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Rural Non-Farm Economy

The Spatial Dimension of the Non-Farm Economy in Uganda

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The views expressed in this document are solely those of the author and not necessarily those of DFID or the World Bank

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TABLE

ACRONYMS

DANIDA	Royal Danish Ministry of Foreign Affairs
DFID	Department for International Development (British Government)
EPRC	Economic Policy Research Centre, Uganda
FY	Financial Year
GDP	Gross Domestic Product
LC	Local Council
MFI	Micro Finance Institution
MFPED	Ministry of Finance, Planning and Economic Development (Government of Uganda)
MSE	Micro and Small Enterprise
MTN	Mobile Telephone Networks Plc.
NGO	Non-Governmental Organisation
NPA	National Planning Authority
PEAP	Poverty Eradication Action Plan
PMA	Plan for Modernisation of Agriculture
RASSIA	Rakai Small Scale Industries Association
RNFE	Rural Non-Farm Economy
UboS	Uganda Bureau of Statistics
UNDP	United Nations Development Programme
UNHS	Uganda National Household Survey
UPE	Universal Primary Education
UPPAP	Uganda Participatory Poverty Assessment Process
USSIA	Uganda Small Scale Industries Association
WB	World Bank

1. Introduction

This review has been conducted as part of a study of the capacity of poor people to access sustainable rural non-farm economic (RNFE) opportunities and the specific role of local governance. The purpose of the research, implemented by the Natural Resources Institute of the UK, and funded by the British Government Department for International Development (DFID) in collaboration with the World Bank (WB), is to inform and assist the Government of Uganda, DFID and the WB in formulating pro-poor RNFE policies. The project's two main outputs focus on:

- Understanding the factors that condition access to rural NF opportunities for the poor, and
- Analyse the ways in which institutions (constitutional and informal) operate at the local level in relation to NF activities.

The rural non-farm economy is diverse. The definition used here excludes primary agriculture, forestry and fisheries, but includes trade and processing of those products, as well as less ambiguous sources of non-food income. Research was conducted in Uganda over the period October 2000- March 2001. Qualitative and quantitative data and information gathered from two districts, Kumi in the East and Rakai in the Central Region has been used to build on the findings of national surveys and relevant Uganda-specific literature.

This paper aims to draw out and synthesise findings from primary and secondary data sources regarding the importance of the spatial dimension of the non-farm economy. The importance of the spatial dimensions is highlighted by Ellis (1998) stating that ''in Africa, the prime causes of rural poverty are locational, and reflect not so much access to land, but location-specific lack of access to an array of facilities and opportunities (roads, schools, market services, input suppliers, power, non-farm activities) as well as environmental constraints" (p.10). The first section of the paper presents an overview of the broader debate on rural-urban linkages, and the history of the spatial dimension of policy and planning initiatives (Section 2). This is followed by a review of the rural-urban divide in Uganda, and the location and linkages of the RNFE (Sections 2 & 3). Section 4 highlights the impact that spatial and non-spatial policy and planning processes in Uganda have had on the RNFE. The paper is concluded by a summary of the findings and relevant policy recommendations and indications of where further research may be focused.

2. Context

The following section provides a context for the discussion of the spatial dimension of the rural non-farm economy (RNFE) in Uganda through highlighting relevant debates on the linkages between rural and urban areas, policy and planning initiatives.

2.1 Rural-urban debate

The debate concerning the linkages between urban centres and their rural hinterlands has affected development theory and planning over the past half-century. Planning models based on the extraction of surplus rural labour to facilitate urban industrial growth were superceded by views that urban growth was occurring at the expense of the rural hinterlands. This led to attempts to urbanise the periphery through smaller growth centres. There has been a polarisation between 'urban biased' city or town-based planners, and rural planners who tend to view cities as extractive and who restrict their activities to 'rural' or agricultural and natural-resource based zones. This polarization has led to spatial planning initiatives that attempt to link rural and urban development. However, various approaches tested during the 1970s and 1980s, largely continued to contain bias 'rural' or 'urban' without effectively including components of the other (Douglass, 1998).

Despite the continuation of these biases (Smith, 1999), the idea that rural towns at the bottom of the urban hierarchy can assist in promoting rural development remains prevalent. A move away from supporting metropolitan growth in favour of small and intermediate towns rests loosely on the circular model of rural-urban development, with a mutually reinforcing pattern of linkages between a town and its hinterland that spurs the growth of both agricultural and non-farm activities[1].

Evidence of the efficacy of this model varies, with research highlighting the importance of small towns both in supporting local agricultural and non-farm enterprise growth (Evans, 1992), and as links between the rural hinterlands and national and international markets (Aeroe, 1992). But

[1] The 'virtuous circle' model stresses that towns have a positive impact on rural hinterlands by developing markets for inputs and by supplying extension and production credit all of which lead to a rise in productivity. Increased income generates demand for urban manufactured and urban-marketed consumer goods as the goods and services constituting rural demand become 'urbanised'. This then increases urban demand for labour that is met by rural-urban migration. The rise in urban income leads in turn to rising demand for superior and income elastic consumer goods which are supplied to the rural sector as it diversifies into rural non-farm activity (Rondinelli, 1984)

in other cases it is argued that small towns have limited or no benefit for rural dwellers (Mathur, 1982; Kammeier and Swan, 1984). The questioning of the 'multiplier effect' between agriculture and non-farm growth relates both to the model itself and the distribution of benefits. Studies conducted in Java and Kenya highlight the lack of growth in non-farm production and employment despite concomitant agricultural expansion, suggesting in the latter case that demand for locally produced goods often remains low whilst the demand for imported goods may increase as incomes rise (Manning, 1988; Hunt, 1983). Harriss' (1987) research in an agricultural district of South India notes that the growth of employment in non-farm enterprise is a consequence of production-orientated activities serving non-local markets, rather than as a product of rising rural consumption patterns. In terms of the distribution of benefits, research conducted in Chang Mai, one of a small group of Thai cities prioritised for planning and investment as a regional growth centre, revealed that the spatial spread of economic and social benefits was very restricted, noting in particular that the expenditures by Chang Mai factories resulted in greater benefits to Bangkok than to the hinterland of Chang Mai (Ladavalya and Siripool, 1988).

