The planned interventions by the GoU, with the support of the World Bank, in the area of land management, focusing on land titling and registration will be a key step forward in this agenda.

Box 2: Example of Success - Nwoya District LG's role in attracting investment through facilitating access to land

[83] World Bank (2011). Planning for Uganda's Urbanization. Inclusive Growth Policy Note 4.

MoLG and UNCDF implemented a Livelihood and Local Economic Recovery programme aimed at building the capacities of LGs, communities and the private sector to promote peace building and reactivate economic recovery in the Acholi sub region. The local stakeholders identified Nwoya's vast, fertile and flat land as a main endowment for the locality and sought to attract large scale farming and agro processing industries that could create jobs and wealth for the region. To do this the LG worked closely with the MoLG, UIA and development partners in marketing the locality and improving the environment for business.

The first agro-processor that Nwoya was able to attract was Delight Uganda Ltd who established a fruit processing factory. To ensure Delight's access to land, the LG facilitated land acquisition dialogue meetings between the company and leaders of the community. As a result, one thousand acres of land were procured on which the fruit processing plant and a nucleus farm were established. With support from the MoLG and UNCDF project, the LG constructed access roads to the farm, mobilized the out-growers and provided them with extension service advice to build their capacity for working with the investor. The factory now provides direct employment for 150 employees as well as over 2,000 fruit out-growers owning between 1-5 acres of land.

Having piloted this model with Delight and seen the results, the LG have further succeeded in attracting over eight more agro-processing firms to the District, which are currently benefiting 8,000 out-growers in addition to their direct employees. To ensure more investors are attracted, the LG has continued to sensitise the communities on the profitable use of customary land for commercial ventures. They also support community members to process customary land ownership certificates free of charge and have set up committees to resolve land disputes. Finally, traditional methods are being used to support communities demarcate their land boundaries.

MoLG should therefore increase its support to build the capacity of LGs towards more effective land administration and management. Establishing a central level budget for LED within MoLG to allow the LED unit to build on recent successes in working with UIA on investment attraction and facilitation. The central level LED MoLG team and UIA were critical in supporting the LG in the attraction of large agribusiness investors to Nwoya and to building LG capacity to support out-grower schemes. It is important that this experience is cascaded to other LGs, and this needs to be led by MoLG at the central level, as LGs lack the capacity. The central fund could therefore be used for MoLG and UIA (in conjunction with LGs) to undertake activities on investment attraction, support to large-scale investors, facilitating access to land, establishing out-grower schemes, PPPs in training provision, cooperative development and linkage with firms, etc. Developing criteria and guidelines for facilitating access to land for investors in a fair and transparent manner is a priority.

Infrastructure deficits presented key constraints in every FGD held in all localities. In the tourism sector, firms highlighted the poor road infrastructure to many existing and undeveloped tourist sites; the need for site development; craft markets, etc. Hotels in Nwoya also emphasized the need for better water treatment, sanitation services and electricity, as tourists were complaining about these issues. In the agribusiness sector, priorities included the poor feeder road infrastructure, which is increasing transport and vehicle maintenance costs for agribusinesses and is inhibiting farmers from access markets and better prices for their products. Also, establishing additional markets at sub county levels would reduce losses in the livestock and crop sectors and enable small holders to obtain better prices. In the industry sector, particularly for small scale or cottage industries key constraints were lack of appropriate business premises and industrial parks or zones that are serviced with the necessary amenities, particularly electricity.

The lack of electricity in many areas of Arua and Nwoya is a major factor inhibiting the establishment and expansion of industrial activities (see Box 2 below). While in the places that do have electricity, power surges and cuts reportedly lead to losses due to equipment damage and inability to fulfil orders. Electricity costs were felt to be too high for manufacturing businesses in all localities, which is reducing their profitability.

Box 3: Case study – the effect of lack of access to electricity on industrial expansion potential - "Classicuts" meat processing firm in Arua

Peter Jurua, started as a pig roaster (small restaurant) on the outskirts of Arua Town, which has now developed into a small meat processing facility, making sausages, burger patties, and other meat products. The market potential for his products is high, given increasing demand for protein products and the lack of processing facilities in Arua. Peter regularly receives many orders from individuals, local supermarkets as well as buyers from DRC and South Sudan, which he is currently unable to satisfy due to the constraints he faces.

While Peter already received the machinery needed to expand his business from as well as the training from the Ugandan Industrial Research Institute over a year ago, the machinery currently sits idle due to the lack of an electricity connection. Instead, Classicuts relies on solar electricity to operate, which can only run one machine at a time and is not suitable for the bigger machines, preventing the firm from satisfying large orders.

Peter has been trying to get an electricity connection via the region's only electricity supplier, WENRECO but the costs are prohibitive. He was asked to pay 50,000 UGX for registration, 449,000 for connection and 2 million per electricity pole (for a total of 29 poles) extension from the nearest electricity connection. He would also have to pay for the labor, transformer, and VAT. This total cost of nearly 60 million UGX (17,900 USD) is totally beyond his financial capacity.

Peter asked the LC5 District Chairman for his support in getting an electricity connection for this area, but did not get any response. He is now pursuing another route, given that his local community had put in a request to the Rural Electrification Agency in 2000, whereby the community undertakes to pay 30% of the cost of connection (93 million out of a total of 770 million UGX). However, even though this application was accepted back in 2006, the Agency is yet to come and work on the electricity connection, ten years on.

Despite all these setbacks Peter remains hopeful of his expansion potential:

"I have rented out this bigger premises to accommodate the business when it grows, and I have planned out what each room will be used for, based on my research on meat processing. Hopefully soon the Rural Electrification Agency will come to connect the community to electricity and I can use my new machines and start fulfilling bigger orders."

