

NRI Report No. 2701

# Rural Non-Farm Economy Project

## Uganda Fieldwork Case Study Synthesis Report

by

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## **Preface**

The importance of the Rural Non-Farm Economy (RNFE) is reflected in the rural development strategies of many organisations. The World Bank's rural development strategy identifies three pillars of rural poverty reduction: agricultural productivity, non-farm rural employment, and sustainable use of natural resources. The Department for International Development's (DFID) strategy for eliminating world poverty is pursued through three main objectives: creating sustainable livelihoods for poor people, promoting human development and conserving the environment. In giving effect to the livelihoods approach for poor rural people, diversity in livelihood and income sources beyond agriculture is recognised. Discussions between Natural Resources Institute (NRI), the World Bank and a range of partner agencies in May 2000, resulted in agreement to conduct research on the RNFE, through DFID's collaborative programme in rural development with the World Bank. This work began at the NRI in June 2000, with developing country case studies in Uganda and India. There is also a concurrent project on the transition economies of Central and Eastern Europe and the ex-Soviet Union, with case studies of Armenia, Georgia and Romania.

This report is intended to synthesise the research conducted in two Districts of Uganda (Rakai and Kumi) conducted from October 2000 to late 2001. It is published in conjunction with a second synthesis report (Alan Marter 'The Rural Non-Farm Economy in Uganda: a Review of Policy', September 2002, Report No. 2702), which is focused on current and recent policy that relates (directly or indirectly) to the rural economy and its diversification in Uganda. Copies of that report are available on request from the NRI, and through the website

Website:

[www.nri.org](http://www.nri.org) or <http://www.nri.org/rnfe/index.html>

## The Rural Non-Farm Economy (RNFE) in Uganda

This project has been conducted for DFID in its partnership with the Rural Development Department of the World Bank. It analyses:

- the factors that operate at the household level to enable or prevent people (especially the poor) from engaging in beneficial non-farm activities. This **Access component** examines factors which affect people's capacity to engage more fully in diverse livelihood strategies, and how to reduce the barriers to their participation; and
- the institutional factors and governance framework within which the rural economy operates. This **Local Governance component** is focused on the array of institutions and actors operating in the rural economy (including local government, the private sector, civil society organisations etc.) which are providers of services, or part of the governance framework, or economic players in the local economy.

The work in Uganda (there is another case study covering two States of India) has been active since October 2000, and involved fieldwork in Rakai and Kumi Districts during the period up to February 2001. A number of reports have been published as a result, and these are listed at the end. This report aims to synthesise the findings of the Uganda case study and provide the basis for a summary of policy recommendations and suggestions for linking the findings with potential pathways for policy uptake.

It is clear from existing knowledge, supported by our fieldwork, that non-farm activities play an important, if secondary, role to agriculture in rural livelihood strategies. However, our fieldwork shows that the rural population do not make a conscious decision to avoid or supplement their farming activities in order to engage specifically in non-farm activities. Instead, non-farm activities are a part of a range of options (usually intended to provide cash income, and not additional subsistence). These may be taken up depending on the range of assets available to an individual or household, in the context of both current circumstances and future expectations. In many cases, alternative livelihood activities will be conducted alongside agriculture, or will have a seasonal component which complements the farming cycle. In other situations, some non-farm activities may involve assets that are liquidated in order to overcome shocks. And other activities may constitute forms of coping or survival strategies for other households facing shocks or reaching a critical point in the downturn of their farming assets.

These perspectives on the RNFE are significant for many of the rural population. They demonstrate that agriculture is not likely to be easily abandoned in favour of non-farm activities. Policy that is intended specifically to stimulate the RNFE must acknowledge that most people will not see non-farm activities as something distinct and desirable because they substitute for agriculture. Rather they form part of a range of livelihood opportunities that are flexible and interchangeable. To understand the rural economy in Uganda, it is essential to analyse the livelihoods of rural-based households in both farm and non-farm activities, and especially the linkages between them. These linkages essentially comprise:

- Provision of inputs and services to agriculture, (including fertiliser, pesticides, equipment, fuel, transport). In Uganda these upstream activities tend to be poorly developed. Where they are best developed they tend to be highly dependent on proximity to towns, good transport links, and good security. These activities tend to be dominated by the private

sector, and although there are usually local government departments concerned with fostering such production, these tend to be weak.

- Processing and marketing of agricultural products (including livestock, fisheries and forestry). These downstream activities constitute a relatively small share of output in rural Uganda. Organisation of export commodities has largely passed from domination by parastatals to private sector agents, but these are again constrained by transport and market access, so that spatial coverage is less than it was. Some of the products (e.g. coffee, cotton) are typically subject to price fluctuations (and especially secular decline) which reduces the range of possible diversification and confidence in making investments. Rural areas often lack basic infrastructure (especially water and electricity) to support processing in the countryside, so much of the value-addition is dislocated from the rural population.
- Growth in agricultural incomes leading to increasing consumer demand for non-agricultural products and services (including house improvement and construction, transport, consumer goods, commercial services, bars). This has been a significant driver in recent years, both because of the rise in rural incomes for some people, and the reduction of insurgency and improved security in parts of the country.
- In addition, a further source of increased demand for local services derives from government policy, infrastructure development, and decentralisation. These local drivers for demand for local services and outputs include components such as Universal Primary Education (with significant multipliers in construction, provision of uniforms and other services), road repair and construction, and the recent initiative for local development grants through the PMA (which funds small-scale community identified projects).

The expansion (in numbers, or size, or both) of non-farm activities may largely depend on the growth of agricultural production (in providing a surplus for processing, marketing and hence rising income). In various parts of the developing world, it is apparent that the most significant trigger for rapid growth in the RNFE has been a major (non-distress) rise in prices for agricultural products. This has stimulated farm output and led to growth in rural industries supplying farm inputs, processing outputs, and absorbing the consumption spending of farmers' profits. However, Uganda is unlikely to experience the stimulus of significant price rises in staple agricultural products or cash crops. Nor is there likely to be any major new inflow of other sources of capital (from government or donors) that is likely to stimulate a significant growth in rural non-farm production. The RNFE is therefore much more likely to be part and parcel of slowly-rising agricultural output and associated surpluses, with limited government and donor investments, in a context where few rural households will tend to specialise in RNFE instead of farming.

Given that the RNFE is already highly significant as a form of livelihood diversification, improvement, coping or survival, it is important to find the means to support and increase it. This project is aimed at helping to find the methods that policy makers can use to stimulate it, remove barriers to its growth, and establish the most conducive economic and administrative environment for it to flourish.

Non-farm activities enable the diversification of livelihood opportunities, both as a means to cope with difficulties (inadequate natural capital such as land, negative trends, e.g. in prices, or shocks such as drought), and as a way of growing with success. They vary enormously in type and scale, and lie along a spectrum from providing means for households to cope with shocks or declining agricultural opportunities at one extreme, to providing an accumulative pathway for improved living standards at the other. They may entail seeking waged

employment (migration to urban centres is normally excluded from the RNFE definition, as it is non-rural, though remittances may be significant in non-farm investments), or consist of self-employment in a micro or small-scale enterprise, or participation in a collective enterprise.