A commonly cited problem is that generalisations are made of the roles of towns and cities that have proven difficult to translate into effective development strategies. As Douglass (1998) suggests, the role that a city plays in a rice-growing region can be expected to be quite different from that at the fringe of an industrialising metropolitan region. Consequently, it is noted that methods for selecting key cities and towns for investment have tended to focus upon the attributes of the urban area, with little or no study of regional rural potential. Small and intermediate town strategies have tended to emphasise physical planning at the behest of economic and social relations (Simon, 1992).

Further, the impact of non-spatial policies have often not been considered, yet it is these macro-economic, pricing policies or sectoral priorities that often exert the most powerful influence on linkages between urban centres and their rural areas (Tacoli, 1998). The dismantling and deregulation of state-controlled marketing boards, for example, has shifted the relationship between rural producers and urban markets, closing down certain channels for product movement and opening up new ones. Moves to decentralise and deconcentrate decision-making, investment and resource-raising arguably enables situation-specific investigation, and the formulation of appropriate strategies at the local level. Assessments of the effectiveness of decentralisation policies as a route to enhanced rural and urban development have found mixed results. In some cases these have been criticised as having similar conceptual underpinnings to growth centre and integrated rural development strategies, with the principles poorly understood, and with a heavy focus on debureauratisation, deregulation and privatisation (Simon, 1992, Dalal-Clayton, 1999).

Despite the criticisms of decentralisation policies, attempts at a more integrated approach to rural-urban spatial development planning do rely on divesting resource-control to the local level. The regional network cluster approach (after Douglass, 1998), for example, advocates a more decentralised system of planning for working out the dynamics of rural-urban linkages. The approach is founded on identifying varied resources that exist within a particular region, and strengthening networks that allow for a variety of sources of economic growth, not assuming each will be urban based. In addition, it recognises that towns or cities within a region of the same size may have different functions and development profiles. Thus the network concept is based on a clustering of many settlements with their own specialisations, linkages, and localised hinterland relations. In Argentina there is an oft-cited example that resembles this approach, with power and resources divested to local government. These have fostered planning initiatives in the Upper Valley of the Rio Negro and Nequen, drawing together the metropolitan functions of three intermediate sized cities with smaller towns. A focus on the rural and urban economic strengths and linkages has led to rapid growth in agricultural production in the hinterlands, and related growth in agriculturally-related employment and urban development. This has been facilitated through a rail link with Buenos Aires (Manzal and Vapnarsky, 1986).

2.2 Rural-urban divide in Uganda

Uganda remains one of the least urbanised countries in the world, with 87 per cent of the population living in rural areas, 85 per cent of whom practice agriculture as their main occupation (UBoS, 2001). Poverty is also demarcated along rural-urban lines. Despite reductions in the disparity between rural and urban poverty, in 1996 almost 50 per cent of the rural population were poor[2] in comparison with about 15 per cent of the urban population.

Uganda's diverse ethnic structure represents a spatial distribution that has played an important role in governing access to resources. Several commentators (Library of Congress, 1990, Kayizzi-Mugerwa, 1993, Southall, 1998) have highlighted the evolution of a southern-central

[2] Defined in terms of income poverty- those with a household income of less than 50,000 shillings per month (UBoS, 2001)

'core' and a northern-eastern 'periphery' demarcated along ethnic lines[3]. Despite periods of civil strife, 'bad government' and distorted development from the 1960s to the 1980s (McGee, 2000) that have affected both rural and urban dwellers, inhabitants of the central region around Kampala-Entebbe have benefited from proximity to policymakers and access to a relatively diversified market structure enabling the exchange of goods and services. In contrast, the rural sector, particularly that of the northern and eastern parts of the country has suffered economic isolation exacerbated by long periods of political destabilisation.

During the late 1980s and early 1990s, weak economic infrastructure and the lack of effective markets restricted the rural sector's ability to respond to adjustment measures, skewing economic growth that continued into the 1990s (of more than 6 per cent per annum) in favour of the urban areas (Kayizzi-Mugerwa, 1993). Rural-urban migration was in reverse during the early 1980s, but began to rise in the late 1980s. This migration, although seen by Bigsten (1988) as a form of social insurance for rural household members who remained behind, did not appear to translate into increased remittances. A study in Kampala (1990) showed that remittances represented on average only 7.7 per cent of total income[4] (Kayizzi-Mugerwa, 1993). Consequently, the urban contribution to rural well-being may have been relatively low during this period. Whilst some have argued that the delinking of the rural and urban economies reduced rural sector vulnerability to external shocks, it has also been suggested that the lack of access to markets and information reduced rural households' ability to respond to circumstances (Bigsten and Kayizzi-Mugerwa, 1995), and slowed rural reintegration and recovery.