It is therefore recommended that LGs build on recent investments in upgrading road infrastructure within Municipalities and Districts, which has greatly improved connectivity, to increasingly focus on economic infrastructure investments. Funds from the GoU and donor funded programs could be leveraged for investments in the following infrastructure, to be incorporated into Local Development Plans:

- ***Roads to tourist sites and other tourism infrastructure;***
- ***Rural feeder roads***
- ***Industrial park establishment and servicing;***
- ***Market infrastructure;***
- ***Premises for cottage industries;***
- ***Irrigation***
- ***Local power generation***
- ***Water and sewage treatment facilities (prioritized by firms)***

7.3.2 Skills and innovation

While skill levels did not emerge as the most binding constraints to the success of local firms and sub sectors, firms in the industrial, tourism and informal small sale fabrication sectors still mentioned low skill levels as a problem. In particular, bigger industrial firms in Jinja felt that they could not find workers with the required skills for industrial jobs. Firms therefore have to bear the cost of training employees, knowing that many leave after they are trained. Soft skills and people's attitude to work were also felt to be problematic, whereby

many youth, in particular, are not interested in industrial jobs requiring hard work, and often drop out soon after recruitment. Firms in the tourism FGD highlighted the fact that many local tour guides were informal and not adequately trained or certified in any way. Similarly, local craft producers, hotel staff and others were felt to be lacking in the levels of skills needed to compete with other tourism destinations in East Africa. In the informal, small scale fabrication sector, firms (particularly in Jinja) felt that their low skills levels were a major impediment to success. Financial literacy skills were also obviously lacking as well as any support and coaching towards the formation of cooperatives and increasing collective marketing, etc.

Overall, skill levels were less of a concern in Arua and Nwoya compared to Jinja. This is likely because of the lower level of development of firms and subsectors in Nwoya and Arua, whereby firms do not need a more sophisticated level of skills at the current stage in their development. Nonetheless the low levels of skills among the local population in the Northern Districts, where 36% of the population are illiterate[84], is likely to hinder investment in new activities and sectors that could accelerate structural transformation.

Due to the low capacity of LGs and the need to keep recommendations realistic and practical, it is not recommended that LGs focus on this area, given that the national level is more likely to have the capacity to work on this area through the education and vocational training systems. An important focus at the national level should be to ensure these systems better match the requirements of employers, particularly in strategic sectors such as industry, tourism and agribusiness. This could be achieved through a closer partnership with employers, including tailored vocational training, apprenticeship and on the job training schemes, etc.

7.3.3 Enterprise support and finance

By far the biggest issue for the enterprises consulted is access to finance due to the prohibitive interest rates. This issue was rated as the top constraint or among the top constraints in every FGD in every locality. Interest rates offered by commercial banks (26-29% per annum) were felt to be prohibitive for medium-long term investments in business establishment and expansion. While MFIs and SACCO loans were felt to be too small and to also have difficult conditions. These findings are supported by other studies, for example the UBOS Investor Survey (2011), which showed that the main non-regulatory factors which constrained business operations and growth were the high cost of credit (83.3%), poor infrastructure (78.9%) and limited access to credit (77.0 %).

Donor and Government programs are trying to support this sector but the funds do not seem to be getting to the firms who need it. For example, the GoU's Agricultural Commercial Finance scheme is a fund disbursed by local commercial banks at a more favourable interest rate of 12% (31 billion UGX per year from the Bank of Uganda). Various other donor funded projects also exist including DFID's 48 million GBP, Northern Uganda Transformation of the Economy through Climate Smart Agribusiness, project (2014 – 2022); the EU Agribusiness Equity Investment Fund (30 million Euro); KFW and DANIDA, 28 million GBP, credit line and guarantee fund through AbiTrust; and others.

Representatives of FIs we met with in Arua stated that they have no shortage of funds to lend to local firms, including government and donor funds at better interest rates. But they explained that uptake and capacity to absorb financing was low, and blamed this on firms' inability to prepare good quality business plans. While this is very likely to be the case, firms in all FGDs told us that the high interest rates commercial banks are charging are deterring them from even seeking information about the loans in the first place. Moreover, none of the firms we spoke to were aware that there were donor or Government funds with better interest rates for strategic sectors and industries available at FIs. Also, the conditions of access to many of these funds exclude the majority of firms in Uganda (for example, the Agricultural Commercial Finance scheme targets firms with more than 50 employees with a minimum loan amount of UGX 500 million). Commercial Banks also explained that even the preferential rates from donor funded loans are still relatively expensive due to the Central Bank Rate set by the Bank of Uganda being 17%. So for example, European Investment Bank loans for medium-long term investments were being loaned at 19-22%. Donors have themselves reported that it is a challenge to find sufficiently mature companies in Uganda that can absorb these loans. It is critical that funding reaches

[84] Uganda National Household Survey 2009/10.

local businesses in a more comprehensive manner. In their current absence, firms explained that their only option was to start / run a small business, even if there is potential to be bigger, which is discouraging economies of scale in production.

For small scale businesses, banks such as Centenary or Pride Bank are doing some innovative financing without collateral requirements but the loan amounts are too small for business establishment or expansion purposes. MFI interest rates were also felt to be too high for the medium to long term investments needed by local firms. Finally, SACCOs have faced issues with mismanagement, with a history of poor SACCO management and fraud – while firms also felt that SACCO loans were in any case too small. Out of 5,000 registered SACCOs in Uganda, only 2,245 are reported to be operational[85].

Addressing these access to finance issues need action at the national level, however, given low level of capacities of LG and the central nature of funds to FIs. At the moment, even support to SACCOs from the LG is almost non-existent, so actions that the LGs could take such as incentivizing SACCOs to increase on-lending through loan guarantees, etc. is felt to be beyond the current capacity of LGs. ***One step in this direction, however, could be awareness raising activities by LGs for local firms to know about existing funds from donors and Government that they could apply for at FIs. This could be one of the tasks of BDS support at LG level. Another step could be linking local firms with equity investment, working in partnership with UIA and the MoLG, building on some initial good practices of MoLG and UIA in this area. LGs could play the linking role between local firms and foreign investors coming from UIA through the regular PPD interactions (which are yet to be established).***

While some participants also made the case for selective firm level incentives, such as tax breaks and holidays for strategic economic activities, these were not their top most recommendations. Various firms, particularly in the industrial and tourism sectors, argued for incentives aimed at their sectors, given their strategic potential to contribute to structural transformation and job creation in the local and national economies. However, tax break incentives have traditionally achieved suboptimal results from international experience and often lead to a "race to the bottom" where multiple localities try to outcompete each other by offering more tax breaks, ending up with little benefit to the local economy. There are also risks of deadweight effects (were firms would have come to the location anyway in the absence of incentives) or to pure waste (if firms leave the locality once the incentives stop).

7.3.4 Institutions and regulations

The study found evidence that high levels of corruption in the tax administration process and other indirect costs of doing business could be encouraging business informality and dis-incentivizing investment. Foreign investors, in particular, explained that setting up a business in Uganda is not too difficult to start with and that they had received good support from UIA, but that the levels of taxation; cost of Government permits and licenses; corruption and harassment that ensues has put a lot of investors out of business – if their profit margins were not big enough to absorb these costs. For example, corruption in the customs clearance process was highlighted as a major issue for manufacturing industries, as the firms are reliant on imported manufacture inputs for their production. The desire to illicit payments from firms seems to be leading officials to deliberately delay consignments and other processes until firms are forced to pay bribes. This reportedly does not only happen at the borders but also at different checkpoints along the road and in the duty reimbursement process.

