

Case Study Summary

Employment

WORK IN PROGRESS

Productive employment and transformation in Uganda

Bruce Byiers, Laura Rodríguez Takeuchi and Anna Rosengren with Dr Moses Muhwezi, Dickson Turyareeba, Joyce Abaliwano, Bernard Wabukala and Ramathan Ggoobi



Workers in Kampala, Uganda. Photo: © Arne Hoel / World Bank.

- Agricultural contribution to gross domestic product (GDP) has been declining in Uganda, but early structural transformation has helped create a shift in employment mainly to services employment. In 2010/11 the service sector accounted for 92% of all new wage-employment opportunities.
- About 70% of the enterprises operating in Uganda in 2013 were established after 2000. These enterprises employ nearly three-quarters of the measured total workforce, with private, non-agricultural wage employment experiencing one of the fastest growth rates in Africa.
- Rural households are increasingly diversifying activities, accessing new markets and thereby growing their productivity and incomes – evidence that the path to economic transformation and productive formal employment can start with rural households.
- Poverty has fallen substantially, from more than half of the population living in poverty in 1992 to just below 20% in 2012.

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Why explore employment in Uganda?

Uganda illustrates the employment challenge of many sub-Saharan African (SSA) countries: namely, how to transition from subsistence agriculture to higher-productivity activities in an inclusive way. Identifying the factors that have contributed to Uganda's economic transformation could help other countries draw out the opportunities and challenges for expanding productive employment in their own context. In particular, this case study illustrates that economic transformation can start at the household level, with non-farm enterprises representing an intermediate step on the path to productive formal employment.

At the time of independence in 1962, the Ugandan economy was primarily agricultural, with most farmers relying on subsistence agriculture or smallholder-based agricultural exports (cotton and coffee). This remained virtually unchanged until the 1990s when the country embarked on extensive political and economic reforms. Since then, economic growth has surpassed the SSA average almost continuously, occurring alongside economic diversification, enhanced industrialisation, and labour movement from agriculture to the service sector. Private, non-agricultural wage employment has shown one of the fastest growth rates in Africa, accompanied by a doubling of labour productivity in the past two decades. Real wages have also grown considerably while the share of working poor has declined.

This paper examines the employment progress achieved in Uganda over the past 25 years and explores the factors and policies behind it. Employment policy in Uganda has been criticised for slow implementation and for being poorly anchored amongst relevant stakeholders; the priority recently placed on employment by the 2011 National Employment Policy Plan highlights the importance of better understanding the impact of past policies.

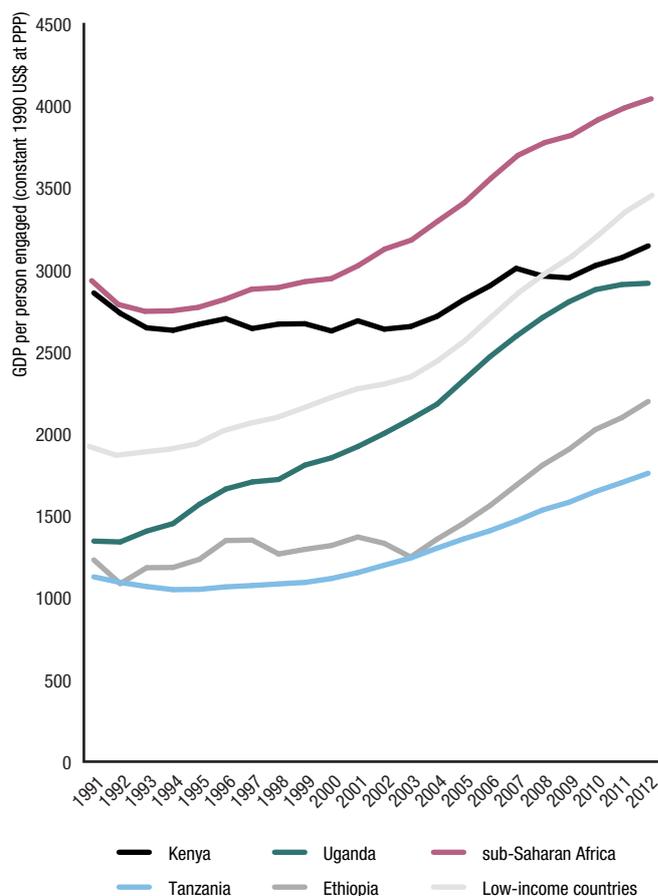
What progress has been achieved?