Criticism that macro-economic and adjustment measures adopted from the late 1980s had not addressed poverty has led to a series of high profile policy processes including the decentralisation of public administration and revenue raising (1986), the Plan for the Modernisation of Agriculture (PMA, 1996), the Poverty Eradication Action Plan (PEAP, 1997)

[3] Historically, the Baganda concentrated in the central and southern regions of Uganda, took advantage of a favourable agro-ecology, established good commercial ties and links with British colonists. In contrast, many of the tribes (including Iteso, Karamajong and Alur) of northern and parts of eastern Uganda were largely excluded from this process, with most people remaining as farmers or labourers.

[4] Urban-rural remittances in Africa have been estimated to constitute between 10 and 13 per cent of migrant workers' incomes. Migrants in urban areas in Kenya remit between 13 and 22 per cent of average income earned. An overview of Africa's rural non-farm sector showed that in areas which are not close to major cities, migration earnings constituted 20 per cent of total non-farm earnings, whereas it was as high as 75 per cent of total non-farm earnings in areas close to major cities (De Haan, 2000)

and Universal Primary Education (1997). Despite this increasing focus on poverty reduction, little attention has been paid to the RNFE as a potential route for livelihood enhancement. Several studies conducted over the past decade have provided considerable evidence of an active, albeit isolated and small-scale, RNFE in rural Uganda[5]. The importance of non-farm income to rural livelihoods, and the potential sectoral and spatial growth linkages are beginning to be recognised, but little research has been conducted into the specific nature of these relationships.

The remainder of this paper will seek to address some of these issues through a review of the RNFE and the policies that impact it, drawing specifically on research conducted in two districts of Uganda during 2000/2001[6].

3. Spatial distribution and linkages of the non-farm sector

3.1 Location of the non-farm sector

Data from the 1999/2000 Uganda National Household Survey (UNHS) clearly illustrates the rural-urban[7] divide in non-farm based activities, with only 12 per cent of rural households primarily engaged in non-farm enterprise or employment, in contrast with 83 per cent of urban households (UBoS, 2001). Whilst these statistics provide a stark picture of rural-urban occupational difference, they partially mask the true extent of rural employment patterns by omitting secondary employment figures. An analysis of the trend over the period 1992/93 to 1996/97[8] revealed that the participation in farming as a secondary activity declined from 72 to

[5] Bigsten and Kayizzi-Mugerwa, 1995; Newman and Canagarajah, 1999; UPPAP, 1999; Deininger and Okidi, 2000; Smith and Zwick, 2001, Zwick and Smith, 2001

[6] The Natural Resources Institute (NRI)-led project on the Rural Non-Farm Economy, funded by DFID in collaboration with the World Bank, has two components: (a) Capacity of poor people to access sustainable rural non-farm employment and livelihood opportunities, and (b) the role of local governance and how it fosters (or hinders) growth of non-farm activities. The research is being conducted in Uganda and India between 2000-2002 and aims to inform and assist the Governments' of Uganda and India, DFID and the WB in formulating pro-poor RRNFE policies.

[7] Urban was defined in the 1999/2000 UNHS survey design (after the 1991 Population Census) as including district headquarters, town boards and trading centres, although no indicator was given as to the threshold population size. Whilst the author could not located the 1991 Census data during the study, the World Resources Institute report 1996-97 notes that the definition based on a threshold of inhabitants in Uganda is based on "a few hundred" (http://www.wri.org/wri/wr-96-97/ud_b3.html). This issue will be raised later in the report.

[8] Secondary employment figures by industrial group are not yet available for the 1999/2000 data set.

35 per cent amongst women, and from 71 to 58 per cent amongst men[9]. Concurrently, increases in the participation of households heads in non-agricultural self-employment as a secondary activity increased from 14 to 38 per cent for women, and from 16 to 28 per cent for men over the same period (Newman and Canagarajah, 1999). Thus, whilst agriculture remains the predominant rural activity, there does appear to be a shift in secondary employment away from agriculture towards the non-farm sector.

A review of rural and urban household income and the sources of income provide a clear picture of the relative importance of non-farm employment. 85 per cent of rural households are engaged in crop farming as the major activity. But it only provides 46 per cent of household income, the remainder coming from other household enterprises (21 per cent), salaries and wages (12 per cent), and transfers/other benefits (15 per cent). Unsurprisingly, 95 per cent of urban household income comes from non-agricultural sources. Income trends reveal that whilst rural household income has increased 35 per cent between 1996/97 and 1999/2000, urban household income has risen by 60 per cent over the same period (UBoS, 2001). Thus, whilst non-farm sources of income are clearly crucial to rural dwellers, the benefits accruing to urban households appear to be greater over the three years to 2000. A disaggregation of employment by industrial grouping from the 1999/2000 data reveals that the most prevalent non-farm activities in urban areas are also those found in rural areas, suggesting that the scale rather than nature of the activity (in the industrial grouping sense) is responsible for the relative increase in urban incomes.

In both rural and urban areas, service-based activities[10] constituted the highest proportion of non-farm employment, with 75 per cent of urban households and 67 per cent of rural households engaged in this sector. Within the rural economy, trade has been identified as the most common non-farm activity during the periods 1988-92 (Deininger and Okidi, 2000) and 1992/93 to 1996/97 (Appleton et al., 1999). The importance of commodity trading as a source of non-farm employment was also found in a study of the RNFE in Rakai District (Zwick and Smith, 2001). In both the Rakai and Kumi district studies there was evidence of a growing rural service sector, often requiring considerable capital investment, often engaged in by those who have generated sufficient capital through crop and livestock production, commodity trading or conjugal

[9] Whilst this data includes both rural and urban areas, as agriculture is predominantly a rural activity it gives an indication of secondary employment shifts amongst rural households.