Non-farm activities at any point along this type and scale spectrum can have negative environmental consequences. They may also differ in the opportunities they provide for various sections of people, whether male or female, elderly or younger, fit or infirm. The range of possible non-farm livelihood activities also varies considerably in spatial terms, with transport linkages, proximity of small rural towns or other market or service centres often having crucial significance. The RNFE is considered significant as a means by which people spontaneously create wider livelihood opportunities to avoid or reduce poverty. It also consists of a range of opportunities that are not entirely dependent on peoples' access to natural capital (as is farming), and which may provide livelihoods in the country side without the need to migrate (with significant social benefits and capital savings as a result). Given that poverty in Uganda declined most among rural households which engaged in non-farm activities, the significance of the RNFE for future poverty reduction appears immense and deserving of much deeper attention from policy.

### **Methodology**

The project aimed to use a complementary mix of existing and new quantitative and qualitative data. Analysis of existing survey data was central to identifying questions to pursue through initial qualitative fieldwork. These results then informed the development of a quantitative survey, the analysis of which in turn highlights issues to be raised for future qualitative and/or quantitative investigation.

### **Site Selection**

The research was carried out in two districts in Uganda, Rakai in the Central region and Kumi in the Eastern region, selected to represent differing conditions which potentially influence the extent and nature of livelihood diversification.<sup>1</sup> The identification of a higher prevalence of non-farm start-up enterprises in Central and West Uganda in comparison with the Eastern and Northern regions (Deininger and Okidi, 2000) was also used as a broad foundation on which the importance of varying determinants could be tested. Table 1 illustrates these varying factors:

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<sup>1</sup> Rakai District borders Mbarara District to the west, Sembabule District to the north, Masaka District, of which it was once a part, to the northeast, and Kalangala District in Lake Victoria to the east. To the south it borders Tanzania. Rakai Town, the district capital is approximately 190 km south-west of Kampala. Kumi District borders the districts of Soroti to the west and north, Katakwi to the north, Moroto to the north-east and Pallisa to the south. The district headquarters is in Kumi Town Council, approximately 305 kms north-east of Kampala.

<b>Table 1. Underlying conditions</b>		
<b>Factors</b>	<b>Rakai District</b>	<b>Kumi District</b>
NF start-up enterprises	Higher prevalence	Lower prevalence
Population Density	99 persons/ km <sup>2</sup>	96 persons/ km <sup>2</sup>
Agro-ecology	Three agro-ecological zones; wetlands (south & east), productive and extensively cultivated hills supporting coffee and bananas (centre), drier and more hilly savannahs (west and north).	Flat topography and sandy loam soils. Agriculture system traditionally characterised by crop (roots, tubers, cereals and legumes) and cattle. Once a cotton producing area.
Ethnic composition	Predominantly Baganda, but also Banyankole Bahima (pastoralists), Banyurwanda, Barundi and Bakiga	Predominantly Iteso (98%), but also Bagisu, Banyole, Langi and Acholi Labwor
Recent history	Spread of HIV/AIDS during 1980s disproportionately affecting more successful traders and shopkeepers, and increasing dependency ratios	Insurgency and cattle raiding between 1985-94 slaughter or theft of virtually all livestock, death of many productively aged people and destruction of infrastructure.
Infrastructure and service provision	Large recipient of financial supported through donors; reconstruction of physical infrastructure- roads, schools, health posts. High level of NGO/ CBO activity	Similar, although more recent (and less sizeable) investment than in Rakai. Reconstruction of roads, health posts and schools. NGO presence, providing credit, educational and health support.

Within each of the two selected districts, a variety of qualitative research techniques was employed to investigate physical, social and financial service provision at the district level, followed by a detailed study of the nature of and constraints to livelihood diversification in two rural communities in each district. Table 2 outlines the methods used. The decision to employ a particular method reflected both the outputs required and inputs (staffing, time and finance) available. The aim was to acquire knowledge by combining different types of data using triangulation and cross-correlation of methods in a complementary manner with community and other stakeholder participation.

<b>Table 2 – Issues explored and methodologies employed</b>		
<b>Level</b>	<b>Issue</b>	<b>Methodology employed</b>
District	Gaining in-depth knowledge of district-level service endowment; specific issues, structures and organisations	Background material review Semi-structured interviews with Local Government, Donor, NGO, CBO and Private Sector representatives Key informant discussions
	Gauging perceptions of attitudes, meanings and values	Observations and participatory observations, informal “question and answer” with key informants
Community	Assessment of community physical/ natural assets	Participatory resource mapping
	Exploration of local resources and development conditions as well as location and selection of sample for household questionnaire (gauge of physical, natural and capital assets)	Transect walks
	History of activities and problems	Timeline
	Livelihood (or income-generating) activities in the community, by gender	Participatory identification and ranking (by gender) of key income-generating activities
	Entry barriers and access constraints to income generation and diversification by gender	Participatory problem identification and ranking by gender
	Wealth/ well-being differences – understanding of different livelihood activities according to wealth/ well-being strata	Wealth/ well-being ranking
	Gauging perceptions of attitudes, meanings and values	Observations and participatory observations, informal “question and answer” with community informants
Group	Understanding of different business activities undertaken by group enterprises	Focus group discussions Key-informant interviews
Household and intra-household	Household variations in activities and problems cross-correlated with wealth, gender, age, education and social circumstance variations	Household survey questionnaire
	Understanding of different business activities undertaken by individuals	Semi-structured interviews
	Following-up and illustrating specific issues	Case studies – semi-structured interviews

Income generating activities (IGAs) are multifaceted and affected by a wide variety of tangible, material and non-material and less tangible or visible factors. Methods employed for this survey was informed by these complexities and data was collected wider than that of IGAs per se. Consequently the data incorporates a broad set of conditions, assets analysis related to the way people structure IGAs as well as the reasons why others cannot access income-generating opportunities.<sup>2</sup>

People's perceptions of their problems, and their perception of what they believe that they should let the interviewer know, can have a serious impact on the data collected.<sup>3</sup> Data extracted by PRA methods is also influenced by people's view of their status and their aspirations. These perceptions are dynamic and change according to local and national context and even seasons. For example the initial survey was conducted in Rakai district during 'the hungry season' which might have contributed to a more bleak view than if their had just been a good season. Several key informants said that people could not conduct IGAs as the 'are starving'.

This study used methods devised by Meadows (1998) that merged quantitative and qualitative techniques,<sup>4</sup> so that a mix of contextual and non-contextual data was attained. To ensure the quality of the data, methodological triangulation was applied throughout the research process.<sup>5</sup> This was particularly important to verify statements made by participants in focus group discussions or key informant interviews. Triangulation was used to ensure that such statements, whilst useful to illustrate particular points and issues, were not taken as facts unless corroborated by cross correlation with other data.