"First our consignment was delayed in Malaba, and we paid duty on it even though it's a manufacturing input just to get it out. Then at Bussitema, another official said the duty we paid was undervalued because the cloth should have been measured in square metres (whereas everywhere in the world it is known that cloth is measured by the metre)." (Foreign manufacturing investor, Jinja)

At the top of the LGs institutions and regulations agenda should be to reduce avenues for corruption by LG officials in the tax administration process. Firms that complained about corruption, mentioned the better experience they have had since URA automated tax collection online. Learning from these best practices and

[85] Agricultural Financial Year Book 2012, GIZ pp128-135 ch. 6: 'SACCOs - a reality check'

cascading such e-governance systems to LGs is important to reduce firms' interactions with and reduce their harassment by corrupt government officials.

Foreign investors also felt that despite good support from UIA during the establishment process, authorities do not protect them from harassment later on once their project is ongoing. Foreign investors seem to be more subject to harassment by local level Government officials who regularly come to their premises asking for donations. Also, they reported not receiving any support when they had been victims of theft or extortion by members of the public. This is creating a major lack of trust between the private sector and Government.

"UIA facilitated access to land for my investment project by buying land from a private individual, who issued compensation to people that had to relocate. I only established my project once I had seen the compensation statement signed by the LC1, LC2 and Sub County Chief. But for the last 4 years, I am being sued by the community for 1.2 billion UGX, even though it's UIA who bought the land, not me. I've been to court 9 times and it has cost me $15,000 in legal fees so far. UIA could have squashed this case against me from the beginning, but they haven't" (Foreign Investor, Jinja)

"My investment project pays 180 million UGX in taxes per year and I employ 302 people. But when I report to the police that there's been a theft at the business premises (I've reported 30 cases in the last eight years) they don't even come to take statements. There is no recognition from Government. All we get is harassment". (Foreign investor, Jinja).

At the same time, LGs seem to be overly focused on tax collection, to the detriment of any other interaction with the private sector. As donor funding to Uganda has reduced in recent years, the private sector is increasingly bearing the brunt, through increased tax collection by local and national Government in order to cover the deficit. ***National Government should seriously consider whether continuing to raise taxes for formal firms is the best strategy - or whether an alternative strategy could be to reduce taxation in order to incentivize more firms to formalize and broaden the tax base. Several other countries have successfully made this transition, where they cut corporate income tax or other taxes in order to widen compliance and increase the tax base.***

"Recently taxes and payments to Government just keep going up. The Municipal tax on signposts has just doubled to 750,000 UGX per year. Work permits for foreign investors have also increased from $500 to $2500 per year. And we have to pay this $2,500 not just for ourselves as business owners but also for any expatriate workers such as hotel managers. Tourist visas also went up from $50 to $100 with no prior warning to firms in the tourism sector." (Foreign Investor, Jinja).

Given the low capacity of the private sector in Uganda (and in Africa), there is a need for a shift in the mentality and attitude of LGs to the private sector, from "how can we get more resources out of the private sector to support the LG's budget?" to "how can we improve the enabling environment for business for the private sector to grow and create jobs?". In most FGDs, private sector actors were asking for a more regular dialogue with the LG and for more interest and action by LG to support the success of prominent sectors. Yet, currently, the only interactions LG have with the private sector seem to centre around tax collection or requests for the private sector to make further investments in the locality, such as roads or financing other infrastructure schemes. There currently seems to be little thinking in DDPs on what are the prominent sectors that can generate employment, economic growth and structural transformation in the locality and what can LG do to support the private sector in those areas. While the approach that LGs are taking now might result in mobilizing some short term resources from PPPs for a road or a beautification scheme, this alternative approach of supporting the private sector is more sustainable and will lead to more revenue for LGs in the longer term due to a widening of the local tax base through greater investment and employment. Continuing with the current fixation on taxation is very likely to lead to a further disenfranchisement and resentment from the private sector towards the Government. This change in interaction should be a prerequisite to further engagement of LGs on LED, otherwise more interaction by LGs with the private sector could actually do more harm than good.

It is important to note that while other regulatory barriers and institutional issues are often important to local firms, the ones highlighted above were those found to be a barrier in the localities assessed. Firms indicated

that firm registration and obtaining licenses from LGs were not an issue, for example, given that LGs have recently streamlined and simplified such processes to improve tax collection performance.

Key actions needed include:

(i) The recent regionalization of various business services is an opportunity to build a more comprehensive support system for local investors and firms. The decentralization of business registration services (such as UNBS, URA, URSB, Land Registration Services) to the District / Municipal level, have reduced the time and effort required to register a business and obtain permits. Another important step is now to establish a One Stop Center where a business can get advice on all Government procedures in one place. The Center should include the other services that businesses emphasized as particularly problematic, particularly customs related issues such as duty exemption and reimbursement and certificates of origin. It is also an opportunity to locate the support of the Commercial Office on BDS to MSMEs in areas such as financial literacy training, business plan development, cooperative formation and collective bargaining.

(ii) Reducing and simplifying the number of taxes that firms need to pay will significantly reduce transaction costs which are becoming problematic for most of the firms we consulted. In more developed contexts like Jinja, an e-government tax service for online payment of LG online could be piloted. This will reduce the need for multiple interactions with LG officials for tax collection and reduce avenues for corruption. In less developed contexts like Arua and Nwoya that might not be ready for online services, it is still important that the information on the tax bands according to which a business is assessed are publicized in an obvious manner by the URA and the LG. This will improve local firms' knowledge and reduce their vulnerability of being unfairly assessed for tax payment or asked for additional or illegal charges.

(iii) LGs need to be supported and empowered to raise issues affecting their local economy, beyond their areas of jurisdiction, to national level agencies. One possible mechanism is through JAARD, which involves central ministries as well as development partners and could be an avenue for raising key advocacy messages requiring action at the national level. Another mechanism is to link local PPD forums (which will take different forms in different LGs) with the Presidential Investors Roundtable so that local level issues (such as access to electricity in Arua and Nwoya) are raised.