[10] Services include trade, the sale of food, drink and commodities and the provision of public services, defence, education, health, hair dressing, etc. (UBoS, 2001)

networks. These service enterprises include lodging houses, restaurants, local bars, private medical services (such as midwifery or pharmacy) and agro-processing. Whilst aspirations amongst the rural poor still tend towards the traditional crop and animal-based livelihoods, it was noted that these views were in some cases shifting towards these more diverse, non-traditional, higher-entry barrier activities (Smith et al, 2001).

Urban-based services incorporate a far wider range of activities and higher level of employment than rural services. Salaried government employees constitute nine per cent of the economically active urban population, in comparison with two per cent of the rural population (UBoS, 2001). Private employees (37 per cent of the urban population) are engaged in the broad range of service activities, including bars, technical services (mechanics etc), private clinics, lodging houses, restaurants, beauty salons and hairdressers etc. At this lower end, it was noted by Andama (2000), citing records from the Rakai Trade Development Office from 1995, that there had been huge boom in the number of smaller retail shops in rural trading centres. Growth areas amongst larger service enterprises over the past decade include finance (working in banks), transportation and telecommunications (Prakash, 1997; UNDP, 2000).

Employment in manufacturing enterprises is fairly equally distributed, with 12 per cent of urban and 13 per cent of rural non-farm based employees engaged in this sector. However, invariably, large factories, metal works, printing presses, agro-processing enterprise and other electricity-dependent industries are located in urban settlements, with rural electrification in Uganda virtually non-existent[11]. Urban-based manufacturing industries in Rakai District, for example, include two large factories (one making mattresses the other processing fish for export), about 25 smaller coffee processing factories and 50 maize grinding mills[12] (Zwick and Smith, 2001). Rural manufacturing incorporates mainly cottage industries (including carpentry, tailoring and carpentry), crafts (including pottery, basket and mat making) and processing (particularly brewing and distilling). Whilst few of these are primary income-generating activities for rural households, the Rakai and Kumi district studies identified a high level of engagement as secondary activities to crop farming[13] (Zwick and Smith, 2001; Smith and Zwick, 2001).

[11] In 1999/2000, one per cent of the rural population had access to electricity for lighting, and zero per cent for cooking (UBoS, 2001).

[12] Whilst the data did not disaggregate between rural and urban, the presence of very few fuel-powered generators in rural Rakai suggests that the majority are run on electricity, and thus urban based.

[13] It was noted in the Kumi Study, for example, that it was rare to find a household not engaged in brewing.

An analysis of the returns from different business activities[14] in a study of Masaka District (Bigsten and Kayizzi-Mugerwa, 1995) showed that small-scale manufacturing or cottage enterprises provided the lowest returns, whilst at the same time being labour-intensive and requiring few capital inputs. Likewise, handicrafts[15] in Rakai District, typically involving poor women in groups, appear to be primarily undertaken because of the low entry requirements despite the small returns due to limited markets. Despite this, even a very small amount of income can be significant to the poorest (Zwick and Smith, 2001). The parallel study in Kumi District (Smith and Zwick, 2001) found that the production and sale of locally-brewed alcohol was widespread amongst women, similarly requiring few inputs, substantial labour time investment, and small though important returns.

Whilst non-farm employment does contribute a significant amount to rural household income and the evidence suggests that the RNFE is widespread and diverse, it also appears to be largely small scale and de-linked from urban input and output markets. Concomitantly, the urban service sector, which employs six times more people than manufacturing, is largely focused upon urban service provision. However, linkages between urban centres and their rural hinterlands do exist, and it is important to look at what products and services are moving, which are not, and the factors behind this.

3.2 Rural-urban linkages and local economic development

Whilst the major product flows between rural and urban areas are concentrated in traditional and non-traditional cash crops, the majority of farm produce is sold to traders at the farm gate who transport it to non-local markets. Agricultural pricing, trade and marketing liberalisation since the late 1980s created a space for the growth of networks of traders, gathering and transporting traditional (e.g. coffee and cotton) and non-traditional (e.g. tomatoes, cabbage and fruit) cash crops and other high value crops (beans, sweet potatoes) to urban and export markets. Rural-based small-scale traders move from farm to farm either selling to medium-scale traders/ transporters in the local trading centres, or arranging transport themselves to the nearest urban centre where it can be sold on. Likewise, medium-scale traders either buy from small-scale traders in the trading centres, or employ local people to go from farm-to-farm for them for a small salary or commission (Zwick and Smith, 2001). Despite the positive returns gained by

[14] Defined as including predominantly informal trading and retail activities.

[15] Such as pottery, basket and mat weaving, crochet, knitting, and embroidery, and making brooms

rural traders (from the price differential at farm gate and market), and thus the recycling of cash into the local economy, the rural-urban linkages benefit few. Data from the 1992/93 integrated household survey indicated that these cash crop markets are supplied by a concentrated number of households (Larson and Deininger, 2001), with the majority growing and selling very small quantities.

Evidence of the growth of, and access to, local and district markets[16] for the marketing of agricultural produce is confounded by evidence that the majority of household production is still grown for consumption. Data from an EPRC study conducted in 1998 revealed that 56 per cent of total agricultural GDP is subsistence production for household consumption (MFPED, 2000b), and that marketed farm output over the past decade has only grown from approximately 20 to 30 per cent (1992/93-1999). Whilst the growth of small town-based processing factories and mills has been evident (see previous section), the Rakai and Kumi District studies found that processing is still primarily done on a large scale at factories owned by wealthy individuals from outside the area, with the benefits to rural dwellers tending to be limited to a relatively small number of employment opportunities at these enterprises (Zwick, 2001a). A similarly linear, and relatively unbeneficial pattern exists for other primary or minimally processed products. Logs and sawn timber, for example, are typically transported by traders or urban manufacturers to urban or peri-urban areas for conversion into furniture for sale to urban markets (Zwick, 2001a).