## **Access, Governance and the rural non-farm economy**

The results of the combined qualitative and quantitative field research have been published in a series of reports (listed at the end of this report). This synthesis of the Uganda case study draws mainly on this fieldwork, supplemented by information from other sources of research on rural development and non-farm activities in the country. These enable us to understand a number of key issues in the investigation, including:

- How are individual and household livelihoods characterised in rural Uganda?
- What role do farm and non-farm based activities play in rural livelihoods, and to what extent is diversification an active strategy amongst different socio-economic strata?
- To what extent do access, utilisation and preference of assets affect the nature and permanency of engagement in farm and non-farm activities?

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<sup>2</sup> Data was collected on both farm related and non-farm IGAs in order to investigate the link between these, sometimes complementary, sometimes contradictory livelihood activities.

<sup>3</sup> Known as the interviewer effect – respondents and participants give answers according to their perceptions of the interviewer.

<sup>4</sup> It is widely accepted that the separation of quantitative and qualitative data creates problems. For instance it has been shown that quantitative methods, such as time studies and household surveys, used appropriately can give rise to qualitative data (Meadows 1998, Hentschel 1998 and Booth et al 1998).

<sup>5</sup> Triangulation being the process of 'using multiple perceptions to clarify meaning, verifying the repeatability of an observation.... acknowledging that no observations or interpretations are perfectly repeatable, triangulation serves also to clarify meaning by identifying different ways the phenomenon is being seen (Stake in Denzin & Lincoln (eds) 1994:241).

- What role does local governance play in the enabling environment for the promotion of the RNFE?

After a summary of the key findings, the remaining sections of the report focus on significant factors highlighted from the fieldwork results, each giving an indication of why they are significant, followed by an assessment of their policy and research significance.

## **Key findings of the Research**

- Livelihoods and Occupational Diversity in the Study Area
  - Interpretations of ‘well-being’, sought through community-based participatory exercises in both districts, incorporated occupational as well as resource endowment and access considerations.
  - The very poor (constituting between 5% and 25% of the communities’ populations) were defined as those devoid of assets, often having no land, inadequate shelter, and being occupationally static, lacking the means to engage in any income generating activity aside from begging and farm labour.
  - The poor and average households (constituting between 70% and 90% of the populations) were defined as more socially and economically flexible – affording some basic services (health and education), and having sufficient land for crop production and limited sales. These groups were classified as being engaged in the widest range of IGAs. These included small-scale service enterprises (such as the sale of alcohol and cooked food), cottage industries and crafts (such as brick-making, carpentry and construction), fish trading, farm labouring and the production and sale of crops and livestock. Access to resources and services increased in parallel to improved livelihoods. Those within the ‘average well-being’ category were also identified as having sufficient financial capital to purchase essential non-food commodities such as bedding and clothing and in some cases radios and bicycles.
  - Those with the highest standard of living (between 2% and 8% of the populations) were typically identified in terms of their access to assets related to their occupations (defined as those with five or more acres of land, ownership of several head of cattle, and/or those engaged in business). This group were characterised as being engaged in a narrower range of occupations – predominantly crop and livestock production and sales, followed by service-based enterprises (such as lodging houses, restaurants and bars) and crop trading.
  - Thus, occupational specialisation appears to be both a product of poverty (the very poor being unable to access sufficient resources to engage in other, potentially more profitable activities), and of choice, with those maintaining the strongest livelihood base doing so through concentration on one or two main activities, predominantly agriculturally-related. In between these extremes lies the most diverse group, actively engaging in a numerous occupations in order to gain much-needed income to supplement predominantly subsistence crop production, and in many cases with aspirations to pursue more singularly profitable activities.
- The Role of Assets in Rural Livelihoods
  - Individuals and households were observed as making decisions on livelihoods choices (farm and/or non-farm) based on their assets (natural, physical, human, social, financial), their perceptions of them, and how these could be used to improve their standard of living.

- Uneven asset endowment can restrain livelihood enhancement. Assets are typically of value only in combination, thus an individual or household may find it difficult to utilise a resource with which they are well endowed if other asset holdings are uneven<sup>6</sup>. This is the situation that typically characterises the poorest.
- Varying farm and non-farm based IGAs were perceived to have a role to play in an individual or household's wellbeing, but only at certain times, and in accordance with their asset structure. Sustaining these activities was not always the intended objective of individuals or households, and this depended on existing and perceived priorities. Resources (assets) are distributed and redistributed according to circumstance, with their flow sometimes adding value to the initial asset base and increasing its total worth. At other times, perceived essential resource distribution may degrade the overall resource base. Farm and non-farm based IGAs are part of this flow of resources and transformation of capital, drawing on different types, converting them, largely to money, which can then be reinvested in other areas.<sup>7</sup>
- Individuals and households adapt and invest in certain activities and assets in accordance with circumstance. In Kumi, for example, where there is a high degree of environmental uncertainty and where assets were severely depleted by the loss of oxen and cattle from the mid-1980s, one of the possible attractions of investing in the brewing of alcohol as an income-generating activity is that assets are only tied up in the business for a short time. The production cycle is rapid, so enabling a quick turnover of revenue to be utilised according to need. Whilst brewing may represent an activity of the poor (lacking access to assets), it must also be recognised that it has been chosen precisely because it can work under these conditions, and is the best method of sustaining the standard of living.
- Both farm and non-farm IGAs employed by individuals and households are ultimately viewed as a means to an end – an improved standard of living – and not as ends in themselves.

### **Policy and Research Implications**

- Enhancing Assets as an Entry Point for Improving Rural Livelihoods
- If both farm and non-farm IGAs are transformational processes within rural livelihoods, used as a means to the end of improving standard of living, then the most important policies in support of non-farm activities and access to them are those which enhance capital assets, particular those in areas of weakness.
- The findings of this study (see section 4) revealed that one of the major constraints was lack of finance to invest in a business, as households typically elected to invest in other areas, notably healthcare, education and essential food and non-food commodities. Thus, policies which reduce the burden of investment in these areas, which appear to be

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<sup>6</sup> For example, a household which owns woodworking tools has a certain level of physical capital. But this cannot contribute to the increased wellbeing of the owners without human capital. This includes woodwork skills, the carpenter's health and strength, as well as access to timber either as a natural resource to be harvested, or as an item to be purchased directly or on credit. Thus physical capital has to be allied with natural, financial and/or social capital in forming an effective livelihood strategy.

<sup>7</sup> For example, accumulative livelihood diversification strategies were characterised in situations where one income-generating activity was replaced by another, which in some is a step-up- more profitable, more secure or more prestigious – for example, from poultry raising to raising goats. However, apparent coping strategies, such as the shutting down of a shop with the financial capital used for school fees or to pay for a new roof, may not be considered negative by the household in terms of well-being, as education may be deemed of greater importance to their long-term well-being.

peoples' priorities, should allow for more investment in non-farm IGAs, and are perhaps as important as policies that support the provision of credit.