Box 4: Example of Success - Improving the Environment for Business in Kigali, Rwanda

Kigali achieved outstanding economic performance in recent years, with annual GDP and job growth averaging 9.7% and 6.12% respectively between 2007-2012. Undoubtedly, this was due to conducive national level policies. For example, Rwanda prioritized the improvement of the business environment and was a top reformer according to the World Bank's Doing Business survey. Improvements included land reform (through the Land Tenure Regularization Program), that encouraged private land ownership and freed up land markets; and the centralization of investment promotion activities within one agency, the Rwanda Development Board (RDB).

However, city level interventions led by the Mayor of Kigali were also a major contributory factor in this success. Critical areas of focus included:

- Improving the city's business environment. The City of Kigali proactively undertook an assessment of the enabling environment according to the World Bank's Doing Business survey (adopting this "best practice" from the national level). This assessment included feedback from the private sector, through the newly established Kigali Investors Forum, and concluded with the implementation of specific reforms to address identified constraints. Most notably, a Kigali One Stop Shop was instituted in 2010 where firms can deal with all local government procedures in one place.

- Addressing bottlenecks and constraints for the private sector. The city engaged regularly with the private sector to better understand constraints to doing business. Through these engagements, the city identified access to finance and land ownership as two key constraints for local firms. The city then addressed these constraints by helping firms to organize as cooperatives and co-locate

operations; providing groups with land titles for the new properties. Further, the city worked with financial institutions to provide these same land titles as collateral and subsequently helped increase access to finance.

- Marketing the city to investors and key actors to attract new investment. The Kigali Conceptual Master Plan (and later the Kigali City Master Plan- KCMP) was used as a promotional tool to demonstrate viable opportunities for investment in the city. Paired with a good investment climate and government commitment (signalled by the completion of infrastructure projects in line with the long-term vision), the plan has successfully attracted numerous new investments by foreign and domestic investors.

Source: World Bank (2015). Competitive Cities Knowledge Base – Six Case Studies of Economically Successful Cities.

The wealth of information and recommendations from private sector firms gathered in this study just from one week of FGDs per locality, is testament to the importance of dialogue with the private sector in order to inform Government action on LED. All too often development practitioners assume they know what the private sector needs and what constraints they face without taking the time to talk to them and find out. We hope that the information provided in this study is a catalyst to improving this dialogue with the private sector in the targeted localities and beyond.

Annex 1: Recommendations Matrix – Who, What, When?

Action	Local Government	National Stakeholders
Quick wins		
Tourism	Develop local tourism development plan (as part of Municipal or District Development Plans) in line with National Tourism Master Plan	(i) MoLG & MoTWA – design a LG tourism promotion program (ii) PSFU – review conditions for accessing tourism development funds to explore whether they could be made more accessible to small and medium tourism operators
Agribusiness	Enforce regulations on agriculture input quality	MoLG & UIA - support LGs to develop PPPs with agro-processing firms to encourage linkages with outgrowers (including input provision, technical training, product upgrading, financial literacy, business plan development, cooperative formation and collective bargaining)
Industry	Establish a window for investment facilitation and follow up support for large scale investors (particularly foreign investors)	Establish central level LED budget to be used by MoLG and UIA (in conjunction with LGs) to undertake activities on investment attraction, support to large scale investors, facilitating access to land, etc.
Informal economy	Invest in premises for informal enterprises through PPPs with them / contribution from them	
Infrastructure	Involve the private sector in prioritizing infrastructure investments in Municipal and District Development Plans, in order to make investments that will have the highest impact on economic growth and jobs	
Land	Disseminate the successful experience from Nwoya District in facilitating access to land for investors through effective relationship building with community institutions	Ministry of Land, Housing and Urban Development, UIA & MoLG - develop clear criteria and guidelines for facilitating access to land for investors in a fair and transparent manner
Enterprise support	(i) Raise awareness of locally available sources of finance for firms in commercial banks, MFIs, etc. – particularly of GoU and donor funds at lower interest rates	MoLG & UIA – link local firms with equity investors (working in conjunction with LGs)

	(ii) Work with MoLG and UIA to link local firms with foreign equity investors	
Institutions & regulations	(i) Establish One Stop Center where local firms can get advice on all Government procedures in one place (ii) Increase public awareness of tax assessment bands and categories through radio and other means	(iii) Decentralize URA duty reimbursement procedures and UNBS product certification procedures to the LG level to reduce burden for firms involved in travelling to Kampala, Entebbe, etc. (iv) Pilot e-government LG tax services in more developed LG contexts such as Jinja
LG internal constraints	(i) Better enforce staff performance management system (ii) Try to improve staff motivation through non-financial incentives	(i) Approval of the new structure for LGs, recently proposed to Parliament, as a more effective structure towards re-positioning LGs for facilitating economic growth (ii) Carefully budget LG LED investment costs and increase LGs unconditional transfer to cover cost of reforms and investments they need to make in economic infrastructure, improving the regulatory environment for business and enterprise support (iii) Seek increased funding from development partners for LED investments as well as technical capacity building for LGs (iv) Institute performance based LED budgetary allocations, contingent on good performance against a set of objective criteria (v) Issue a short and practical LED implementation handbook for LGs, to supplement the LED policy (vi) Cascade training to all LGs, clearly focusing on their expected role in locality promotion, attracting investment and improving the enabling environment for business (vii) Cascading the analysis done in this study (for Jinja, Arua and Nwoya) to other LGs in Uganda so that each LG has a clearer idea of its economic sectors with potential and what it needs to do to support them
Public Private Dialogue	(i) Regularly dialogue with <u>already active</u> private sector associations (e.g. Jinja Manufacturers Association, or Chamber of Commerce in Arua) rather than attempting to create new ones (ii) Change approach from only seeking PPPs with or donations from the private sector for LG programs, to dialogue on what can LG do to improve the environment for business and alleviate the	Create mechanisms for LGs to raise issues affecting their local economy and local firms, which are beyond their areas of jurisdiction, for action by national level agencies. For example through: (i) The Joint Annual Review of Decentralization (JAARD) process (ii) Linking local PPD forums with the Presidential Investors Roundtable