Employment progress in Uganda mostly relates to employment quality due to gains in wage employment, rising productivity and wages. But there are also improvements for those carrying out informal, non-farm rural activity. As such, identified progress goes beyond the traditional indicators to include changes in informal work that are less frequently captured by official statistics.

Relatively high economic growth, averaging 4.1% between 2001 and 2008 (World Bank, 2014), has taken place alongside diversification away from agriculture, which represented 56% of GDP in 1990 and dropped to less than a quarter of GDP in 2011. Meanwhile, the service sector share of total GDP rose from 32% in 1990 to 47% in 2011, replacing agriculture as the dominant sector in GDP in 1997, while the manufacturing sector stagnated in the 1990s, showing only a gradual relative growth since 2002 (World Bank, 2014).

Sectoral shifts in employment followed this structural change, albeit at a slower rate. While agriculture remains the largest employer, its share has dropped from 82%

Figure 1: Trends in average labour productivity, regional comparison (1991-2012)



Source: KILM (2013).

of total employment in 1992/93 to 70% in 2009/10 (Fox and Pimhidzai, 2011). An increase in services employment largely offset this drop: in 2010/11 the service sector accounted for 92% of all new wage employment opportunities (World Bank, 2013).

Labour productivity – output per worker – has more than doubled in the past two decades, from US\$1,393 per worker in 1990 (constant PPP) to US\$2,965 in 2010 (ILO, 2014) is rapidly catching up with that of Kenya, traditionally the top performer in East Africa (Figure 1).

Uganda has also seen a significant expansion in the share of wage employment, particularly over the past decade. Total wage employment increased from 14.5% of total employment in 2003 to 23.6% in 2009 (ILO, 2014), surpassing population growth over the past 15 years. Furthermore, private non-agricultural wage employment increased by 12% per year between 2002/03 and 2005/06, the second fastest growth rate in Africa after Ghana (World Bank, 2010 in Fox and Pimhidzai, 2011).

Beyond this, there are indications of ‘transformation within the agricultural sector, from “traditional subsistence” to new, higher-value export crops, the use of livestock, and modern marketing channels’ (Fox and

Pimhidzai, 2011: 15). Since 1992, Ugandan farmers have diversified their output, commercialised some activities and increased their productivity levels. This continuation of progress, from subsistence agriculture to small non-farm businesses, all the way up to the increase in wage employment, suggests that there has been progress in Uganda in both the formal and the informal sector – a crucial finding for an economy where the majority of the workforce (58% in 2009) works in the informal sector.

This is reflected in the downward trend in the rate of working poor as a share of total employment since 2002 (UBOS, 2014) (Figure 2) and in the overall substantial reduction in the share of population living below the national poverty line (from 60% in 1992 to 23% in 2009/10).

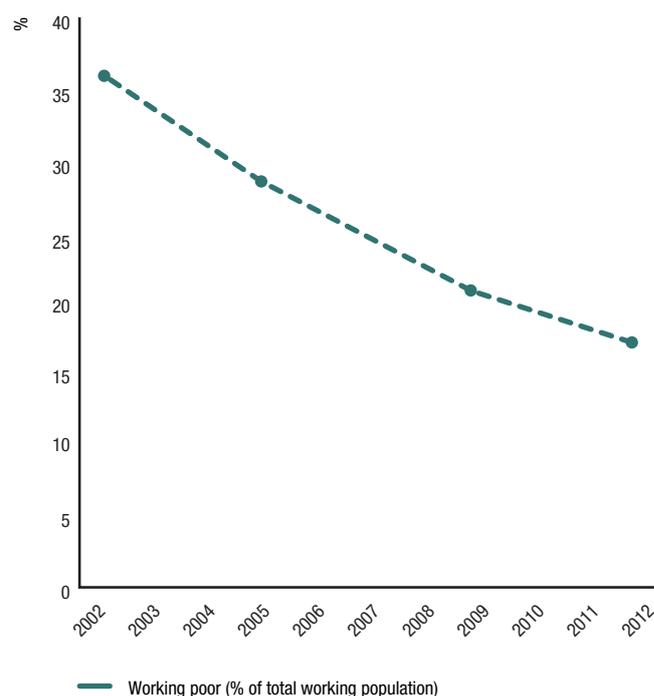
What are the factors driving change?