- Other constraints to the enhancement of non-farm IGAs which we identified are outlined in further sections of this report: social capital, human capital (education and health), physical capital (infrastructure, transportation, etc.). Some of these are amenable to straightforward policies (such as improving and maintaining roads to facilitate the movement of goods, labour and customers). But it is also crucial that policies are based on a sound understanding of the way in which assets are utilised by households in combination. It is clearly not enough to improve one at the expense of another (education without jobs being an obvious example). The character of productive combinations needs to be examined much more.

## **1 Spatial Dimension of Access to the Non-Farm Economy**

### **Why is the Spatial Dimension Important?**

- The nature and vibrancy of the non-farm economy in Uganda is differentiated by region; influenced by historical, agro-ecological and cultural factors;
- Urban-rural interactions are very significant in affecting the linkages between agriculture and non-farm growth in Uganda, where the majority of the population is rural-based and where agriculture is the primary economic activity;
- The high profile given to government decentralisation within Uganda has significant implications for the fostering of local economic development
- The emphasis of recent government initiatives on poverty reduction is primarily a rural phenomenon.

### **Key findings of the research:**

- Regional differentiation

West and Central regions of Uganda exhibit higher levels of non-farm activity than the East and Northern regions. Factors involved in this variation include:

- Ethnic distribution. Uganda's diverse social ethnic structure has played an important role in governing access to resources. Wealth and power is largely demarcated by ethnicity, with a small wealthy Baganda elite (dominant in central and southern Uganda) contrasting with the Iteso, Acholi, Langi and Karamajong in the North and East.
- Levels of urbanisation and access to urban areas. The capital is located in the Central region, and the West and Central regions are better served by road networks.
- Higher population density has been associated with more activity in the non-farm economy, based on the premise that it lowers transaction costs and raises absorptive capacity. The West and Central regions have a higher population density than the North and Eastern regions
- Economic and political stability. Current and recent levels of destabilisation have been most prevalent in the East (insurgency between 1985-94) and North (influence of Sudanese conflict).
- Agro-ecology and climate. This is less clearly distinguishable due to relative strengths and weaknesses, but parts of the East and North are more subject to adverse climatic change and thus periodic food insecurity.

▪ Rural-Urban differentiation

- 87% of the population are rural, making Uganda one of the least urbanised countries in the world. 85% of the rural population are dependent upon agriculture as their primary economic occupation. 50% of the rural population (1996 data) is income poor in comparison with 15% of the urban population.
- Generally, the non-farm activities engaged in by rural people who have diversified have low-returns. While the RNFE is vital to many rural people, and contributes significantly to income, it is small-scale, dispersed and insular. The major linkages with external markets are through the extraction of unprocessed agricultural produce, with benefits largely accruing to urban areas. Rural inflows are largely restricted to processed commodities.
- In contrast, the urban economy is considerably more active, with generally higher wages or returns to self-employment, with a growing service sector supporting urban renewal. Urban household income increased by 60 per cent between 1996 and 1999 in comparison with 35 per cent for rural households over the same period. Why this differential has not generated significant rural-urban migration needs to be better understood.

▪ Policy Influences

- Over the past fifteen years the Government of Uganda have reversed the bias against rural areas through structural reforms affecting agriculture and investment in services. Whilst this has led to a recovery in agricultural output and increased rural household income, food insecurity remains high and marketed farm output is low.
- Macro-economic reforms and infrastructure investment appear to have benefited the urban economy disproportionately in the second half of the 1990s. The gap between rural and urban income (which was substantial prior to the introduction of economic reforms), is increasing and may in part be attributed to this policy effect.
- The largest contribution to the RNFE has been through investment in rural infrastructure, notably schools and health posts, which created demand for construction materials, labour and small-scale service enterprises. The construction boom is not likely to continue indefinitely, although the other demands may be more recurrent.
- The Government is increasingly defining its role in terms of creating the conditions for change through continued macro-economic and legislative reforms, envisaging a major role for the private sector in the provision of rural and urban infrastructure, manufacturing and services. However, at present the incentives for private sector investment in rural areas are largely absent. Access to services considered vital for rural growth, including transport, electrification and credit are beyond the means of most rural households.
- The decentralisation of functions, competency and resources to the districts has presented an opportunity for self-determination and the formulation of appropriate people-centred development strategies. However, raising resources locally through taxation is very limited, and grants from central government are insufficient. Further, planning processes have been weak, thus relying mainly on the priorities of central government and donors rather than those of the largely rural populous.
- The RNFE appears to have evolved naturally within the context of national policies, but in the absence of local policies. Linkages between local government and the

business community remain governed by personalised relationships and a potentially unhealthy congruence of entrepreneurial and civil functions, rather than open competition and a reflection of the needs of the poor.

- Division between districts and administrative levels has been a constraint to local economic growth, with administrative boundaries playing an over-important role in determining resource allocation and revenue collection. The separation of urban and rural councils has hampered the integration of rural-urban linkages. Chains of command operate within urban areas (wards, divisions, municipalities) separately from rural areas (sub-parish to district), and there are poor horizontal links between adjacent rural and urban authorities. This means that the administrative structure is not congruent with the potential development of an integrated economy around towns which may stimulate or emerge from the RNFE.

### **Policy and Research Implications:**

- Geographic targeting of Government Policies
  - In view of the increasing disparity between rural and urban areas, the targeting of government policies need to be carefully analysed. Whilst economic and political reform has led to rural recovery, urban areas seem to be enjoying greater benefits. With 85% of Uganda's population living in the rural environs, this is an imbalance which requires a review of the spatial impact of policy.
- Role of Government vis-à-vis Private Sector
  - The roles of government and private sector in relation to the provision of services and infrastructure needs to be assessed. Incentives for private investment in rural areas are largely absent, and thus the circumstances of the rural poor are unlikely to change. Without an expansion of rural infrastructure, such as electrification, and targeted support for agricultural growth, there is little chance of improvements in rural agro-processing and manufacturing.
- Structure and Process of Government Decentralisation
  - Decentralisation has yet to lead to the formulation of locally-specific policies that reflect priorities and resource endowments. Capacity-building, partnership building (between rural and urban areas in rural zones) and increased financial resources are required to stimulate local economic growth. Priorities should reflect existing resource and livelihood patterns, rather than administrative divisions. This may be assisted through conducting research on the role of small and intermediate towns in rural areas – assessing the flow of products and people with a view to gaining an insight into specific entry points for support.

## **2 Gender Dimension of Access to the Rural Non-Farm Economy**

### **Why is the Gender Dimension Important?**

- Poverty amongst female-headed households decreased slightly less than male-headed households over the period 1992/93-96/97. The gap between male- and female-headed household earnings widened over the same period.
- The broad trend of primary and secondary rural employment in Uganda shows a modest and gradual shift away from crop-based agriculture towards farm and non-farm based enterprise activities. This is particularly evident amongst female-heads and men, but not for women in general.

- The majority of households that have initiated successful non-farm enterprises have used income/ profits from farming as base capital. This suggests that without a firm basis in the farm economy, effective entry into non-farm activities is difficult.