	constraints that local firms face (iii) Involve local private sector associations in the process of producing Municipal and District Local Development Plans	
Longer term agenda		
Tourism	Invest in tourism infrastructure, community based tourism, locality promotion and development of tourist products	MoLG & MoTWA – build LG capacity for tourism development
Agribusiness	Re-activate the role of the Agriculture Office in the provision of agriculture and livestock extension	MoLG, MAAIF & OWC – build capacity for extension services that address local priority value chains (in addition to national priorities)
Industry	Ensure conducive environment for industrial development, particularly through infrastructure investments and regulatory reforms	URA – simplify custom duty reimbursement procedures on manufacture inputs
Informal economy	Activating the role of the Commercial Office in provision of Business Development Services to informal enterprises e.g. financial literacy training, business plan development, cooperative establishment, collective bargaining and quality upgrading advice	Ensuring Commercial Offices at LG level have the necessary financial and human resources with which to operate
Infrastructure	Building on recent investments in road infrastructure to transition to other strategic investments in tourism site development, roads to tourist sites, water and sewage facilities near tourist areas; irrigation and rural feeder roads; market infrastructure; serviced industrial parks and zones; and premises for informal fabrication and cottage industries	Invest in increasing access to electricity through PPPs, particularly in Northern Districts
Land	Strengthen land administration systems and improve coordination among the various land management institutions. In particular: (i) improve dispute resolution systems, especially in northern Uganda and the Albertine region (ii) strengthen land administration systems, including application of new technologies to improve documentation, information storage and retrieval, and valuation. and	National level land reforms to: (i) promote security of land tenure and reduce the rate of occurrence of conflicts and disputes caused by overlapping rights; (ii) promote the healthy development of rental markets for land; and (iii) strengthen the capacities of institutions responsible for management of land administration

	(iii) strengthen the management of local urban authorities' finances to acquire land and pay for infrastructure improvements.	
Enterprise support	Activate the role of the Commercial Office in provision of Business Development Services to local enterprises	Take action to lower interest rates, particularly on GoU and Donor programs aiming to increase access to finance
Skills	Focus on financial literacy, business plan development, product upgrading skills training provided by the Commercial Office (due to the lack of current LG capacity to work on skills development)	Ensure educational and vocational training systems better match the requirements of employers, particularly in strategic sectors such as industry, tourism and agribusiness – through a closer partnership with employers, including tailored vocational training, apprenticeship and on the job training schemes, etc
Institutions & regulations	Shift staff capacity and mentality from an attitude of "how can we get more resources out of the private sector to support the LG's budget?" to "how can we improve the enabling environment for business for the private sector to grow and create jobs?"	(i) URA – consider an alternative strategy of reducing taxation in order to incentivize more firms to formalize and broaden the tax base (based on the successful experience from other countries on this) (ii) MoLG & URA – reduce and simplify the number of LG taxes that firms need to pay and improve transparency of the firm level tax assessment process
LG internal constraints	Strengthen the local development planning process to be based on (i) stronger analysis into local economic sectors with potential for growth and job creation and (ii) better prioritization of investments through dialogue with the local private sector	MoLG and Ministry of Finance, Planning and Economic Development: (i) Ensure LGs have the necessary financial and human resources for service delivery and economic investments (i) Clearly assess the impact of creation of new Districts on LG viability for service delivery and facilitating economic development – and institute a LG structure that can deliver

Annex 2: Questionnaires

Questionnaire sent in Advance to District and Municipal Governments, Chambers of Commerce and any other Key Informants at the local level

- What would you say are the top 5 economic sub sectors with potential in your District / Municipality? Why?
- What are the growing sectors? Why?
- What are the declining sectors? Why?
- What are the economic activities that generate most jobs?
- Are there any emerging or new sectors that you think the locality should promote / specialize in? Why?
- Is the informal sector important? Which industries have the largest share of informal businesses?
- Do formal businesses buy from / sell to or subcontract to informal businesses? If not, why not?
- Are some of the local industries clustered in the same place?
- How well would you rate the business environment in the locality (range from 1 to 5)? Why?
    - Investment facilitation by the LG
    - Registration, licensing
    - Taxation
    - Other regulations
- How well would you rate the locality's infrastructure? (range from 1 to 5) Why?
- What types of infrastructure investment would have the most impact on competitiveness?
- How well would you rate access to land by businesses in the locality? (range from 1 to 5) Why?
- How well would you rate access to finance in the locality? (range from 1 to 5) why?
- What are the main sources of finance used in the locality? Own capital, bank loan, micro credit, other?
- We would like to undertake Focus Group Discussions (FGDs) with firms from the prominent / main sectors in the local economy. Who do you think the main groups of FGD participants should be? Please list.
- Can you organize access to these participants for FGDs to be undertaken in March?
- If you had to describe how LGs should promote LED (i.e. what should LGs practically do?) in one sentence, how would you explain it?
- What type of investments / actions should the LG implement to promote LED?
- How would you rate your District / Municipality's capacity to promote LED? (from 1 = low capacity to 5 = high capacity)
- What are the main constraints that face the District / Municipality Government in effectively promoting LED? Please list, if any.

- Do you have any forum for public private dialogue?

Semi-Structured Questionnaire for FGDs with local prominent sectors / value chains

1. Why did you start your business in this sector?

2. What are the main characteristics of your sector in this locality?
   - Number of firms, average size (employees, turnover)
   - Do most firms export? Where to (average market shares)?
   - Do most firms import? Which products (machinery, other inputs)?
   - Are you involved in supply chains? How?
   - Do you interact with informal firms? If yes, for which products / services? If no, why not?
   - What would make you say a firm is successful in this sector?

3. How well would you rate your firm's business performance in the last 5 years (in terms of sales growth, hiring more employees, etc.?) Why?

4. If there has been growth: what have been the main factors enabling this success?

5. What do you think are some of the main factors constraining more expansion in sales, numbers of employees, etc.? and How do they affect businesses like you?

   Prompts – what about:
   - Raw materials
   - Skilled labor
   - Overall regulations & institutions
   - Overall infrastructure
   - Access to finance

6. What about constraints specific to this locality? How do they affect businesses like you?

   Prompts – what about:
   - Local taxes
   - Licensing and registration procedures
   - Availability of land and working premises
   - Availability and skill of labour
   - Infrastructure
   - Business support services – Consulting, marketing, transportation, engineering, vocational and technical training and other
   - Local sources of finance

7. What would you rate as your top five constraints in the enabling environment for business in the locality? (voting with coloured dots)

8. What would you recommend the LG should do to remove or alleviate some of these constraints?

9. Do you have any suggestions for how LG could partner with the private sector to improve the environment for business in your sector? Do you have any forums for dialogue with the LG? If not, what do you think would be a good forum for the LG to regularly hear your views and suggestions on improvements needed in the business environment?

Semi-Structured Questionnaire for FGDs with informal sector

10. Why did you start your business in this sector?

11. What are the main characteristics of firms like you in this locality?
    - Number of firms, average size (employees, turnover)
    - Are firms involved in supply chains? How?
    - Do firms interact with formal firms? If yes, for which products / services? If no, why not?
    - Do most firms like yours have a trading license?
    - What would make you say a firm like you is successful?