1. Macroeconomic stability, market liberalisation and investment promotion

After the turbulent post-independence period, Uganda's economy recovered gradually in the early 1990s with financial help from international donors. The emphasis on macroeconomic stability and market liberalisation, which aided this recovery in the early 1990s, was a response to donors' predominant view of the time (i.e. the Washington Consensus) and the powerful influence they had on Uganda's management. The country experienced a clear shift from the preceding interventionist policies towards a liberal capitalist economy. These policy shifts had a widespread effect across almost all sectors of the economy. They created an enabling environment for the private sector to operate, supporting both an overarching revitalisation of national economic growth and employment creation.

The private sector has played an important role as an engine for growth and employment creation in Uganda, although growth has been concentrated in small firms. By 2010/11 micro enterprises (<5 employees) dominated the formal labour market, providing 60% of the total jobs, followed by small firms (5-20 employees) with 18% of jobs. Larger firms only accounted for around 12% of total jobs (World Bank, 2013). This growth in the private sector

Figure 2: Trends in proportion of working poor



Source: Uganda Bureau of Statistics (UBOS) statistical abstracts.

would not have been possible without the transformation of the macroeconomic context in the early 1990s.

From the early 2000s, Uganda built large industrial parks to increase private investments and enhance employment opportunities. As a combined result of macroeconomic reforms and strategic investment policies, investment inflows to Uganda increased considerably. Foreign direct investment (FDI) rose from US\$1 million in 1991 to close to US\$300 million in 2004 and to over US\$1 billion in 2012¹ (UNCTAD, 2014), attracting most of the FDI inflows to the EAC region since the mid-2000s. The service sector attracted the highest levels of FDI, in particular commercial banking, telecommunications and trade in final consumer goods. FDI not only contributed to making the service sector the main source of growth, but also the sector where wage-employment growth has increased most rapidly over the past two decades.

‘Economic planning is moving from a state-led economy to a private sector economy... the government cannot afford to neglect the private sector anymore’ – Private sector association representative

¹ Figures from the Uganda Investment Authority show considerably higher FDI levels of \$1.7 billion in 2012 (EAC, 2013).

2. Export and trade policy

The increase and diversification of exports opened employment opportunities in new and more productive areas. The most significant factor affecting agricultural employment in the 1990s was the 1991 coffee-liberalisation reform, which allowed increased gains for farmers in coffee production.

The increase in production prices provided incentives for farmers to diversify crops and enhance their export crop production. Increased earnings (and employment opportunities) from a wider range of marketed agricultural produce, including cash and food crops, aided rural poverty reduction. The turn to more high-value export products, and thus higher income per hour worked, is likely to have assisted farmers willing to engage in non-farm activities, and forms part of the story of informal structural transformation.

A fall in international prices in 2001-2004 combined with the emergence of coffee wilt disease decreased coffee exports, but also motivated non-traditional exports in products including fish, maize, cut flowers, gold and processed food. This exploited some of Uganda's regional competitive advantages and worked around its limitations, not least its landlocked position. Uganda is increasingly exporting tradeable goods to the region, for instance metal to Sudan and the Democratic Republic of Congo, and grain mill to Kenya (World Bank, 2013). Regional trade agreements including the Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC), and agreements such as the European Union's Everything but Arms, the United States' African Growth and Opportunity Act, Canada and Japan's Generalized System of Preferences and China and Morocco's Special Preferential Treatment, supported the increase and diversification of exports and the resulting growth of employment opportunities.

3. Social protection, human capital and poverty reduction

Policies aimed at poverty reduction had an important place in Uganda's policy agenda throughout the period. They had a profound impact on the labour market by expanding the economic activities available and raising levels of human capital and productivity. Government allocations for the social sectors increased considerably with support from international donors and measures to protect pro-poor expenditures in the budget.

These investments in basic health and education contributed to productivity improvements at the household level. Primary education raised earnings by about 6.5% in both self- and wage employment, by about 9% in the case of secondary education and by 13% for university (only for wage employment) (Appleton, 2001). Moreover, education increased the chance of participating in non-farm self-employment by 11 percentage points (from 22% to 33%) (Appleton, 2001), potentially explaining some of the expansion of non-agricultural enterprises.

