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Is Uganda's middle class strong enough to deliver national aspirations?

Executive Statement

Uganda envisioned to become a lower middle-income status by 2020 as a foundation for achieving vision 2040. Policies, including the National Development Plan (NDP), were instituted to drive the aspiration. However, the target was not achieved during NDP II (2015-2020). Building a strong middle class is a crucial strategy for achieving the target, as we advance into NDP III (2020-2025). This brief provides insights into the size and strength or ability of the middle class, to drive the middle-income agenda and prerequisites for building or driving transition into a strong and stable lower middle-income status country. Using the 2016/17 Uganda National Household Survey, the analysis shows that the size of the middle class (without those in floating category) is about 8.3 million, which is 22% of the population. This is a more than two-fold increase from 2012/13. Considering those in floating middle-class category, the size of the middle class becomes 21 million, indicating that majority (61%) of Uganda's middle class (over 13 million) are floating and susceptible to becoming poor in case of any negative economic shock occurring. The analysis further reveals that transition into the middle class is driven by urbanization, household size, economic activity, and education as a tool for human capital development. In conclusion, Uganda's middle class is highly fragile. Therefore, the middle class in Uganda is a weak one, incapable of driving the economy to achieve and sustain the middle-income status goal.

Introduction

Uganda envisions becoming an upper middle-income country by 2040. To achieve this, medium-term targets are set, guided by five-year National Development Plans (NDP). One key medium-term target was attaining a lower middle-income status with a per capita income of USD 1,039 by 2020. Implementation of NDP II was expected to deliver on this aspiration, but the government failed to achieve this. As a strategy, and as we advance into the NDP III period (2020/21 – 2024/25), the government can leverage on the power of the middle class to drive the country into the middle-income status. For this to happen, there should be a sound and sustainable middle class, given that a strong middle class is critical for achieving and sustaining the middle-income status (Lipset 1969; ADB 2010). This brief, therefore, examines whether Uganda's middle class is capable of fostering the attainment and sustainability of the middle-income status (i.e. the strength of the middle class), and discusses prerequisites for establishing or driving transition into a stable middle class that the country can rely on to sustain middle-income status if achieved.

Additionally, the brief provides information on the size and middle-class transition dynamics in Uganda. This piece of evidence is vital for providing insights on progress towards the national goal of attaining a middle-income status, as well as policy actions required to realize the dream, as the country's development planning evolves into the third phase (NDP III).

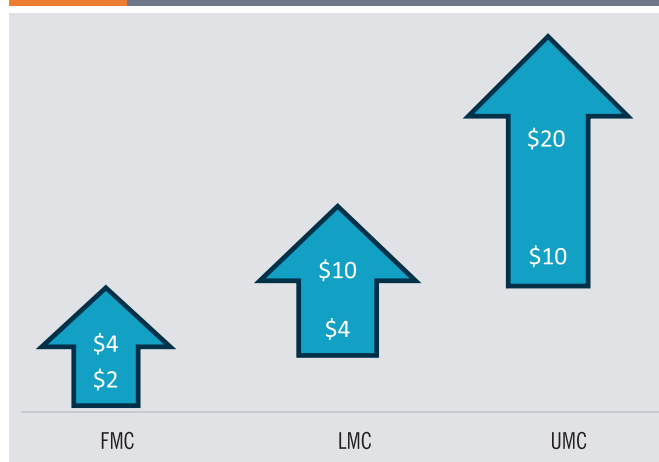
The brief is an extract of evidence from a study conducted by the Economic Policy Research Centre¹. The study analyzed Uganda's vision of middle-income status, and why the growth of the middle-class matters, using data from the latest Uganda National Household Survey (UNHS).

Who are the middle class?

The middle class comprises those whose per capita daily consumption expenditure is \$2-\$20, in Purchasing Power Parity (PPP) terms in US Dollars. As Figure 1 highlights, the breakdown of the middle class is into three categories.

1. **Floating Middle Class (FMC)** – these are between the poor and the lower-middle class. This class is vulnerable and highly unstable, and can quickly descend into poverty in the event of economic and other shocks. The per capita consumption level for FMC is \$2-\$4 per day - just above developing world’s poverty threshold of \$2 per day.
2. **Lower Middle Class (LMC)**. This is composed of those with daily per capita consumption of \$4-\$10. This class lives above the subsistence level and can save and consume non-essential goods.
3. **Upper Middle Class (UMC)**. This has households whose characteristics are closer to affluent households. The UMC daily per capita consumption ranges between \$10-\$20.