### **Key findings of the research:**

- Employment and Income Patterns
  - Over the past decade, income poverty in Uganda has decreased substantially. Male-headed households have fared slightly better than female-headed households over the period 1992/93 – 1996/97. Earnings (across all occupations) for female-headed households were substantially lower, and declining in comparison with their male counterparts over the same period. The overall difference in earnings widened from 33% in 1992/93 to 47% in 1996/97 (including agriculture, self-employment and wage labour).
  - The primary economic activity is farming, and women are more active in this than men: 86% of women in comparison with 72% of men in 1999/2000. Despite farming's dominance, its importance has declined slightly for both men and women over the past decade.
  - The biggest occupational shift from agriculture as a secondary activity over the period 1992/93 to 1996/97 was evident amongst female-household heads, whose participation in non-agricultural self-employment as a secondary activity increased from 14 to 38%. A disaggregation of the female employment profile over this period identified increases in participation in the retail trade (from 3 to 7%) and manufacturing (textiles, wood, leather and handicrafts) from 4 to 27%.
  - Data from the Rakai and Kumi studies identifies non-farm income as greater than farm income across all wealth groups, except for the poorest in Kumi (Zwick, 2001). This seems to support a recent World Bank study of Uganda, which looked at data for the period 1992/93 to 1996/97. For those citing agriculture as their main occupation, poverty fell by 20%, while for those in non-farm, it fell by 31%. For those working exclusively in non-farm, poverty fell by 42%, and for those working exclusively in agriculture, it fell only by 17% (Newman and Canagarajah, 1999).
  - Amongst rural dwellers, poverty has decreased fastest for those engaged in non-farm activities. Despite an increasing differential in overall earnings between male and female-headed households, the lowest and the most rapidly declining poverty rates amongst those engaged in non-farm activities have been female-headed households.
  - The presence of female-headed households across the income spectrum suggests that it is the substantial labour market shift amongst women into the non-farm sector (particularly as a secondary activity), that has led to the rapid decline in poverty, rather than the household being female-headed per se. However, evidence gathered on successful female-headed households has suggested that female-headship, and the consequential control over resources, has played a role in the effective engagement in the non-farm sector, and the subsequent decline in poverty rates.
- Determinants of Participation in the RNFE
  - Whilst the data (national and local level, quantitative and qualitative) supports the case that non-farm income is crucial, it is important to recognise that agriculture

remains central to rural livelihoods. The majority of households who have initiated successful non-farm enterprises have used income and/or profits from farming as base capital, suggesting that without a firm basis in the farm economy, effective entry into the non-farm activities is difficult to achieve.

- This raises the question of how women (particularly female heads of household) are increasingly engaging in the non-farm sector, given that they are often disadvantaged within the agricultural basis on which non-farm enterprises are reliant. There are four possible reasons for this:

Firstly, in a number of cases, female-heads have gained non-farm enterprise start-up capital not from agriculture, but from gifts, loans or off-farm labour work. This implies that for these households, the farm economy has not provided sufficient income for investment, which have come from these other sources.

A second reason relates to the increased involvement in farming over the past decade by women who are neither household heads nor spouses. This may reflect a labour shift from spouses and female-heads on to these other women, with the former concentrating on non-farm activities.

Thirdly, it is possible that spouses and female-heads, in particular, have increased their own burdens through deeper involvement in non-farm activities, while retaining their own-farm work, alongside domestic responsibilities.

Fourthly, working in a group is important in a number of predominantly female-run non-farm activities (particularly small-scale manufacturing industries). This may provide sufficient support (through rotating fund allocations) to enable some women to increase their non-farm incomes substantially.

## **Policy and Research Implications**

### ▪ General Implications

- Trade and manufacturing are the biggest sectors of engagement amongst women, with the latter representing the largest labour shift over the period 1992/93-1996/97. Within manufacturing in particular, a number of the activities such as the processing of wood, textiles, leather and handicrafts could be strengthened through formal vocational training, improved access to market information, and the development of viable products for wider markets. In contrast, other dominant activities, particularly the brewing of beer and spirits, can benefit little from external intervention, although the availability of credit or loans for scaling-up activities may be of assistance to some.

### ▪ Improving Viability of Non-Farm Production

- Assessing the viability of non-farm products for a wider market needs further attention, as does improving information flows to and from rural non-farm producers. The retail trade within Kumi District, for example, has historically been small-scale, individualistic, and widely dispersed. In Rakai District, connections, networking, political influence and access to information were identified as necessary for establishing medium or large scale (by local standards) businesses.
- Whilst the studies in these two districts did identify typically NGO-supported assistance to certain small-scale industries (baking bread, construction of water storage tanks, brick-making and agro-processing, etc.), few entrepreneurs appeared to consider long-term viability and expansion possibilities. Furthermore, the supported initiatives were often disparate, and unconnected to the government or potential private sector investors.

- Amongst these, locally situated agro-processing does appear to have the greatest potential, with a number of NGOs fostering rural group development as a vehicle through which to sell equipment, provide training, improve information flows to private purchasers, and link up to existing government extension programmes. However, these initiatives are constrained by the high cost of purchasing equipment (prohibitive for most rural groups), unreliable (or lacking) rural electricity supplies, lack of piped water and low levels of existing investment.
- Reviewing the Targeting of Assistance
  - There are existing mechanisms for delivering support, particularly to women, through civil and NGO organisations working through groups at the community level. Lessons from the examples of successful men and women within communities in Rakai and Kumi Districts (few of whom have directly benefited from external assistance) should help refine external assistance to have a greater impact.
  - Several groups have been established by individuals who learned skills and/or generated financial capital from outside the locality. They are effectively broadening the base of opportunity and skill development for other community members. Enabling these initiatives to function to their maximum potential, expanding access to relevant information and skills, needs to be achieved through a co-ordinated and inclusive strategy.
  - Whilst the support of group-based initiatives through a more comprehensive approach may be an appropriate intervention, it is important to recognise that gender and age relations within these structures are complex. Targeting women-only groups, for example, caused difficulties in some cases, with men infiltrating the groups having realised their potential financial gain. In contrast, whilst the majority of influential individuals are men, NGO staff noted that affluent women differ from affluent men by accommodating poorer group members. Clearly, therefore, interventions must be based on an informed understanding of how best to target support.

### **3 Education and Health Dimensions of Access to the Non-Farm Economy**

#### **Why are Health and Education Dimensions of Access Important?**

- Two central tenets of the Poverty Eradication Action Plan are the raising of educational achievement, and the improvement of health status.
- Education has been highlighted as a determinant of non-farm employment based on analyses of panel data across sub-Saharan Africa, with nationally aggregated data from Uganda identifying individuals who have pursued primary and higher education as having a higher likelihood of participating in non-farm activities than those without any education. However, the situation is more complex than a simple correlation between greater levels of education and the ability to succeed in the RNFE.
- The lagged effects of conflict and the spread of HIV/AIDS have had a significant impact on productivity levels and household welfare. Declining livelihood security as a consequence of mortality may be one factor behind increasing livelihood diversification. Conversely, improved health status may provide opportunities for engaging in economic opportunities alongside farming.

