Executive Summary of the Employment Diagnostic Analysis (EDA)

Introduction

An Employment Diagnostic Analysis (EDA) aims 'to understand the nature of the deficiency of productive employment and to identify the constraints on and opportunities for enhancing inclusive job-rich growth' (ILO 2012: 1). Its purpose is 'to provide a sound knowledge base for effective policies, institutional reforms and other interventions aimed at reducing deficiency of productive employment' (ibid.) As such, it is to serve as 'an instrument for the broad-based charting and understanding of the country-specific landscape of employment and economic development' and it seeks to identify priority areas for action in enhancing the prospects for productive employment and progress on employment targets. This Executive Summary outlines the major findings and recommendations of the EDA for Uganda that was commissioned at the end of 2016.

The scope of an EDA is clearly outlined in the Methodological Guide on Employment Diagnostic Analysis (ILO 2012). The EDA for Uganda has been informed by these guidelines, but also addresses the need expressed by various domestic actors and government agencies to build upon (and not repeat) the Ugandan government's own attempts to produce strategies for the creation of productive employment. It is particularly timely given the renewed interest in employment and inclusive growth within the Sustainable Development Goals (SDGs). SDG 8 is concerned with promoting sustained inclusive and sustainable economic growth, full and productive employment and decent work for all. The EDA also addresses a number of other cross-cutting issues that are captured by the SDGs, including SDG 5 on gender inequality, SDG 1 on poverty and SDG 10 on inequality.

This Executive Summary is organised as follows. Uganda's job-less growth is initially assessed before turning to the nature of that growth and the stalled structural transformation in Uganda. Against this background, we discuss the trends in poverty and inequality and then main features of the labour market in Uganda, highlighting the pervasive informality and engagement of workers in low productivity activities across the economy. Following this discussion we briefly highlight how developments in Uganda's education sector fit into the picture, before evaluating the Government of Uganda's response to the labour market challenge. Here, tensions and contradictions are raised between the government's attempts to shift the economy into high productivity job-rich activities and the constraints in its ability to do so imposed by a restrictive macroeconomic stance. The last section offers some recommendations that arise from the EDA analysis.

Job-less Growth and Insufficient Structural Transformation of the Economy
While Uganda's GDP growth has been relatively strong between the mid-1990s and the mid-2000s, growth has decelerated since 2006 (with the exception of 2011). Overall, growth of the Ugandan economy has been driven by the service sector (accounting for over 50 percent of GDP in 2015), with agriculture's share in GDP having steadily fallen over the years and now accounting for just below 25 percent of output in Uganda in 2015. The share of the manufacturing sector in GDP stood at just over 8 percent in 2015, and the construction sector, which is captured within the category of other industry, contributed to just over 7 percent of output in 2015. The two sub-sectors that make up the largest share of GDP in recent year (trade and food crops) have seen poor growth performance in the last couple of years, accounting for the overall poor growth performance of the Ugandan economy.

In terms of employment (excluding subsistence agriculture), services employ the bulk of those in work at 47.7 percent of total employment. The largest category within services, in terms of employment is wholesale/retail trade (at 28 percent for women and 18 percent for men). This is followed by transport and storage for men (10 percent or men and 0 for women) and hotels and restaurant for women (7 percent for women and just 1 percent for men). Agriculture accounts for 36 percent of total employment and manufacturing for 7.9 percent. Both these sectors have relatively equal gender shares. Construction accounts for 4.6 percent of total employment, yet female employment here is negligible and the figure for men is 8 percent of total employment.

In order to assess the relationship between GDP growth by sector and productivity and employment, this EDA deploys a growth decomposition tool, known as JoGGS (Job Generation and Decomposition). This allows to investigate a theme that emerged repeatedly during interviews and workshops for this study, namely that of job-less growth. The JoGGs exercise confirms the lack of absorption of workers in high productivity sectors in the recent past. Instead, the low productivity agricultural and trade sectors continue to provide employment for existing and new workers in Uganda. This finding stresses the need for a structural shift towards high productivity sectors that have the ability to absorb the growing working age population.

Structural transformation in terms of a change from an economy dominated by subsistence agriculture to an economy characterised by a commercial agricultural sector and a sizeable manufacturing sector has insufficiently materialised in Uganda. At the same time, the country's high population growth rate, together with various other challenges including those deriving from climate change, make structural transformation urgent for the creation of non-agricultural and higher-productivity jobs, while at the same time increasing productivity of agricultural activities.