Figure 1 Classification of the middle-class



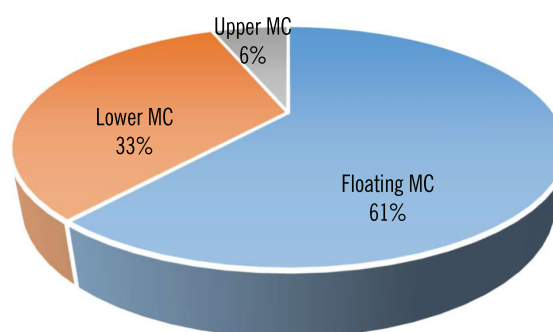
Source: Authors construction using AfDB classification (2011).

Size and strength of Uganda’s middle class

Out of the total population in 2016/17, about 8.3 million Ugandans (22 percent) belong to the middle class (without a floating category). If those in the floating category are included (about 13 million), the size of the middle class rises to 21.3 million, representing close to 57% of the population (Table 1). The FMC alone represents 34.8 % of the total population in Uganda.

Uganda’s floating middle class, which is highly fragile, predominates: Considering the middle class alone, the share of the Floating Class, Lower Middle Class and Upper Middle-Class categories from the total middle-class population are 61%, 33%

Figure 2 Category share out of the middle-class population



Source: Authors computation from UNHS 2016/17

and 6% respectively (Figure 2). These statistics show that the floating class, which is the weakest middle-class category with characteristics closer to the poor, constitutes the highest share of the middle class in Uganda. The floating middle class, therefore, predominates Ugandan middle class.

However, the floating class is highly vulnerable or susceptible to any economic shock, and can quickly descend into poverty. It is an unstable sub-group of the middle class that cannot be relied upon for attaining and sustaining the middle-income status, as well as economic growth and development. Unlike the floating middle class, it is the upper-middle class (which is just 6% of the middle class), that is a source of substantial economic power for the country, capable of providing a stable ground for sustained growth and middle-income status. This evidence suggests that the quality of Uganda’s middle class is wanting. It is fragile and highly unstable, as it is susceptible to risks and shocks.

Drivers of transition into the middle class: From the research evidence, there are four significant drivers of the middle class in Uganda (Figure 3). These include

Urbanisation: This significantly increases the possibilities of growing the middle class. With urbanization, the likelihood of transitioning into middle-class increases by about 3 to more than 90 percentage points (pp), depending on the category of the middle class (Figure 3). Being in more urbanized regions significantly drives transition into the middle class. Urbanization is expected to drive the middle class because of the opportunities it presents, such as more paying

Table 1 Size of the middle class, 2016/17

	FMC	LMC	UMC	MC - with floating	MC - without floating	Population
Size (million)	13.031	6.996	1.267	21.300	8.263	37.5
% of population	34.75	18.66	3.38	56.80	22.04	100

Source: Authors computation from UNHS 2016/17

jobs, among others. The urban class are also willing to pay for more premium products, hence an increase in consumption spending.

Smaller households are vital for a sustainable middle class: Smaller households create opportunities for growth in the middle class. From the results, we observe that when household size is too large, the variable reduces possibilities of attaining, as well as retaining upper and lower middle-class status. Still, it becomes insignificant in determining or making households reach even just a floating class (Figure 3).