Other forms of trading provide a more dynamic link between trading centres, small towns and their rural hinterlands. The studies conducted in Rakai and Kumi found that the emergence of small service centres in a number of rural villages were dependent upon non-food commodities (e.g. soap, sugar, salt, petrol, clothes, medical supplies etc) purchased in the surrounding urban areas, to be sold on or administered in the village. Travel patterns of these traders are complex, interspersing occasional longer journeys to relative distant larger urban centres to purchase specific commodities at lower prices, with more frequent visits to local urban centres for regular supplies of typically more perishable commodities. Some conduct these trips alone, others have established networks of local shopkeepers who buy for each other. Profits are high, and typically

[16] The results of a community survey noted that in all but of four of over 800 communities, respondents stated that they had access to district markets, and with only 39 of these stating they were limited by seasonal rains (Larson and Deininger, 2001). A study of the RNFE in Rakai District found that there were 12 weekly and 45 less frequent officially recognised markets, as well as many other smaller unofficial markets operating in the district in 1999/2000 (Zwick and Smith, 2001).

these were amongst the wealthiest in the rural communities, having built up sufficient income from farming or crop trading to establish the enterprise. The benefits to the rural population include the availability of products and services otherwise difficult to obtain due to the cost of travel to urban centres, and the establishment of social and psychological networks with local and more distant towns, notably a two-way awareness of the location and circumstances within the villages transmitted by these buyers, and vice versa (Smith and Zwick, 2001; Zwick and Smith, 2001).

Service-sector flows from rural to urban centres are less common, but are evident through relative disparate patterns of product preparation and sale. Cassava bread, pancakes and other food items were found in the Kumi study to be prepared by rural women and taken to local trading centres for sale when no local consumers could be found. Whilst the profits from these activities were seen to be minor (due to the opportunity cost of travel, the competition at the market place, and the payment of market dues), it was seen to reinforce a link, channelling information and resources back to the local community.

Rural-urban flows through manufacturing were noted as perhaps more beneficial than through service-sector gains. The production and sale of bricks for construction typically occurs at a larger scale through production groups, working-to-order for buyers located at local and district urban centres. Considerable demand for both rural and urban infrastructural projects in Rakai and Kumi Districts has provided substantial work in this sector, although most bricks are transported from the rural locale by the constructors or transporters (as per commodity trading), thus reducing some of the value-added. At a smaller scale, local carpenters were found to be manufacturing chairs and tables, self-transported and sold in local trading centres. Other manufactured products, notably beer and spirit production and handicrafts which were found to be very common within local communities, are rarely marketed beyond the village boundary (Smith and Zwick, 2001).

The flow of goods and services from rural areas to non-local urban markets in Rakai and Kumi Districts is predominantly the outward flow of unprocessed cash and high value crops. In contrast, there was little or no evidence of non-farm goods or services sold to an area wider than the sub-county, with most serving the immediate locality. Whilst the rural population expressed their satisfaction at being able to gain access to the goods and services coming into the community without having to travel long distances as in the past, it is extremely difficult for rural businesses to add value and increase a community's total assets. Where small businesses are generating income, in many cases the re-circulation and redistribution of wealth does not directly advantage the poorest.

Considering the relative isolation of rural dwellers from urban input and output markets, it is important to look at the role national and local policy has been attributed, and consequently why this appears to have had little positive effect to date.

4. Policy and planning processes and impacts

In view of the continued separation of rural and urban economies, and the lack of mutually supportive linkages between rural and urban areas, it is important to look at government strategy over the past decade to identify what has been targeted.

4.1 Agricultural Investment

Evan's (1992) notes that the 'virtuous circle' model of rural-urban growth of both agriculture and non-farm production has often been implicit in government strategies in countries with predominantly rural populations. On the basis of the model, the entry point for initiating the growth cycle is agricultural support (direct or indirect), which in principle should lead to rising agricultural incomes spurring the demand for food and consumer goods, leading to the creation of non-farm jobs and the diversification of urban activities, particularly in small towns close to agricultural zones. Investment in agriculture in Uganda has come mainly through the focus on liberalisation and privatisation, emphasising the creation of an enabling environment for broad-based economic growth and structural transformation (MFPED, 2000c). Attempts to reduce the bias against rural producers involved investing in the rehabilitation of the infrastructure for traditional exports (coffee, cotton, tea and tobacco); the removal of physical, technical and institutional constraints for agricultural development; agricultural pricing, trade and marketing liberalisation (MFPED, 2000b). However, despite reasonable gains in agricultural production over the past decade (4 to 4.5 per cent against 6 to 7 per cent for the economy as whole), the welfare of the majority of farmers has not improved substantially. A study conducted in 1998 concluded that about 40 per cent of the population are food insecure in 14 districts at any one time; rates of technology adoption are low (below 30 per cent); only one third of the total food production is marketed and up to 60 per cent of household expenditure is spent on food (EPRC, 1998).

Recognition that macro-economic adjustment alone has not brought significant gains to rural dwellers led to the development of the Poverty Eradication Action Plan (PEAP) in 1997, which included increasing the opportunities for the agriculturally-based poor, and the provision of basic social services. However, despite the formulation of a Programme for the Modernisation of Agriculture (PMA), government investment priorities over the past four years under the PEAP have focused largely on macroeconomic conditions and on support to basic social services, namely health and education. Whilst this may be explained by the delay in developing the PMA (the final draft policy document being completed in 2000), the Medium Term Expenditure Framework 2001/02 clearly illustrates where the future government's priorities lie (Table 1.)