The main underlying reason for the insufficient structural transformation and the concomitant lack of expansion of productive employment in Uganda is the failure to develop and expand rapidly the productive capacity in sectors that can absorb the fast growing labour force in productive employment. This has combined with a failure to accelerate agricultural upgrading and reflects failures to raise the share of manufacturing value added in GDP. This is at least partially due to the fragmented and weak nature of the private sector, which has been designated as the main engine of development and growth, against the backdrop of a historically insufficient public investment programme. This has interacted negatively with a persistently narrow integration into the global circuits of global production and trade, as Uganda's exports remain biased towards agro-commodities (despite a fall in their share of exports over the last decade).

Overall, the Ugandan economy is dominated by small (and often informal) enterprises. While the number of such businesses has grown, this has been driven by the entry of own-account workers with high rates of firm failure. Only 24 percent of the firms established in 2001 (and recorded in the Census) were still operational after nine years. There are, however, significant variations across industries: 49 percent of manufacturing start-ups survive their first nine years as compared to only 22 percent for new firms in services. Furthermore, underlying the trends of insufficient generation of productive employment are historically inadequate private and public investment levels, low and declining levels of foreign direct investment (FDI), and declining overseas development assistance (ODA) in real terms (and as share of GDP).

Poverty and inequality in Uganda

Uganda has made progress in reducing poverty over the 1990s, 2000s and 2010s and achieved the MDG target of halving the proportion living below the national poverty line ahead of the 2015 deadline. However, in the past few years, poverty has increased, in both rural and urban areas, putting into question Uganda's ability to meet the SDG 1 target of eradicating extreme poverty by 2030. While the number of people living below the national poverty line had decreased from 9.8 million in 2002/03 to 6.7 million in 2012/13, this has subsequently increased to 10 million between 2012/13 and 2016/17. Rural areas have historically had significantly more poverty than urban areas, with poverty particularly acute in the Northern and Eastern parts of the country.

Income inequality in Uganda has followed a different trajectory to that of poverty reduction. The Gini coefficient increased over the 1990s to reach 0.43 in 2002/03 and remained around 0.41-0.43 for most of the 2000s and 2010s. However, the most recent UNHS survey indicates a reduction in income inequality with the Gini at 0.37 for the country as a whole. This reduction appears to have been driven by reductions in inequality across some of the poorest regions in Uganda (Karamoja, Busoga and Eastern regions) while income inequality in Kampala has worsened.

Uganda's Labour Market Challenges

The overriding feature of the Ugandan labour market is its high level of informality, with formal employment making up less than 14 percent of total. The agricultural sector has traditionally been the most informalised, but informal manufacturing activities have risen from around a third of all manufacturing activities in the late 2000s, to half of the entire manufacturing sector in 2016/17.

Rates of informal employment tend also to be higher for women than men, although a common 'iceberg' view of the economy has resulted in much of the informal domestic and care work done by women not being systematically recorded. This is also the case in Uganda where information on unpaid work is scant. Unpacking this picture further reveals an underlying gender division in paid and unpaid work in Uganda.

In addition to informality, underemployment and working poverty are pervasive features of the Ugandan labour market and labour under-utilisation is particularly acute in the agricultural economy. These features give rise to high degrees of working poverty. The proportion of those in employment but whose incomes fall below the national poverty line is roughly 13 percent nationally, although this figure is significantly higher for those in rural areas and double the national average for Eastern and Northern regions. It is also higher for the self-employed and those working in the agricultural sector.

Finally, wages in Uganda have remained low by international standards and are lower than in Tanzania and Kenya. This may reflect the absence of a minimum wage. Furthermore, national-level household survey data reveal that monthly wages have, on average, remained stagnant in real terms since 2005/06, with persistent gaps between wages in the public and private sectors and growing gaps between urban and rural wages and those received by men and women. There is also significant evidence of gender pay gaps in the private sector and for employees in the informal sector where women earn around 40 percent less than male counterparts.