## **Key findings of the research:**

### ▪ Impact of Universal Primary Education

- The implementation of the Universal Primary Education (UPE) policy in Uganda has led to a net increase in primary school enrolment from 53.1 per cent in 1990 to 94.2 per cent in 1998. Notable increases in enrolment have been found amongst those with the highest illiteracy rates, girls and rural children. However, school completion rates remain low, and the majority of drop-outs have been occurring 'mid-cycle'. There has been widespread concern with the quality of schooling amongst poor communities, with the heavily burdened primary school system unable to meet the immediate demand for classrooms, teachers and teaching/learning material. Secondary schooling remains unobtainable for the majority of the rural poor due to the lack of facilities and prohibitive cost.

### ▪ Relevance of Education to the RNFE

- The role of education in access to non-farm employment in Rakai and Kumi Districts varies depending on the type of activity. Good secondary level education was found to be a prerequisite for employment in the formal salaried sector (for example, government or NGO positions), which then facilitates entry into other areas of the economy. However, beyond this, the pattern was less clear, with examples of successful shopkeepers and traders with no formal education at all, and well educated people struggling or failing in RNFE employment or enterprise. Further, the most prevalent non-farm activities, such as small-scale manufacturing and petty trading, are low entry barrier, and do not necessarily require educational achievement.
- The formal education system was found to have a 'traditional' narrow focus on academic disciplines, which was felt by several key informants to produce children with deficient social, technical and life skills. Historically, technical education has been considered inferior to academic studies, and as an option for the less academically minded.
- The technical and vocational training system is not widespread, with less than 8,000 pupils enrolled during 1998. Vocational training course elements have been introduced into the curricula of several more progressive primary schools, and a number of NGOs are active in the provision of certain forms of technical training. But technical training schools were found to be under-supported by government programmes, despite increasing demand for enrolment.

### ▪ Impact of Health Sector Strategy

- The Health Sector strategy has been one of the priorities of the Poverty Eradication Action Plan. The generally poor health status of the population is reflected in a life expectancy of 42 years (1997), blamed largely on the AIDS pandemic, high child mortality (180 per thousand in 1989), and high levels of maternal mortality and stunting.
- To address this, the government's health strategy is focusing upon service delivery through better staff remuneration and training, improved infrastructure and better accountability to consumers through village health committees. Since 1997, the Poverty Action Fund (PAF) has been used to achieve funding reallocations to focus on these priority areas, with the budget for primary health care due to increase from 28.2 billion Ugandan Shillings in 1999/2000 to 92.1 billion in 2002/03. As a percentage increase, this is greater than any other sector.

- Despite the greater emphasis placed on health care and status by the Government over the past few years, the inaccessibility of health services is a key problem for the rural poor. Access to medical services was found to be constrained by cost-sharing (with communities complaining that this did not guarantee adequate services due to lack of drugs for treatment), and user charges which were prohibitive for many. Likewise, family planning clinics were seen as expensive, and little was felt to have been done on family planning education, with women claiming that men continue to be unco-operative and unsympathetic.
- Coping strategies included the use of traditional healers and birth attendants, and at times self-medication. The areas targeted by the government's health strategic plan appear to address the right concerns, although the current Ugandan levels of health provision and HIV/AIDS infection rates present an unpromising outlook. However, it is important to note that HIV/AIDS awareness campaigns have been considered successful.
- Relevance of Health to the RNFE
  - Household level analysis identified the following linkages between the health status and the access to non-farm employment:
 

HIV/AIDS has had an effect on labour allocation, income sources and expenditure. The evidence suggests that affected households have had to reallocate labour to care for the sick, with non-farm activities losing before agriculture, which forms the mainstay of survival. The burden of childcare has also been exacerbated by the high number of orphans and high incidence of widowhood tending to restrict livelihood options to farm-based activities. Businessmen, as a demographic group most closely associated with the RNFE, were initially particularly affected by the spread of HIV/AIDS, wiping out some who had capital for private investment and thus might have been able to provide services, markets and employment.

Infirmity and disability remain a major constraint to a consider number of the productively-aged population. Ability to pay for health services remains beyond the means of many, with those who have a few assets forced to capitalise them in order to pay for these services, thus diminishing their livelihood opportunities.

The poor tend to be dependent upon farm and non-farm activities that are physically the most demanding (labouring, brick-making, etc.) and therefore most vulnerable to health-related fluctuation.

## **Policy and Research Implications**

- Targeting support to appropriate vocational training
  - Whilst the achievements through the UPE policy have been laudable to date, and may well lead to improved productivity and innovation, access to skill-based vocational training is a crucial complement. Current levels of vocational training and primary and secondary levels are insufficient, despite indicative demand for technical schooling. Links between technical schools and other practical-skill based programmes or enterprise are minimal, with little evidence of efforts made to set students up with entry into businesses on graduation.
  - An analysis of technical schools in Kumi District revealed that there was no awareness by the staff of the credit programmes being run in the district, and little sense of what students went on to do (whether as a result of dropping out early, or after graduation). A number of NGOs are running vocational training programmes for specific groups (notably the young and orphans). There is an opportunity to review

existing government policy on vocational training, and sharing experience with NGOs to establish a framework for an integrated approach to vocational educational enhancement.

## 4 Finance and Access to the Non-Farm Economy

### Why is Finance Important?

- Credit market imperfections, or the lack of access to credit, are acknowledged as constraints on potential diversification into non-farm economy activities.
- Studies conducted under the Private Sector Development Programme in Uganda (1997) concluded that the lack of access to financial services for the informal, micro and small enterprise is the single most important challenge to addressing the core problem of increasing incomes of the poor.
- A study of micro-finance institutions in Uganda (2000) found that there has been a steady increase in the number active from approximately 50 in 1990 to almost 250 in 1999, two-thirds of which are focused on rural service delivery.
- The government's Medium Term Strategy for the Private Sector (2000-05) notes that the existing legal and regulatory framework for micro-finance institutions is unfavourable, with laws and by-laws, rules and regulations and their enforcement or non-enforcement posing major obstacles.

### Key findings of the research:

- Status of Micro-Finance Provision
  - Funds are provided by two main sources: institutional and individuals. Institutions include commercial banks, NGOs/ CBOs, co-operative societies, denominational credit, government programmes (particularly *Entandikwa* and the Poverty Alleviation Programme (PAP)) and micro-projects. Individual sources constitute as much as 47 per cent of all lenders, and include moneylenders, relatives and friends and localised revolving credit systems.
  - Institutional sources constituting 53 per cent of all loan provision. Whilst these institutions would appear to be an important provider of finance for the rural smallholder sector, they face substantial pressure from their donors to achieve financial viability. Thus, they operate predominantly in urban areas. Whilst the micro-finance schemes of financial institutions such as the Uganda Women's Finance and Credit Trust (UWFCT) and the Centenary Rural Development Bank (CERUDEB) provide a good opportunity to link 'progressive' individuals and groups from savings and credit associations to the formal banking sector, these linkages by and large have yet to be implemented. Both government-run schemes (*Entandikwa* and PAP) were initiated to reach out to areas government credit guarantee and private banks were unwilling to cover, but the former has suffered from a politicized image, and the latter is currently re-inventing itself due to its previous alignment with 'poverty alleviation' rather than micro-finance – implying 'hand out' rather than service provision.
- Access to Credit
  - Access to formal credit provision has been found to be weak amongst many of the rural poor, despite the number of institutions engaged in this activity. Lack of knowledge about credit providers, ascribed (and in some cases, real) tight repayment

periods, high initial capital requirements, and the lack of loans for agricultural purposes (which make-up the greatest demand amongst the rural poor) represent barriers to access.