12. How well would you rate your business's performance in the last 5 years (in terms of sales growth, etc.?) Why?

13. If there has been growth: what have been the main factors enabling this success?

14. What do you think are some of the main factors constraining more expansion in sales, size of business, etc.? and How do they affect your business?

    Prompts – what about:
    - Overall regulations & institutions
    - Overall infrastructure
    - Access to finance
    - Raw materials
    - Skills and education

15. What about constraints specific to this locality? How do they affect businesses like you?

    Prompts – what about:
    - Licensing and registration procedures
    - Availability of land and working premises
    - Skills and education
    - Infrastructure
    - Business advice and support
    - Sources of finance

16. What would you rate as your top five constraints affecting businesses like you in the locality? (voting with coloured dots)

17. What would you recommend the LG should do to remove or alleviate some of these constraints?

18. Do you have any suggestions for how LG could partner with and help businesses like you to improve the environment for business in your sector? Do you have any forums for dialogue with the LG? If not, what do you think would be a good forum for the LG to regularly hear your views and suggestions on improvements needed in the business environment?

19. Why do businesses like you not register with the Uganda Registration Services Bureau? What would encourage them to register?

Annex 3: List of people consulted

	Name	Firm / institution	FGD
JINJA MUNICIPALITY			
1.	Mutenga A.	Boat owner	Tourism
2.	Tibenda G.	Boat owner	Tourism
3.	Kalooli Kakosa	Boat owner	Tourism
4.	Ojakol Moses	Boat captain	Tourism
5.	Odoi William	Boat captain	Tourism
6.	Nakasuta Javia Gloria	Boat owner	Tourism
7.	Nakiyende Herbert	Boat owner	Tourism
8.	Morgan Otile	Business manager, Sunset Hotel	Tourism
9.	Mulama Henry	Assistant manager, Dollops	Tourism
10.	Okello David Kiro	General Manager, Source of the Nile Hotel	Tourism
11.	Joseph Seenabulya	Market Master	Tourism
12.	Robert Otile	General Manager, Hotel Paradise	Tourism
13.	Kagende Steven	Source of the Nile	Tourism
14.	Gizamba Salimu	Source of the Nile	Tourism
15.	Owundo Muhammed	Source of the Nile	Tourism
16.	Taligoola John	Revenue Officer	Tourism
17.	Mukisa Haruna	Source of the Nile	Tourism
18.	Nandase Sylvia	Manager, Tourist Hotel	Tourism
19.	Rukeribuga Agatha	Man. Director	Tourism
20.	Mutalaza Peter	Boat operator	Tourism
21.	Tashobya Richard	Boat operator	Tourism
22.	Namugundho Shamim	TIC	Tourism
23.	Mubumuza Elias	Boat owner	Tourism
24.	Stephen Ntutunga	Asst. Manager, Rumours Bar & Restaurant	Tourism
25.	Kathavarayan Santhosh	Loyal Small Scale Industries	Industry
26.	Naisanga Sharon	Leather Industries of Uganda	Industry
27.	Anuj A. Parmar	Sigma Knitting	Foreign Investors
28.	Mufumbiro John	Nile Agro Industries Ltd.	Foreign Investors
29.	K. Chacko Baby	Kenyan Ind. Jinja	Foreign Investors
30.	Jose Munes	NWLG	Foreign Investors
31.	Olarker Charles F.	NWLG	Foreign Investors
32.	Kizito Judah N.	URA	Foreign Investors
33.	Kiyaga John	URA – Jinja	Foreign Investors
34.	Foreign Investor 1	Wished to be anonymous	Informal discussion
35.	Foreign Investor 2	Wished to be anonymous	Informal discussion
36.	Foreign Investor 3	Wished to be anonymous	Informal discussion
37.	Foreign Investor 4	Wished to be anonymous	Informal discussion
38.	Foreign Investor 5	Wished to be anonymous	Informal discussion
39.	Kirimanda Juma	Blacksmith/fabricator	Informal sector/cottage industry
40.	Basatte William	Blacksmith Paint	Informal sector/cottage industry
41.	Kibayi Benard	Blacksmith welder	Informal sector/cottage industry
42.	Isasi Grace	Blacksmith	Informal sector/cottage industry

43.	Lubwama Edward Brian	Blacksmith	Informal sector/cottage industry
44.	Keredia Jacobo	Blacksmith	Informal sector/cottage industry
45.	Bamulobeire Moses	Blacksmith	Informal sector/cottage industry
46.	Kaidhampola Robert	Carpenter	Informal sector/cottage industry
47.	Ahikabyo John	Carpenter	Informal sector/cottage industry
48.	Ngobi Ivan Scamlem	Carpenter	Informal sector/cottage industry
49.	Kasolo Ibrahim	Carpenter	Informal sector/cottage industry
50.	Kyamankyi David	Jinja Municipal Council	Local Government
51.	Mutakisa Moses	Jinja Municipal Council	Local Government
52.	Kayongo Christine Olam	Jinja Municipal Council	Local Government
53.	Jalia Nabaggala	Jinja Municipal Council	Local Government
54.	Babyerabira Sarah	Jinja Municipal Council	Local Government
55.	Kiwanuka Alex	Jinja Municipal Council	Local Government
56.	Simon K. Luboole	Jinja District Local Govt.	Local Government
57.	Nabihamba E.	Jinja Municipal Council	Local Government
58.	Kubwooyo Rogers	Jinja Municipal Council	Local Government
59.	Mubim Nathan	Jinja District Local Govt.	Local Government
60.	Vicky Kakaire	Jinja Municipal Council	Local Government
61.	Simon Kaita	Jinja Municipal Council	Local Government
62.	Irene Musasri	Jinja Municipal Council	Local Government
63.	Kakuze Tabitha	Jinja Municipal Council	Local Government
64.	Peter Mawerere	Jinja Municipal Council	Local Government
65.	I. Simon	Jinja Municipal Council	Local Government
66.	Janet Nabwonso	Jinja Municipal Council	Local Government
67.	Muhamad Saifa	Jinja Municipal Council	Local Government
68.	Waidhuuba Jofram	Jinja Municipal Council	Local Government
69.	Ernest Nabihamba	Jinja Municipal Council	Local Government
ARUA DISTRICT			
70.	Akuma Moses	West Nile Tourism Network	Tourism
71.	Joel Arumadri	Royal Crane Resort	Tourism
72.	Achema Muzamil	West Nile Conservation	Tourism
73.	Gerard Iga	West Nile Tourism Network	Tourism
74.	Okuyo Ben	Heritage Courts	Tourism
75.	Jackson Lee Etima	Hilltop Hotel Arua	Tourism
76.	Maneno Winfred	Calsha's Enterprise	Tourism
77.	Maturu Brenda	Dorcus Emulators Crafts Association	Tourism
78.	Ezatia Susan	Dorcus Emulators Crafts Association	Tourism
79.	Tutu John	Madi-Lugbara Cultural Foundation	Tourism
80.	Engo Alfred	Egusta Global	Agribusiness/crop
81.	Bua Doa Bosco	Etori Apiculture	Agribusiness/crop
82.	Jurua M. Jackson	Tunado	Agribusiness/crop
83.	Avutia Ronald Kisito	Alaska Enterprises	Agribusiness/crop
84.	Angua Tashin Eric	Milepro Trusted	Agribusiness/crop
85.	Acidri Manasseh	Arcod/Geoffman Ent.	Agribusiness/crop
86.	Maandebo Moses Baakole	Leleo (U) Ltd	Agribusiness/crop
87.	Ojandu Ronald	Solomy Wine Processors	Agribusiness/crop
88.	Bayo Judah	Foliage Nectars	Agribusiness/crop
89.	Bakoko Stella	Arudifa	Agribusiness/crop
90.	Afedra Mark	Futsuge Nectars	Agribusiness/crop
91.	Munduga Raphael	Wine Producer	Agribusiness/crop