Table 1. Medium Term Expenditure Framework
(2001/02) *in billion U Sh.*

Sector	Total exl. donor supt	Total incl donor supt
Agriculture	48	135
Education	458	514
Health	170	314
Roads and Works	170	347
Tourism, Trade and Industry *(under Econ. Functions & Social Srvs)*	8	34

Source: MFPED, 2001a.

As exemplified, the budget for Agriculture is 43 per cent of that for Health, and 26 per cent of the budget for Education. Whilst an increasing share of public expenditure to rural areas is being channelled through local governments, the budget for non-sectoral conditional grants (intended for district-determined public investment) under the medium term expenditure framework is projected to be around 6 to 7 billion Shillings per annum over the next five years, thus still a small proportion of overall expenditure. This is also reflected at the district level, where in Kumi, for example, 66 per cent of the District's non-donor expenditure was earmarked for education, and only 0.3 per cent was earmarked for production in FY 1998/99 (Zwick, 2001b).

Intrinsic within the agricultural non-farm growth model is the development of markets for inputs, the supplying of extension services and production credit. Whilst there is evidence of the impact of extension on farm productivity, particularly through the use of fertiliser (Deininger, 2001), participatory assessments have found that farm visits by extension agents are rare due to lack of resources, and advice is often inappropriate or unstructured (UPPAP, 1999). Similarly, lack of access to production credit has been identified through several studies (UPPAP, 1999; Beijuka, 1999; Smith et al, 2001). Whilst the PMA highlights the role of the private sector in establishing sustainable rural credit and savings networks, it is recognised that policy and legal frameworks are required to encourage private sector investment and client security (MFPED, 2001b.).

Whilst there are other crucial components to the effective stimulation of the rural economy (not least infrastructural investment which will be discussed next), under the assumption that agricultural investment will stimulate the local farm and non-farm economy and generate backwards and forwards linkages between rural and urban areas, the relative lack of direct investment in agriculture remains a constraint to growth.

4.2 Infrastructure Investment

There has been much greater investment in rural infrastructure over the past decade, with an increase of more than 600 per cent in the recurrent expenditure budget allocated for roads between 1992/93 and 1998/99 (Hubbard et al., 2001). The allocation for roads and works under the 2001/02 Medium Term Expenditure Framework is more than double than that of agriculture (Table 1). Whilst it is recognised that physical market access is not on its own a sufficient determinant of agricultural and non-farm growth, improving the opportunity for rural-urban and rural-rural linkages is crucial. More than 90 per cent of Uganda's passenger and freight transport travels by road, yet distances to markets in Uganda remain large: households are on average 16 kilometres away from markets for consumer goods and 28 kilometres away from input markets, while truck and bus transportation are an average of 8 and 13 kilometres away respectively (MFPED, 2001b.).

Nevertheless, there has been evidence of improvements in road infrastructure. The studies conducted in Rakai and Kumi Districts note that road rehabilitation, heavily supported by donor-funded projects, has led to almost 600 kilometres of feeder road rehabilitated in Rakai under the DANIDA-funded Rakai District Development Programme, and with over 150 kilometres of well-maintained trunk road in Kumi District (Government funded with support from Irish Aid) alongside established maintenance arrangements on a number of village roads (Zwick and Smith, 2001; Smith and Zwick, 2001). Responsibility for construction and maintenance is demarcated between central government (classified roads) and district councils (feeder roads), urban councils (urban roads) and sub-counties (community roads). Whilst the classified and district roads have improved substantially in a number of districts, the lack of effective arrangements and finance for rehabilitating and maintaining community roads[17] is a considerable constraint to the movement of goods and services between urban centres and rural areas (Hubbard et al., 2001).

The other facet of market access – transportation – is entirely provided by the private sector. High fuel duties and the absence of subsidies makes access to person or product transportation difficult for the poorest, and services are limited or unavailable on uneconomic routes (Zwick, 2001b). Despite the general efficiency of the transportation business itself[18], low levels of agricultural marketing are linked to expensive or unavailable transport, and poor village road maintenance is a constraint on improving linkages between rural and urban areas.

Other major investment programmes under the PEAP, notably Universal Primary Education (UPE) and the expansion of the health service[19] have generated direct upstream production linkages with the RNFE. The construction of rural schools and health posts has led to an enormous demand for bricks, construction work, furniture etc., as well as the expansion of spin-off businesses such as the manufacture of school uniforms and even the supply of cooked snack food for children and staff on their way to and from school. The linkages generated between rural and urban areas as a consequence of these investments are multifaceted. The provision of goods and services to schools and health posts have largely been privatised, and thus typically urban-based contractors are sourcing rural providers for construction materials (bricks, furniture, uniforms etc.) and labour. Whilst these infrastructure projects are rural, and thus goods and services may be flowing from one rural zone to another, the loci of exchange remains within the urban zone, thus creating and reinforcing financial, skill and social networks between rural hinterlands and urban zones. Whilst much of this demand is likely to subside as the infrastructural projects reach completion, the provision of recurring goods and services (food stuffs, uniforms etc) represents an important sustainable linkage. Further, evidence from the Rakai and Kumi Studies revealed the organic development of small service centres located around the schools and health posts supplying staff, pupils and clients. The flow of finance,

[17] Village authorities are mandated with overseeing the maintenance and management of village feeder roads.

[18] Zwick (2001) noted that transportation was an example of an extremely efficient and competitive non-farm business, with a high level of agreement amongst operators on pricing and routes, particularly in urban areas.