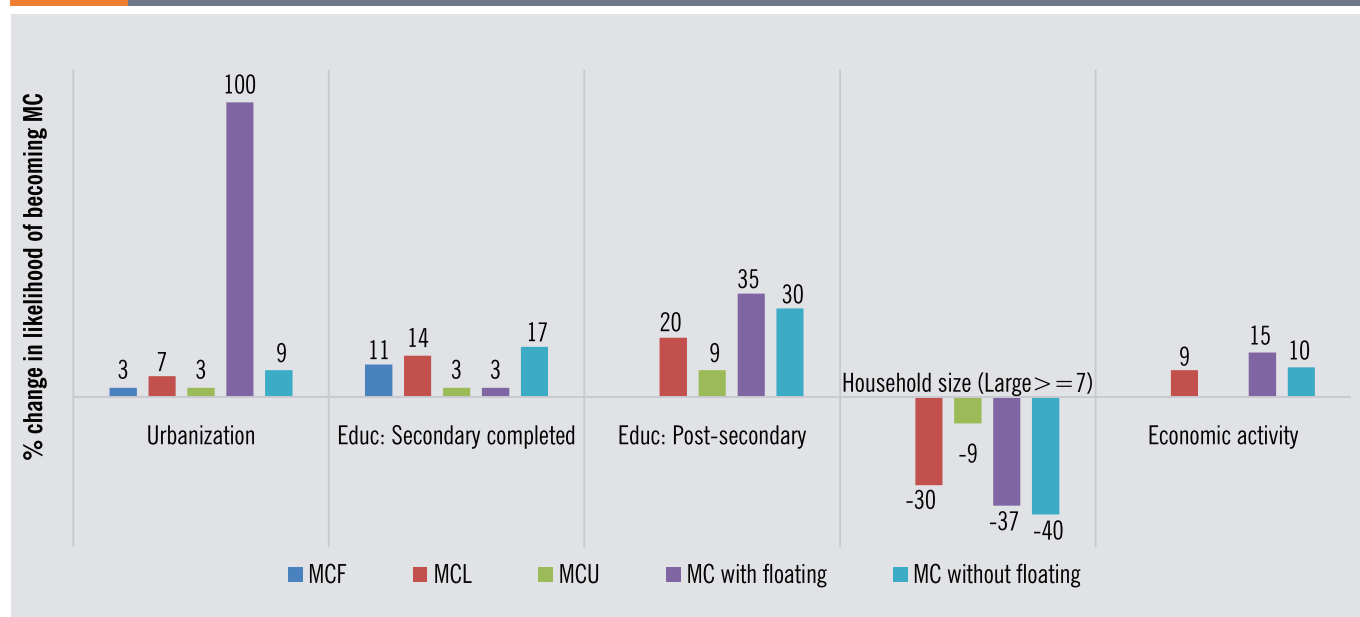
Education: This is a fundamental tool for boosting the middle class. Movement from lower to higher levels of education increases the probability of becoming middle class by 1 to 34 pp, depending on the middle-class category. A significant positive change in educational attainment up to post-secondary level (University or tertiary education) is associated with doubling the likelihood of transitioning into the middle class (i.e. an increase of 9 to 35 pp). Accordingly, investments in education stimulate higher growth or transition into the middle-class. Results show that as the educational level advances to higher levels, it no longer becomes vital for attaining floating middle-class status. Instead, it is lower levels such as primary and secondary education that significantly drive movement into floating middle class. Investing in higher educational achievement is significant for attaining higher economic status, such as the upper-middle class.

Household economic activities do matter: The economic (or income generating) activities that households engage in, also play an essential role in the middle-class transition. The key economic undertakings include; commercialized agriculture, and economic diversification into non-agricultural enterprises, including property income.

Conclusion and policy recommendation

Uganda's middle class is growing, and about 22% of the population (8.3 million) belong to the middle class (without floating class). If the floating category is considered, the size of the middle class rises to 21.3 million (57% of the population). Of the entire middle class, the floating category comprises 61%. An economically weak floating class predominates the Ugandan middle class. The middle class in Uganda is, therefore, primarily a fragile one that is highly unstable. Accordingly, the available evidence suggests that Uganda's middle class is not strong enough, and thus, incapable of driving the economy to achieve and sustain the middle-income status aspiration even at the lower end. To achieve and maintain the middle-income status, it is crucial to build a stable middle class in the country. Policy should target breaking the fragility of the middle class, and achieving a more resilient one, by focusing on the transition of those in the floating category to lower and upper middle-class categories. Thus, investing in the drivers of middle-class change such as; organised urbanization, having smaller

Figure 3 Drivers of transition into the middle class



Source: Computed by authors using UNHS 2016/17: MCF= Floating Middle Class; MCL= Lower Middle Class; MCU= Upper Middle Class; MC= Middle Class.

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manageable household sizes, economic activities including diversification and entrepreneurial development, and quality education as a tool for human capital development is vital.

References

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2. AfDB, (2011). “The Middle of the Pyramid: Dynamics of the Middle class in Africa”. African Development Bank, Tunis, Tunisia.
3. Madina, M.G; Odokonyero, T; Obwona, M; Olowo, P. (2019). Uganda’s vision of middle-income status: Why the growth of the middle-class matters? Economic Policy Research Centre, Research Series # 150, December 2019.

Endnotes

- 1 Madina, M.G; Odokonyero, T; Obwona, M; Olowo, P. (2019). Uganda’s vision of middle-income status: Why the growth of the middle-class matters? Economic Policy Research Centre, Research Series # 150, December 2019.

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