Skilling Uganda

The analysis for this EDA highlights a clear disjuncture between the education system in Uganda and the reality of a growing informal economy on a number of levels. Despite this reality it is also evident that the current prevalence of informal, household enterprise or casual wage work is not a route towards decent work. Important challenges remain, including: i) fair access to education; ii) improvements of basic education outcomes and quality; and iii) shifts away from theoretical content towards practical content at the secondary and post-secondary level. Recent policy changes indicate policymakers' awareness of these imperatives.

However, two further points derive from the analysis of skills and education in Uganda completed for this EDA. First, adapting Uganda's education and training system to an economy that needs to accelerate its structural transformation needs to be done in a forward-looking strategic manner. This requires the identification and development of specific skills that can support the shift into higher-productivity activities (both in agriculture and in manufacturing). Arguments that focus on the need to offer an increasing number and range of entrepreneurship and business management courses should therefore be treated with caution and assessed against the urgent need to upscale and upgrade productive capacity in core sectors.

Second, comparisons with neighbouring countries highlight the woefully inadequate funding received by the education sector as a whole and the shift in recent years away from state to private sector (including household) financing. Reversing such trends should be a priority among policy-makers. An increase in education spending would, first, assist in the implementation of Ugandan policymakers' ambitious plans to improve quality of and outcomes in education; second, it would tailor these to respond to specific needs triggered by plans for structural transformation of the economy; finally, it would create much-needed jobs in a sector that has historically provided decent work for both men and women.

Evaluating Ugandan Government's Response to the Employment Challenge

Over the last decade, the Government of Uganda has sought to reorient policy towards job creation and the upscaling of productive capacity. This was emblematic in the adoption of the Uganda Vision 2040, approved by Cabinet in 2007, which has the overarching aim to transform Uganda from a 'peasant and low income country to a competitive and upper middle income country within 30 years'. The National Development Plan I (NDPI) launched in 2010 was the first in a series of six development plans to implement Vision 2040 and to facilitate Uganda's transition to middle-income status. The emphasis on employment in the NDPI was strengthened with the adoption of a National Employment Policy (NEP) in 2011, with its mission to 'promote and create more decent jobs for women and men'.

Like the NDPI, NDPII is committed to a 'quasi-market' private sector-led approach to development. The policies that claim to support a shift towards higher productivity activities remain charted in terms of unleashing private sector entrepreneurial activity across scales (micro, small and medium enterprises), without sufficient appreciation of the intricate role the state needs to play for the private sector to develop along such a path, including through facilitating access to credit, the imposition of performance criteria in strategic sectors, protection of production for local markets, local content policies, specific trade policies, etc. Policy-making in Uganda has instead been governed by an understanding of the role of government as predominantly regulatory, rather than seeing the state as a strategic actor in shaping the development path of the country through the deployment of a host of 'unorthodox' tools that can accelerate development.

Indeed, across different government initiatives, a contradiction recurs between, on the one hand, the government's celebration of the private sector as the most important agent to bring about growth and structural transformation, and, on the other hand, a failure to understand (or cater for) the specific needs of the private sector. This EDA reveals a fundamental flaw in government policy that is related to a set of tensions within the Ugandan political economy. This includes the way in which macroeconomic short-term stabilisation priorities have dominated longer-term imperatives of growth and structural transformation, which is itself related to the role of the financial sector and the particular relationship of the country with the International Financial Institutions. This has then been exacerbated by the ad-hoc and fragmented nature of policy initiatives targeting specific sectors, where the proliferation of government initiatives has had (further) implications for implementation capacity. In the context of agricultural and gender-related labour market interventions, the combination of a proliferation of initiatives and inadequate budgetary resources has been particularly harmful. In inspection of these initiatives then reveals a contradiction between the focus on short-term livelihoods strategies encompassed by NAADS and UWEP, for example, and the broader long-term NDP II objective of structural transformation.

Policy Recommendations

The purpose of an EDA is to identify areas of policy interventions that will allow for the creation of decent work to be accelerated. The current EDA was from the start also tasked with providing a basis on which the National Employment Policy could be reviewed and was informed in its direction by the participatory workshops and the themes and issues that emerged from these.