[19] For a review of the progress made under UPE and health sector reform, see McGee (2000).

resources and skills into these institutions from urban areas thus provides potential upstream linkages in these local economies (Smith and Zwick, 2001).

Lack of rural electrification remains a further constraint on the establishment of medium- and large-scale rural enterprises. Electricity is provided along major roads by the government owned (although soon to be privatised) Uganda Electricity Board. Load-shedding as a result of an inability to meet demand was noted as a common problem (Zwick, 2001b), and businesses that are dependent on electricity are located in towns with services. Although some businesses in small trading centres and towns provide their own power through small petrol generators or car batteries, the costs are high and thus restrictive. The impact of privatisation on the improvement of rural electrification remains to be seen, although it is hard to envisage considerable expansion without subsidy.

Similarly, fixed-line telephone services are largely restricted to urban centres, although the introduction of cellular services in towns and along main roads presents an opportunity for enhancing rural-urban linkages. MTN had installed towers in Rakai Town, Kyotera and Kumi town by the beginning of 2001, and whilst involving higher call charges than land lines, the simplicity of getting connected and the better service has meant that almost all new phone users choose the cellular service over fixed line (Zwick, 2001b). MTN's marketing strategy has focused on the small business sector (45 per cent of MTN's mobile base are small businesses or employees working in small businesses – 55 per cent of which have less than four employees) and recognise the importance of enabling connection within rural areas. Mobile village telecentres (based on the Grameen Bank initiative) are proposed by MTN, although the cost of adoption is recognised as a constraint (MTN, 2000).

Infrastructure investments are clearly key in facilitating local economic development. In the absence of effective agriculturally-based linkages to local and non-local markets, and to the non-farm sector through processing, the focus on improving rural services have provided a stimulus to rural manufacturing enterprises and non-farm labour. Improvements in market access, transportation, electrification and communication will help reinforce the dispersed linkages that currently exist between towns and their hinterlands.

4.3 Private Sector Investment, Trade and Industry

The Government of Uganda's direct investment in trade and industry is small, with projected expenditure in 2001/02 representing only 11 per cent of the budget for Health, and 7 per cent of that of Education (see Table 1, MFPED, 2001b). Rather, the focus is on "creating a favourable environment for increasing private investment and savings" (MFPED, 2000a). As outlined in the Medium Term Strategy for the Private Sector 2000-2005, the main priorities include: reforms in infrastructure provision; strengthening the financial sector and improving access; commercial legal sector reforms; institutional reforms which include dealing with corruption, procurement and tax administration; and removing export sector specific impediments (MFPED, 2000a). Arguably, each of the focal areas proposed will remove constraints and create a conducive environment for private investment in the rural economy, although lack of industrial capital does present a constraint to expansion (Tukahebwa, 1998).

The Private Sector Strategy recognises the existing importance of the Micro- and Small Enterprise[20] (MSE) Sector, estimating that there are more than 800,000 MSEs employing about 90 per cent of the total non-farm economically active population and contributing approximately 20 per cent to GDP. Whilst acknowledging that numerous constraints exist to the expansion of this sector, the strategy emphasises the need for an improved regulatory and legal environment to support micro-finance institutions (MFIs). Whilst these changes are encouraging, a review of small enterprise performance in Uganda based on the Enterprise Survey carried out in 1998 concluded that whilst during the second half of the 1990s Uganda enterprises have invested more than other African counterparts, the lack of matching improvements in infrastructure or the financial sector constrained their competitiveness (Reinikka and Svensson, 2001). However, it is positive to note that other policy reforms outlined in the Strategy (including electric power sector reform and improvements in tax administration) are proposed.

The effectiveness of private sector engagement at the sub-regional level is variable. In Eastern Uganda, the Soroti Town-based Private Sector Promotion Centre serves Soroti, Katakwi and Kumi Districts. As an autonomous agency within the government's District Private Development Programme, supported by UNDP, its main activities include the introduction of a village banking scheme with four banks currently in operation and seven more proposed, training in business skills, the provision of advice to the business community and specific

[20] Micro enterprises are defined as those with 1-5 people (mainly informal) whilst small enterprise are those with 5-20 people (usually in the formal sector).

training in small-scale manufacturing and agro-processing. However, linkages with Kumi were found to be poor due in part to the desire of the Kumi District Administration to establish their own programmes. In Rakai District, the Rakai Small Scale Industries Association (RASSIA) has not been very active due to linkages with the disbanded Rakai branch of the Uganda Small Scale Industries Association (USSIA) following the misuse of funds. It was noted in discussions with local businesspeople in both districts that the general lack of interest in forming business associations reflected bad experiences with government or other potential partners and the absence of security mechanisms in the event of a problem. Most felt that it was not the duty of government to provide services, or their right to demand them, stemming from a history of a lack of response from government and parastatals to problems such as poor electricity supply (Zwick, 2001b).

Nevertheless, much of the infrastructure and many of the services at the local level (transportation, communications, credit, etc.) are being provided by the non-governmental and private sectors. Many NGOs also run training programmes supporting non-farm enterprise, although the majority currently engaged in small and medium-sized enterprise were found to be self-starters (Zwick, 2001b).

In principle, the focal areas for investment under the strategy for private sector growth point towards an improvement in rural services, a more conducive environment for enterprise and industrial development, and the development of linkages between rural and urban producers and consumers. However, whilst the role of the private sector in service provision is increasing, it is interesting to note that a number of studies (Deininger and Okidi, 2001; Larson and Deininger, 2001) suggest that household characteristics (such as educational attainment and asset ownership) appear to be more important determinants of income growth and market participation than location-specific characteristics (Collier and Reinikka, 2001).