- Individual, or informal credit providers are diverse, ranging from individual moneylenders, to friends and family, sometimes based on clan or kinship groups, or revolving around particular activities such as funeral groups where members save regularly into a fund to meet emergencies such as death. The benefits of informal credit include the ability to deliver the service close to poor people's homes, flexibility in terms of capacity and needs, less bureaucratic and not necessarily dependent on formal collateral (character rather than asset-based). However, they are restricted by liquidity, or the ability to disperse larger, longer-term loans required in times of general need, such as after a poor harvest.

### **Policy and Research Implications**

- Providing Appropriate Legal and Regulatory Frameworks for Micro-Finance Institutions
  - The lack of effective institution and legal frameworks for micro-finance has been evident in high levels of defaulting, and a lack of co-ordination and symmetry between the different schemes. It is fully recognised that an appropriate legal and regulatory framework is necessary to both support, facilitate and protect micro-finance institutions. It is noted that these are currently being developed.
- Designing Appropriate Protocols and Effective Targeting
  - The short history of credit and savings programmes in Uganda has been blighted by poor design and implementation. A lack of recognition of the need for awareness raising and training of clients in loan management as integral to savings and credit programmes has now been recognised as vital, and is being redressed by the majority of institutions. However, in many cases repayment schedules have been found to be unsynchronised with the nature of loans, being either too short in comparison with the production cycle, or too long and so easily defaulted in uncertain environments. In many institutions, greater investment is required in understanding the needs and conditions for credit, followed by the design of appropriate user-specific protocols.
- Providing Incentives and Structures for Saving
  - It is noted that Uganda has one of the lowest domestic savings ratios in Africa. This lack of a culture of saving in banks is undoubtedly related to the very low rates of interest paid on deposits, which are typically less than the rate of inflation. They are also much less than the rate of increase in value of well-managed livestock, most rural people's preferred investment option. The costs, inconveniences and risks associated with travelling to urban centres to make deposits and withdrawals are a further deterrent. It is suggested that existing Rotational Savings and Credit Associations (ROSCAs) currently self-funded and locally organised may be supported as vehicles for credit, and if appropriate, develop into village banks.

## **5 Social Capital Dimension of Access to the Non-Farm Economy**

### **Why is Social Capital Important?**

- Access to the rural non-farm economy depends on participating in a variety of social institutions, social structures and social relations which are governed by rules, norms, obligations, reciprocity and trust.

- The analysis of the determinants of access to rural non-farm economic activities in Rakai and Kumi districts revealed the importance of social capital.
- Social capital was found to be crucial within the small formal and informal groups which represented the main vehicle for non-farm economic employment

### **Key findings of the research:**

- Traditional vs Non-Traditional Economic Activity Groups
  - Whilst the benefits of any group membership in terms of social and cultural gains were apparent, the division of traditional and non-traditional group-based livelihood activities provides an interesting insight into the way in which social capital has been used to the economic benefit of the members and related households.
  - Natural resource-based group IGAs, such as the gathering and sale of wetland and forest products, have in many cases been practised for many years, relying on the passing-down of skills from one generation to the next. Entry into these groups is based largely on location, with members coming from households located around the natural resource. These are low-entry barrier, low return activities which can include many people, but this off-set by the hard physical demands of much of the work, and the lack of sufficient remuneration to attract more dynamic members of the communities who might enhance its profitability.
  - In contrast, the rise in non-traditional group-based enterprises have been characterised by experience, education and links gained outside of the community context. These group enterprises revolve primarily around the construction industry (brick-making and carpentry) and the service sector (bars, restaurants, etc.), benefiting from government, donor and NGO infrastructure investment in the districts. Successful and motivated individuals who had worked in government, schools or in private enterprise were identified as the entrepreneurs, creating groups constituted on the basis of social ties (family and friends) and on youth (attracting the younger and physical able men) to participate in these diverse activities. These groups have less historical social capital (in the sense of not having built up a tradition of norms, reciprocity and trust). But they tend to be more formally constituted with rules and regulations, have the necessary contacts, education and experience to access NGO funds, with the comparatively high returns fostering a sense of unity of purpose and thus collective desire to remain within the group.
- 'Levels' of Social Capital
  - Numerous divisions exist between what can be considered as 'levels' of social capital in this context. Those excluded from group membership, by virtue of poverty (unable to pay membership fees or social exclusion), health or old age are also those who have the lowest livelihood status with the communities – often falling into the 'very poor' category.
  - The traditional group-based activities often have good internal cohesion, provide small economic benefit to the members, but with little or no link to other sources of capital which would potentially enable them to grow economically. Members of these groups were found to be predominantly from the 'poor' and 'average' categories.
  - In contrast, the newer, non-traditional group enterprises were relatively dynamic, founded on the social and economic links of typically one individual. Interestingly, group members are drawn both from the circle of family and friends who have a may or may not have a similar economic status, and from the body of male youth within

the community. This ‘bridging’ of social capital is potentially most valuable within the rural context, with the youth (albeit gender selective) gaining diverse skills, experience and economic gain through contact with these entrepreneurs.

### **Policy and Research Implications**

- Understanding Social Institutions
  - To the extent that access depends on social status or membership in a social group, one would expect to find differential access to productive resources associated with social characteristics such as gender, seniority or ethnic origin. However, the extent to which social-based differences in access coincide with differences in income and wealth also depend on the history of production and accumulation by different groups within a local economy. In this case, key individuals have redrawn boundaries and enabled access to resources for certain social groups (namely young men). Conversely, ‘traditional’ groups that may not be particularly profitable may have key social functions that override an economic imperative.
  - As changes and investment in social relations are potential channels of access that promote and reinforce diversification into non-farm activities, it is crucial that programmes intending to invest in supporting local RNFE initiatives gain a clear understanding of social dynamics.
- Learning from Entrepreneurs
  - Returned migrants who have gained skills, experience and capital outside of their place of origin can be crucial in stimulating local economic development. Whilst the support and stimulation they provide may not be equitable within the community context, lessons can be learned from these individuals to determine appropriate entry points for external support.

## **6 Local Governance and the RNFE**

Governance is different from *government*, and includes power exercised outside formal administrative or economic structures, including the private sector, local elites and civil society (CBOs, NGOs etc). The Local Governance (LG) component looks much more at the role and significance of institutions (formally-constituted, private, voluntary) and economic actors (private sector, entrepreneurs, MSMEs).