'(The Poverty Action Fund aimed to) provide an enabling environment for the poor in the private sector' – Government official

Health policies, especially those that supported the sharp reduction in HIV/AIDS from 18.5% of the population in the early 1990s to 6.4% in 2004/05 (MFPED and UNDP, 2008), are also likely to have affected the informal and formal economy. They alleviated labour shortages in household farms and enterprises previously caused by ill health or death of family members. In the formal economy the reduction in HIV/AIDS had an impact in the form of reduced absenteeism, death and retirement benefits, medical care, and other associated costs of replacing and training workers. Moreover, it led to higher aggregate demand growth. It is estimated that, in the absence of treatment, the impact of HIV/AIDS in Uganda could have reduced the economy by 39% by 2025 (MFPED and UNDP, 2008).

Social protection in Uganda has for the most part focused on those able to work, and prioritised the most deprived regions of the country. A prime example is the Northern Uganda Social Action Fund (NUSAF), created in 2003. As part of the programme, employment was temporarily created and provided for local people in the construction of community infrastructure. Although the limited existing data shows that the 313,812 'jobs' provided (measured as the number of person and days offered) has far from reached its target (5,500,000), there has been a positive impact on incomes for beneficiaries. According to the NUSAF II programme data, the income of targeted households more than doubled the stipulated target (which was to raise incomes by 30%) (Wylde et al., 2012).

4. Promoting entrepreneurship and financial inclusion

Despite problems with government credit schemes operating since the mid-1990s (Entandikwa and Bona Bagagawale), access to credit increased substantially. Private and donor-funded microfinance institutions flourished and informal financial inclusion (outside formal banks) broadened. By 2012/13, 22% of Ugandan households had applied for a loan within the past year, with working capital being the main reason for loan requests (UBOS, 2014). Such an increase in credit helped to transform household activities by supporting movements out of subsistence agriculture.

The recent efforts to boost business, technical and vocational education and training (BTVET) aimed to provide better access to the labour market for young people. The supporting policy environment resulted in a flourishing of government, non-governmental organisation

and private-sector initiatives, which filled a gap in the education system. Although the overall impact is hard to quantify given the multiplicity of programmes, objectives, coverage and sizes, the evidence suggests that they are linked to the rise in self-employment non-farm enterprises and thus to a rise in household productivity. Moreover, they may have contributed to a growth in access to the labour market for this segment of the population, even though this access has not occurred in the formal sector labour market.

What are the challenges?

A range of factors will impede further expansion of productive employment in Uganda. The progress described started from a very low base; sustaining it and taking advantage of emerging opportunities will not be easy.

1. Limited employment creation in high-productivity sectors

Employment in Uganda remains largely in agriculture, accounting for three quarters of the workforce but only a quarter of GDP. This reflects continued low productivity and low formal job creation. While there is substantial evidence of a shift in economic and employment activities at

the household level in Uganda, a key challenge is to step up the economic transformation of the country and to reach the poorest of the poor. To do so, Uganda must continue to increase productivity in all sectors, including agriculture.

Uganda has seen continued fast growth over the past few years: 6.0% in 2012/13 and 4.7% up to July 2014 (UBOS, 2014). There is an expectation that new employment opportunities will emerge in sectors such as construction, trade, tourism, commerce and for online companies, as well as in the oil and gas sector, which will play a prominent role in the economy after 2016 when production is due to start. Plans for upgrading railway lines in East Africa, as well as the deepening of the free movement Common Market Protocol, could be important factors in spurring the expansion of growth and employment opportunities from more prosperous regions to those lagging behind.

However, capitalising on these opportunities will not be easy and there are fears that some of them will only materialise for a small section of the working population. There is still a need for investment in infrastructure, to implement policies to facilitate firm survival and expansion without endangering fiscal stability, and to consolidate public finances.



Photo: © William Vest-Lillesøe / DRC.

2. Demographic pressures on employment demand and employment quality

In a country with one of the youngest and fastest growing populations in the world, many young Ugandans enter the labour market each year. The total labour force almost doubled from approximately 7.5 million in 1990 to around 14.5 million in 2012 (World Bank, 2014). Employment growth has only just kept pace, increasing at 2.96% versus a 3.1% growth in the labour force. Although unemployment rates still appear low, these rates mask the scarcity of formal job opportunities; according to the Uganda National Household Survey 2012/2013, up to three-quarters of recent entrants to the labour market are employed by themselves or their families. With limited job creation in the formal sector, most take up informal employment or become under-employed. The creation of productive employment needs to increase at a faster rate to absorb new entrants to the formal labour market and take advantage of a possible demographic dividend.