92.	Martha Tiko Ondoga	Shea Oil Arua	Agribusiness/crop
93.	Mbabati Ruth	Cattle keeping	Agribusiness/Livestock
94.	Moshumo Alphonse	Cattle keeping	Agribusiness/Livestock
95.	Jurua Peter	Classic cuts	Agribusiness/Livestock
96.	Aluma Alex	Piggery Farmer	Agribusiness/Livestock
97.	Awuzu Jimmy	Meridian Dairy	Agribusiness/Livestock
98.	Kaleb Titia Kamure	Piggery farm	Agribusiness/Livestock
99.	Acidri Alesio Bako	Boke Investment & Heman & Hebron Bold	Informal Sector/Cottage Industry
100.	Wakude David	Great Game Engineering	Informal Sector/Cottage Industry
101.	Orobi Edward	Gaga Blacksmith Grp	Informal Sector/Cottage Industry
102.	Mundumundu Ibrahim	Praford NVTI	Informal Sector/Cottage Industry
103.	Opini S. Albert	Opal Metal Fabrication	Informal Sector/Cottage Industry
104.	Drani Emmanuel	Arua Public Tinsmith	Informal Sector/Cottage Industry
105.	Agata Isaac	Gaga Blacksmith Group	Informal Sector/Cottage Industry
106.	Lematia Chris	Gaga Blacksmith Group	Informal Sector/Cottage Industry
107.	Jamal Changa	Finetouch Consults tech	Informal Sector/Cottage Industry
108.	Akankwasa Sylvia	HIS Cirace International Ltd	Informal Sector/Cottage Industry
109.	Candiru Judith	Herman & Hebron Co. Ltd	Informal Sector/Cottage Industry
110.	Abbi Selina	Arua Kolping Bakery	Informal Sector/Cottage Industry
111.	Andama Ignatious	Bona Caile Rearsng	Informal Sector/Cottage Industry
112.	Omar Kawawa	Arua Public Tinsmith	Informal Sector/Cottage Industry
113.	Adriko Christopher	Radio Pacis	Other organisations
114.	Okwong David	UNRA	Other organisations
115.	Jackie Oliver Ajok	Stanbic Bank	Other organisations
116.	Birungi Aminah	UNRA	Other organisations
117.	Parwot Lot Ewaku	Muni University	Other organisations
118.	Jonathan Driliga	Arua One, Radio Station	Other organisations
119.	Dedibo Racheal	UAP Insurance Co.	Other organisations
120.	Fr. Adiga Nakari Cyprian	Director, Nile University	Other organisations
121.	Dr. Sam Andema	Firm Foundation Education Trust	Other organisations
122.	Maandebo Doris	Firm Foundation Education Trust	Other organisations
123.	Mwere Moses	Post Bank	Other organisations
124.	Mulele Albert Clay	Centenary Bank	Other organisations
125.	Anguyo Hope Anne	DFCU Bank	Other organisations
126.	Abiti Francis	Crane Bank	Other organisations
127.	Fanuel Onzima	UCU, Arua Company	Other organisations
128.	Lekuru Grace	Arua One FM	Other organisations
129.	Sabo Kamilo	SEC Finance DLCV	Other organisations
130.	Ezati Ezaruku	V/chairperson LED Forum	Other organisations

131.	Mawadri Godfrey	Mgr. – KCB Bank	Other organisations
132.	Eng. Buzu Adroa	Madema Engineering Consultants	Other organisations
133.	Christine Dranzoa	VC/Muni University	Other organisations
134.	Peter Debele	Resident District Commissioner -Arua	Other organisations
135.	Ijembe Edgar T.	Joadah Consult Ltd	Other organisations
136.	Emmanuel Odama	NARO – Abi Zardi	Other organisations
137.	Dedibo Racheal	UAP Insurance Uganda	Other organisations
138.	Nicholas Muhumuza	UAP Insurance Uganda	Other organisations
139.	Megwe Jane	ADIO	Other organisations
140.	Jurua Peter F.	Chairman Chamber of Commerce	Other organisations
141.	Dr. Matinda Nedgwe	DVO	Local Government
142.	Tiko Lillian	Accountant	Local Government
143.	Barya Anthony	DHO	Local Government
144.	Jurua Jackson	TUNADO	Other organisations
145.	Buzu Adroa	Engineering Consult.	Other organisations
146.	Kaleb T. Kamure	Chamber member	Other organisations
147.	Abule C. Saverio	Journalist	Other organisations
148.	Obia Richard	CBS District	Other organisations
149.	Abiru Lydia	Somisr Human Resource	Other organisations
150.	Bua doa Bosco	Foliage Nectors	Other organisations
151.	Andua Martin	PAS- Arua DLG	Local Government
152.	Olemaru Consolate	DIO Arua	Local Government
153.	Wadri Henry	DEO	Local Government
154.	Ayikoru Sunday	LC5 –V/Chairperson	Local Government
155.	Inzikuru Esther	District Local Government	Local Government
156.	Ayikoru Cephar	District Local Government	Local Government
157.	Tukodi Lilian	District Local Government	Local Government
158.	Akokocan D.O	District Local Government	Local Government
159.	Lekuru Judith	District Local Government	Local Government
160.	Angutoko Herbert	District Local Government	Local Government
161.	Ogwang Cyprian	District Local Government	Local Government
162.	Jurua Herbert	District Local Government	Local Government
163.	Eguma Thomson	Arua Municipality	Local Government
NWOYA DISTRICT			
164.	Emily Rubooga	Amatheon -Agric	Large scale agribusiness
165.	Paramjit Singh		Large scale agribusiness
166.	Obutu F. Daniel	AFGRI	Large scale agribusiness
167.	Jon Mclea	SWMN	Large scale agribusiness
168.	Dockonyero Fred	AFGRI	Large scale agribusiness
169.	Bernard Obwoyo	Kabela Investments Limited	Large scale agribusiness
170.	Kisuki Nimorod Paul	Delight U Limited	Large scale agribusiness
171.	Ocitti Tom Oryema	Nwoya producers Association	Small scale agribusiness
172.	Achellam Jimmy	MACHO	Small scale agribusiness
173.	Adyero Sunday Mercy		Small scale agribusiness
174.	Apiyo Pamela		Small scale agribusiness
175.	Auma Miriam		Small scale agribusiness
176.	Nyero Denish		Small scale agribusiness
177.	Opio Joel		Small scale agribusiness
178.	Otto Gilbert	Agri input Store	Small scale agribusiness
179.	Alol Henry	Amar Foods	Small scale agribusiness