4.4 Decentralisation and the rural-urban divide

The Government's decentralisation programme was initiated in 1986. Within the rural areas a five-tiered system of local government was established, with local councils[21] from the village level (LC1) up to the district level (LC5). Urban areas are governed depending on the size of their population, by city, municipality and town council. Cities and municipalities are subdivided into divisions and wards. All aspects of government have been affected by the

[21] Initially called Resistance Councils (RCs)

devolution of functions, competency and resources to elected local government councils. Statutes introduced in 1993 and 1997, and the constitution of 1995 transferred substantive power and control to local government, with the right to hire and fire staff, elect representatives, retain tax income and implement development programmes.

Whilst Local Government has been empowered by constitution to determine the priorities for expenditure, there has been a tendency to follow national policies. The provision of basic social services, a key tenet of the PEAP, is also evident as a major priority at the district level, with education and health consuming most of the annual budgets in Kumi and Rakai Districts. Whilst these priorities may well reflect those of the rural majority, it was noted that the consultation exercise for the PEAP had been restricted to Kampala and elite groups, which led to the undertaking of a participatory poverty programme (UPPAP) to establish the true priorities of the poorest (McGee, 2000).

The emphasis on primary services (health, education and public works) at the district level contrasts with support for enterprise development. The studies conducted in Rakai and Kumi Districts found no specific policies aimed at supporting local non-farm businesses, nor any strategies to support national or regional enterprises from locating within the districts (Zwick, 2001b). At the lower levels of rural local government (sub-county downwards) a similar emphasis was found, with local resource raising through taxation focused largely upon graduated tax rather than business licenses, transaction fees, market and landing site fees, user fees or property taxes. Even within small-scale trading centres little concern was paid over the levels of business licenses or market dues, partly because the majority of the population lives in outlying areas and are not involved in licensed businesses, and partly because a very small share of the locally collected revenue returns to the parish (LC1) and thus there is little motivation for tax collection[22].

In contrast, the urban councils (typically located at the sub-county level) were found to put considerably greater emphasis on non-farm economic activities, due to the employment structure of most urban residents. Studies conducted in Kyotera (Rakai District) and Kumi Town

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[22] Overall, 65 per cent of the revenues collected locally stay with the local levels of government, primarily at the sub-county level (LCIII) – of this, one quarter (16 per cent of the total) is returned to the parish (LC1). However, this is divided amongst all of the LCI1s, so if the LC1 trading centres contribute disproportionately to the total revenue, their return rate is likely to be less than 16 per cent.

found that considerable resources had gone into physical planning, with commercial light and heavy industrial areas demarcated on maps, and with a considerably higher proportion of taxation derived from licenses, fees, permits, market dues, rates and rents[23]. Nevertheless, urban council expenditure was still found to be primarily focused upon technical services (public buildings, roads water), health and environmental sanitation rather than on support for business growth, and little evidence was found of specific policies to encourage industry, rather plans indicated where they could locate (Zwick, 2001b).

While recognising that the role urban areas play in local or regional development vary (see Section 2.1 of this report), the separation of administrative functions between rural and urban areas in Uganda is perhaps unhelpful in enhancing rural-urban growth linkages. Planning processes are separate, with parish development plans in urban areas incorporated into divisional, municipal or city plans. Whilst it has been suggested that an independent National Planning Authority (NPA) should incorporate the district/city plans into a single national development plan in order to complete the "bottom-up" planning process this has yet to happen since the NPA has never been constituted.

In spite of this spatial administrative division, the decentralisation process has had several important impacts on the RNFE and rural-urban linkages. The functions of local government as provider of services (roads, schools, clinics), procurer of services (putting spending power into the local economy), decision-maker on public investments (type, size and location) and as enforcer of regulations (including taxes and licenses) (Hubbard et al, 2001) means that whilst local strategic prioritisation is as of yet largely unrealised, the potential exists.

5. Conclusions and Policy Implications

The findings of this report are as follows:

- 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.

[23] In Kumi Town, for example, graduated tax constituted 22 per cent, whilst these other forms of taxation constituted 37 per cent.

- Macro-economic reforms and infrastructural investment appear to have benefited urban households disproportionately over the past half-decade, with urban household income increasing by 60 per cent between 1996 and 1999 in comparison with 35 per cent for rural households over the same period. The gap between rural and urban income, which was substantial prior to the introduction of economic reforms, is thus increasing.
- The polarisation of rural and urban incomes is reflected in the non-farm economy, operating largely at two scales, and within two separate spheres. Whilst the RNFE is vital to the rural population, 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 a growing service sector supporting urban renewal.
- The largest contribution to the RNFE has been through investment in rural infrastructure, notably schools and health posts, creating a demand for construction materials, labour and small scale service enterprises. This construction boom is not likely to continue indefinitely.
- 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 this point, the incentives for private sector investment in rural areas are largely absent. Access to services considered vital for rural growth, including transportation, 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 development strategies. However, local resource raising through taxation is minimal, 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 rather than open competition and a reflection of the needs of the poor.

- Divisions between districts has been a constraint to local economic growth, with administrative boundaries playing an over-important role in determining resource allocation. Divisions within districts, largely between urban and rural councils, has not facilitated an integrated strategy of rural-urban linkages, with vertical chains of command within urban areas (wards, divisions, municipalities) and within rural areas (sub-parish to district) rather than horizontal between rural and urban areas in the same locale.

In view of these findings, the following recommendations are made for policy and further research:

- 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 economic expansion is outpacing rural growth. With 85 per cent of Uganda's population living in the rural environs, this is an imbalance which requires a review of the spatial impact of policy.
- The relative role of the government and the 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.
- 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.

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