The multitude of expectations expressed by different stakeholders with respect to outcomes of the EDA highlights that various actors in Uganda with an interest in the creation of gainful employment have a strong sense of what needs to be done. It is further important to remind the reader that there has been a plethora of government initiatives targeting various sectoral and micro-level interventions across agriculture, manufacturing, construction, health, education, etc. The successive NDPs have also singled out strategic sectors that should be prioritised in Uganda's development trajectories. These respond to the need for increasing agricultural productivity and the creation of gainful employment outside of the sector through the upscaling of various sub-sectors of manufacturing (see main report). The overarching issue then does not seem to be a dearth of ideas in terms of which sectors or sub-sectors could provide potential for growth, productivity increases and employment, but rather the way in which the particular interventions to effect such growth and productivity increases are conceptualised and implemented. The subsequent policy recommendations focus on the latter.

First, the EDA recommends a comprehensive and consistent approach to jobs creation. Policymaking in support of gainful employment creation should proceed simultaneously at different levels (macro, meso/sectoral, and micro).

Second, the main feature of Ugandan employment is the pervasiveness of high levels of informality and weak labour market institutions. Unionisation of workers, collective bargaining and the introduction of a minimum wage, however, can address unequal power relations in the labour market and significantly improve working conditions and living standards. The introduction of a minimum wage further acts as a stimulus to economic growth, as wages enlarge local market size and boost domestic demand. Employment is hence likely to increase as a result of the introduction of a minimum wage, also improving government tax revenue collection. Furthermore, the introduction of a minimum wage will support a narrowing of the gender pay gap in Uganda.

Third, gender-based inequalities persist across the labour market. These include the gender pay gap and the double burden that women carry through their engagement in productive and reproductive activities (unpaid domestic work and caring responsibilities). This raises the need to understand better (and address) the dynamics of the gender pay gap (including through the introduction of a minimum wage) and to address the care gap. An ambitious plan to address the care gap could involve provisions for housing or childcare for key-workers (including teachers, nurses, police and other key workers in the economy). Such an integrated approach would stimulate the economy through manifold channels and assure improved social reproductive conditions for those delivering key services.

Fourth, there is urgent need to address the inadequacies in foundational skills (resulting from massive educational drop-out rates) in Uganda. Both access to and outcomes of education need drastic improvements. This necessitates significant increases in funding for education. An increase in funding for the sector would achieve multiple objectives as follows: i) it would assist in the implementation of Ugandan policymakers' plans to improve educational outcomes and to tailor these to respond to specific needs triggered by plans for structural transformation of the economy; ii) it would make progress towards meeting SDG 4; and iii) it would create much-needed jobs in a sector that has historically provided decent work for both men and women.

Last, but certainly not least, the macroeconomic framework needs to be reoriented in support of employment creation. There is an urgent need to support large-scale upgrading of the productive capacity of the Ugandan economy. This involves a multiple set of interventions including large-scale public investment programmes and support for strategic private sector investments, including by addressing the constraints facing growth-orientated firms. The macro-framework quintessentially determines (and constrains) the scope for such a large upscaling and affects the nature and extent of specific policy initiatives at meso and micro levels. To bring about a growth path that generates fast accelerations in productive employment, a macroeconomic policy stance is necessary that puts public investment at its centre. This needs to be accompanied by focused sectoral policies that seek to ensure that increased investment translates into changes in patterns of employment towards higher productivity activities and labour market policies that support decent work and pay, including the adoption of a minimum wage. In essence, this involves a more strategic deployment of fiscal, monetary, exchange rate, capital account and labour market policies in support of the overarching objective of growth, structural transformation and the creation of gainful employment.

While conditions to improve private investment are urgently necessary, further support for a large strategic public investment programme will remain central to any attempt to kick-start Uganda's transformation towards a high-productive economy. This will necessitate stronger resource mobilisation by the state, both domestically and externally. In this context, caution should be expressed regarding the recent heightened interest in public private partnerships (PPPs) as a way to overcome fiscal constraints on investment programmes. PPPs open up an entire spectrum of problems and challenges, including through the fiscal liabilities they create. There is a broader spectrum of ways in which fiscal space can be fostered. This includes: increasing tax revenues; lobbying for foreign aid; eliminating illicit financial flows; better debt management and the adoption of a more accommodative macroeconomic framework.

In essence, to increase the living standards of all in Uganda, the productive structures of its economy need to be transformed. Industry must play a central role in this transformation and this should be accompanied by a strategy that actively targets living standards. This necessitates a two-pronged approach that accelerates industrialisation while at the same time improving basic needs. A reoriented macroeconomic strategy around these core aims remains key to any such successful transformation of the economy.