### **Why is Local Governance important?**

- The RNFE is susceptible to positive and negative influences depending on the characteristics of local governance. So it is important to understand the relationship between local governance and rural non-farm activities, considering the economic and institutional factors that affect the relationship. This means analysing the particular functions undertaken by local government that are considered ‘effective’ (and those considered inappropriate), in their effects on the RNFE.
- Decentralisation of government in Uganda has been intended to provide people with local authorities that are more under their control and more responsive to their needs. To the extent that LGs will have an impact on the local economy in rural areas, they may have beneficial effects (or not) on the RNFE.
- Local government is a sub-set of governance, with the latter incorporating a wide range of institutional and power relationships that are distinct from constituted authorities, and

predominantly involve the private sector, donors, businesses and entrepreneurs, non-government and voluntary organisations, and other actors capable of exercising power locally. All of these actors have potentially important links with the RNFE.

- L G is usually thought to be of key importance in support of ‘soft’ infrastructure (e.g. public services such as health and education), and provision of ‘hard’ infrastructure (such as local roads to allow access to and from the rural areas for marketing goods and services). These are costly services, and potentially strongly linked to both positive and negative outcomes for RNFE.
- LGs support civil society initiatives, including NGOs, in promoting the development of the RNFE and community participation at the local level. Co-ordination of local economic development programmes (involving both public and private sectors), promoting partnerships between local government, the public and private sectors should therefore be important.
- LGs are involved in planning and development support (e.g. providing retail and business locations, local markets and industrial sites), and local co-ordination and facilitation of provision of services.

## **Key findings of research, with policy and research implications**

### Local and District Issues

- Progress has been made in developing road networks, but these allow not only agricultural ‘exports’ but also easier access for competing goods to come in to the rural areas. There needs to be preparation for the potential negative RNFE impacts of those ‘imports’.
- Rural services (especially rural electrification and water supplies) are generally inadequate, and there appears to be relatively weak policies at local and national levels to support them, although arguably they are crucial to local development and the encouragement of local or outside investment.
- Ensuring that government processes and decisions do not hinder RNFE may be more important than the direct facilitating services aimed at local business by local government.
- LG capacity (in revenue, staffing levels and quality of staff) is a key constraint in providing adequate services which may enable RNFE growth. While road building and maintenance may be relatively straightforward (and provide enhanced local incomes through pay-for-work), it appears much more difficult to deliver education, health care, or training and other forms of entrepreneurial support.
- Rakai district has greater and more longstanding donor support for infrastructure, service delivery and organisation than Kumi, yet shows little evidence of much greater RNFE activity. It is therefore possibly difficult to suggest a direct relationship between good local government service provision and positive RNFE growth: it may be a necessary condition, but is far from being sufficient.

### Rural – Urban links and Local Economic Development issues

- The potential and significance of the RNFE is not strongly perceived at the local level, by government officials, politicians, entrepreneurs or farmers. There is evidence that entrepreneurial activity is seen by poorer people as something that only the better-off engage in, and a reluctance to take further risks beyond subsistence or minimal agro-processing and trading.
- There is concern about inadequate security making investments vulnerable, and weak law enforcement in relation to property and safeguarding of investments.

Entrepreneurial growth seems likely to continue to be constrained so long as there is poor security, a lack of faith in the police and legal system, and no proper remedies for commercial disputes.

- The scale-economies and agglomeration benefits of RNFE activities being located in small towns need to be better understood, and the potential for small town growth strategies explored as a significant policy element for RNFE growth. Such opportunities need to be explored in the context of decentralisation policies and the roles and responsibilities of different levels of government including especially districts and municipalities.
- Giving more responsibility and autonomy to rural town councils might assist RNFE, since rural towns are the focus for RNFE. But there are potential difficulties in this in relation to decentralisation policies, and also the potential for conflict and revenue disputes between municipal authorities (or towns that want to become municipalities) and Districts.
- The rural and small-town private sector is generally very weak, and organisations designed to promote it or engage it with national or local organisations and government are either weak, in competition or regarded as connected to government through individuals.
- Private entrepreneurs (apart from those who gain contracts from LG) are likely to perceive government (at any level) as an encumbrance. LGs seem unmotivated to generate the right conditions for local partnerships or forums for discussion of local development. Government is not perceived as responsive (or capable of much influence) in remedying local problems (e.g. water supply or electrification), and so entrepreneurs have to accept that the given conditions have to be endured.

#### Environment and Natural Resources

- LGs are aware of the risks of environmental damage arising from some RNFE activities, but it is inherently difficult to constrain IGAs under conditions of widespread poverty. The role of LGs in supporting sustainable development and protection of the natural resource base (which is difficult enough for them to achieve anyway with limited resources) is potentially compromised by their need to promote development of the local economy.

#### Policy conflict issue

- Local government faces difficulties as the potential agent of local economic development because concurrent liberalisation and privatisation policies discourage direct involvement in the economy, yet private enterprise is weak or tends not to be attracted to rural areas.

### **Conclusion and outstanding issues**

Most of the current RNFE activities in Uganda are ‘spontaneous’. Indeed it could be said that the RNFE in Uganda mainly exists without there having been any direct policy to promote it as such, since there has been no significant direct intention on the part of government (including local governments) to promote non-farm rural activities. The exceptions are those that have been initiated in recent years under various limited government and donor initiatives which have had direct effects (deliberate stimulus to non-farm activities – these are principally those assisted by micro-credit schemes which have assisted particular micro and

small enterprises), and indirectly through government spending increasing the demand for non-farm outputs and services.

The key issue is to assess whether specific policies directed at promoting the RNFE are necessary, or whether it will be left as an outcome of other policies (e.g. the PMA or Poverty Reduction), or of wider growth of the economy (and especially of agriculture). Our research has not addressed the issue of how susceptible (responsive) the Ugandan rural economy is to initiatives designed to diversify rural livelihoods. If the intention is to direct policy specifically at promotion of the RNFE, it would be important to evaluate the likely capital costs of such specific interventions. What sources of funding are likely to be available, and are they adequate? What are the opportunity costs of such an investment? Alternatively, which existing policies could be modified to become the 'carrier' of RNFE intentions?

This project assists on some of these issues, especially in identifying constraints to the emergence of diversified livelihoods (the Access component), and in understanding how governance provides (or not) a positive administrative and competitive environment for the RNFE (the Local Governance component). It is helpful in showing how barriers to participation in the RNFE operate, especially to exclude poor people. It does this in relation to a wide range of factors that affect access to new livelihoods by households and individuals with varying capacities to become active. It is also relevant to questions about local governance, the administrative framework and the behaviour of various agents and stakeholders in the rural economy.

In combination, the analysis from these two components provides a potentially powerful guide to policy at the 'grassroots', especially for poor people, with indications of the types of policy approaches that might be needed to have an effect on them at the national level. In effect, these two approaches provide analysis of the missing linkages between people and opportunities, and the inadequate linkages between institutions, the private sector, civil society, and their aggregate behaviour in relation to the rural economy. Identifying these access and governance issues in terms of inadequate linkages, and finding the appropriate means by which rural people's assets can be supported and enhanced, is the basis for policy aimed at improving these linkages and supporting asset development.

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