180.	Ogen Rwot Simon	MACHO	Small scale agribusiness
181.	Lukwiya Jackson	Farmer	Small scale agribusiness
182.	Karungi Diana Batebe	Hotel Manager	Small scale agribusiness
183.	Otim Boniface	BT. VET Services	Small scale agribusiness
184.	Okello Patrick	Nwoya Organic Farmers Association	Small scale agribusiness
185.	Odong Walter O	NALG	Small scale agribusiness
186.	Akello Doreen		Small scale agribusiness
187.	Aol Beatrice Gift	Hotel	Tourism
188.	Awany Francis	Hotel	Tourism
189.	Okii George	Hotel	Tourism
190.	Alanyo Concy	Anaka Foundation	Other organizations
191.	Ayella Richard	African Revival	Other organizations
192.	Akuku Susan Cinderella	RICE- West Nile	Other organizations
193.	Acen Irene	CHARFORD	Other organizations
194.	Asiimwe Joseph	CIAT/ Makerere University Farm Solutions Africa	Other organizations
195.	Atibo Christopher	IITA	Other organizations
196.	Wilfred Babanga	ZOA Uganda	Other organizations
197.	Acen Scovia	FCT	Other organizations
CENTRAL LEVEL			
198.	Eng. Paul Kasule Mukasa	MoLG	Central Government
199.	Swizin K. Mugyema	MoLG	Central Government
200.	Joel Mundua	MoLG	Central Government
201.	Assumpta Tibamwenda	MoLG	Central Government
202.	Semugenze Grace Nkalubo	MoLG	Central Government
203.	Evelyn Kyomuhendo	MoLG	Central Government
204.	Charles Olarker F	MoLG	Central Government
205.	Christopher Kisinde	MOLG	Central Government

Annex 4: Examples of Practical LED Actions that LGs internationally undertake

While it is impossible to list here all the policy reform and investment possibilities that could be undertaken, various toolkits have documented the wide variety of interventions that can and have been implemented by cities to improve their economic competitiveness[86]. Illustrative examples of actions that may be relevant to the African city context include:

1) Institutions and regulations

- Improving the regulatory environment for businesses and investors through: reducing the time it takes to process business registration applications; reducing business costs for MSEs through lowering municipal taxes and local charges; reducing the complexity of legislation imposed on businesses and investors; introducing e-governance, One Stop Shops and other means for providing information and simplifying procedures
- Encouraging cluster development through tax incentives and zoning regulations that encourage firms to cluster in one area
- Marketing and promotion of the locality as a good place to start a business, location for investment or tourism, etc. through actions such as city or local area brochures and economic profiles, producing information packages for potential investors, direct mailing to potential investors in relevant economic sectors, promotion via media outlets, organising local festivals, exhibitions and community events to promote the area and its products as well as participating in international fairs and exhibitions
- Provision of land, utilities, investment facilitation and "after care" services targeted at new or higher value added sectors

2) Infrastructure

- Improving transport infrastructures such as roads and multi-modal public transport (road, rail, sea port and airports)
- Improving infrastructure necessary for economic production including gas, electricity, telecommunications and water supply
- Town centre enhancement or beautification schemes using local labour
- Ensuring there is enough land for business needs – e.g. supporting the clearing and preparation of sites for economic activity, putting together a land and property database, etc.
- Establishing industrial, business parks or incubators in partnership with the private sector
- Investing in infrastructure that supports certain economic sectors – e.g. renovation of sites that could attract tourists, or creation of a market area for informal firms, etc.

3) Skills and innovation

- Establishing local skill development partnerships between local industries, businesses, and training providers, to improve information on the type of skills needed and the design of skill development courses
- Setting up internship, apprenticeship and training in the work place schemes through partnering with local businesses
- Implementing Diaspora attraction initiatives
- Encouraging partnerships between research institutions and businesses towards better R&D for business needs

4) Enterprise support and finance.

[86] See: World Bank (2015). Competitive Cities for Jobs and Growth: What, Who and How? Washington D.C. June 2015; UNHABITAT Manual 'Promoting Local Economic Development through Strategic Planning', Volume 4 Action Guide, available at http://www.unhabitat.org/pmss/listItemDetails.aspx?publicationID=2319; Wadie Hobson, E. (2011) LED Investment Actions: A Guidance Note for Local Government, Available at http://ledna.org/system/files/LED%20Actions%20Guidance%20Note.pdf

- Increasing access to finance, through providing information to local firms on credit availability, or providing incentives to finance providers to better serve certain types of firms, including credit guarantee schemes, etc.
- Increasing access to Business Development Services (BDS) and knowledge on financial management, business plan development, export product standards, etc. in partnership with private BDS providers
- Establishment of incubators for start-ups in new sectors, in partnership with the private sector, supporting enterprises with office space at below market rents, MSE financing, BDS, support in navigating registration and licensing etc. to help companies through the first years of their operation
- Awards to innovative and diversifying companies through annual prize ceremonies for successful companies and individuals, in cooperation with local Chambers of Commerce