Social insurance systems for old age and unemployment are relatively underdeveloped, even in comparison to other East African countries; it is necessary to expand coverage. Moreover, informal kinship and family systems have weakened due to war and urbanisation, leaving many exposed to risk. Plans to introduce a nationwide social health insurance scheme, which would also cover informal-sector workers, have not yet materialised. Moreover, expanding employment quality will also require the implementation of key labour regulations, in particular the legal minimum wage, which has not been revised since 1984.

3. Shining the spotlight on employment (and not just growth)

The expansion of employment from a very low base and in the midst of a chaotic economic and political system is commendable, however employment progress emerged as a by-product of growth and stabilisation. The 2011 National Employment Policy of Uganda was the first time the government had an explicit employment policy.

Moreover, while the government's development strategy is pro-business and led by the private sector, the policy-making and implementation process is erratic and facilitated by political connections and favours. In order to ensure greater employment creation and broad access to employment, the policy-making process must become more consistent and less dependent on personal interventions by the President (Booth et al., 2014).

Finally, donor support and funding was one of the key aspects that allowed Uganda to embark on a process of economic transformation and employment progress. However, some tensions are emerging between the main international financing institutions and some progressive sectors within the government about continuing with the current liberal strategy and opting for a more active role for the state to steer the economy and generate employment. Putting employment at the centre of policy, and gathering support from economic and political sectors in Uganda, including civil society, to keep it there, will be key in delivering inclusive growth over the years to come.

Lessons learned

- **A combination of macroeconomic and microeconomic policies have been key in supporting employment, but a coordinated strategy for further industrialisation may also be needed.** There has been a commendable transformation of the economy and the employment structure in Uganda over the past 25 years, related to a range of policies implemented over the long run. However, employment progress has not been an explicit policy objective, but has instead been formulated implicitly through macroeconomic stabilisation reforms, market liberalisation policies and later poverty reduction policies through education policy, BTVET and a focus on improving citizens' health. In this context, a combination of macroeconomic and microeconomic policies was key in supporting employment.
- **Employment progress needs to be understood in terms of livelihoods as well, going beyond macro-level data to explore changes in household productive activities.** Uganda's low starting point and large informal sector mean that economic and labour transformations have not been reflected in macro-level analysis. In countries such as Uganda, as this study discusses, employment progress must also be considered in terms of livelihoods – that is, taking into account the degree to which households and individuals are diversifying income strategies without changing their primary activity.
- **Investments in human capital can spur a transformation in the labour force.** This case study demonstrates that investing in human capital is essential for structural transformation, with productivity growth in formal and household-level enterprises linked to the poverty reduction strategy of the country. This relates primarily to investments in health and education, especially BTVET and small-scale entrepreneurship. In a context of high informality, insufficient formal-employment creation given the scale of demographic growth, and a large subsistence agricultural sector, these policies were drivers of household productivity and diversification of economic activities. Support from international donors was essential to finance many of these policies and shaped their emphasis.
- **A key determinant of economic development is structural economic transformation – that is, increasing jobs and productivity *between* as well as *within* sectors.** Structural economic transformation requires stronger links between sectors, as well as increased human capital investments that upgrade the labour force and enable workers to take advantage of employment opportunities in more productive sectors. In Uganda, the links between agriculture and industry and the attempts to promote value chains in the investment strategy of the country also contribute to movements between sectors.
- **Progress at the country level may be accompanied by sub-national inequalities; addressing these inequalities is crucial for building sustainable employment progress.** Inequalities persist. With limited exceptions – targeting the conflict-affected northern region and the so-called inactive poor – very few policies have been introduced to facilitate employment opportunities for disadvantaged groups and areas. In particular, Uganda's high rate of non-agricultural economic growth allowed only a small proportion of the labour force to move to higher-value activities. The agricultural sector will remain a large source of employment for many, and supporting better quality and productive employment in this sector is likely to bring large benefits both in terms of employment and poverty reduction.

This summary is an abridged version of a research report and one of a series of Development Progress case studies being released at developmentprogress.org

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This publication is based on research funded by the Bill & Melinda Gates Foundation. The findings and conclusions contained within are those of the authors and do not necessarily reflect positions or policies of the Bill & Melinda Gates Foundation.

Overseas Development Institute

203 Blackfriars Road
London SE1 8NJ

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Registered in England and Wales
Registration no. 661818
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Contact us

developmentprogress.org
developmentprogress@odi.org.uk
T: +44 (0)20 7922 0300

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