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Welfare Implications of Employment Transitions in Uganda

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Understanding employment transitions and their implications in terms of welfare and labor outcomes is key for countries to design labor market policies aimed at inclusive growth, particularly in developing countries. Using panel data, this note characterizes the magnitude and nature of the main employment transitions in Uganda between 2009 and 2016 and explores how these transitions correlate with measures of wellbeing (mainly per capita consumption) and employment outcomes.

Understanding employment transitions is an important aspect of designing public policies that allow people to benefit from economic development. People progress in the workplace by accessing the labor market, by getting more efficient at the job they do, or by switching to a better job. All of these can entail changing occupations or sectors, changing locations, or shifting from informal employment to formal employment. Generating quality jobs in a sustainable manner is a priority area for Uganda. The government has become increasingly concerned with the challenge of creating jobs and enhancing the quality of the existing ones, as evidenced in the National Development Plan II (2015/16 - 2019/2020).

In the case of Uganda, like many countries in Sub-Saharan Africa, there is considerable persistency in terms of employment status, geographical location and sector. The large majority of workers are likely to remain in the agricultural sector, mainly as self-employed in rural areas, and thus, in informal jobs. For the few that transition, changes in wellbeing

and employment outcomes that accompany these transitions hinge critically on gender, age and level of education. The findings are aligned with the recent literature on employment transitions in developing countries and, more specifically, in African countries. These results suggest that the country should make an effort to improve the productivity of both the agricultural sector and the services sector (which is absorbing the majority of workers coming from the primary sector) and create more job opportunities across all sectors of the economy. These recommendations are in line with those of Beegle and Christensen (2018), which aim to accelerate poverty reduction in the Africa region.

Main traits of the Labor Market

The majority of workers reside in rural areas and work as self-employed in agricultural activities. Four main trends were observed in the country's labor market over the last ten years. Firstly, after a sustained increase, labor force participation declined

¹ This policy note summarizes research on the topic by Pablo Adrian Garlati (Universidad Javeriana), Carolina Mejía-Mantilla (World Bank), Dino Merotto (World Bank), and Michael Weber (World Bank).

from almost 90 percent in 2012 to 79 percent in 2016. This change has been mainly driven by youth and women, for whom the decline has been most significant. The second defining characteristic of employment is the widespread prevalence of informality and how little this trait has changed over time. As in most of Sub-Saharan Africa, self-employment, non-paid employment, and informal wage employment² remain by far the most common employment types, adding to almost 80 percent of total employment (ILO, 2015). Thirdly, while the share of urban employment increased by ten percentage points in the last decade, reaching 24.6 percent in 2016, the large majority of workers still reside in the rural areas of the country.

Structural transformation over the last decade has been limited. The fourth stylized fact is that while agriculture remains the most common type of employment (64 percent of all employment in 2016), there has been a modest sectorial shift towards the services sector, from 20 in 2005 to 29 percent in 2016; and a very limited shift towards the industrial sector, from 6.8 to 7.3 percent. Despite the fact that the value added per worker is higher in the services sector compared to the agricultural sector, by a ratio of 6 to 1, productivity has been declining in the services sector in the last five years, a concern for the coming years.

Analyzing employment transitions

Taking the country context into account, our analysis focusses on four employment transitions:

(i) between inactivity and employment, (ii) between rural and urban employment, (iii) between informal

² Defined here by whether the worker is under a contract with the employer.

and formal employment and (iv) across sectors – agriculture, services and industry. We use five waves of the Uganda National Panel Survey (UNPS), spanning over the period 2009/10 to 2015/16, to analyze the magnitude of the transitions and analyze if there are differences across age, education and gender. Then, we correlate the transitions with changes in consumption per capita and, in some cases, wages and hours worked. While the nature of the analysis does not demonstrate any causal relationship, we believe that these correlations are informative.

Inactivity/employment transitions

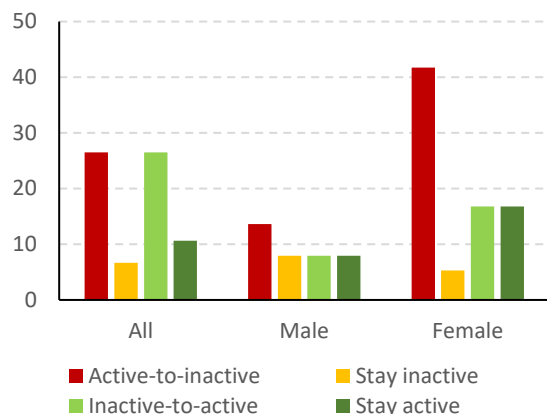
Employment rates are persistently high in Uganda. For the first transition analyzed, between being inactive and employment, we restrict the sample to household heads only.³ Close to 95 percent of all household heads remain employed from wave-to-wave and 45 percent go from being inactive to being employed. This is a very similar finding to that obtained for Mauritius (World Bank 2018), where 93.7 percent of individuals remain in employment over the period 2005-2012.

There seems to be a premium for transitioning into employment. Workers that stay employed enjoy on average a 10 percent increase in their consumption per capita, while those that they leave inactivity enjoy an increase that is almost twice as high. The premium for accessing the labor market is particularly high for women as seen in Figure 1. Surprisingly, we observe that transitions out of the employment are also beneficial for consumption. However, we suspect that the causality runs in the other direction: individuals transition out of the employment only because they are better off.

³ We include only heads of household, given that a large share of inactive population has access to higher consumption only through the head of household.

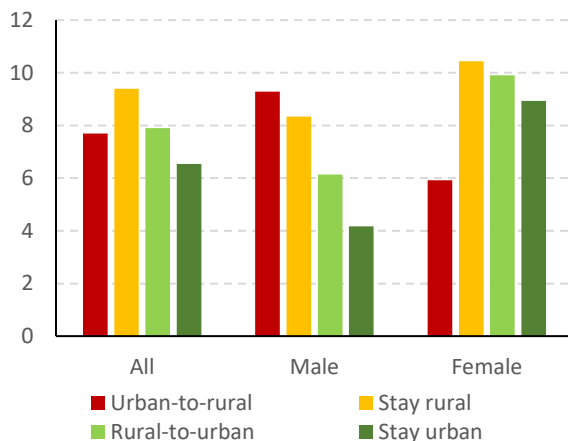
Percentage Change in Consumption by Adult Equivalent

Figure 1: Inactive-Employed Transitions (age 15+ and heads of household)



Source: Staff calculation based on UNPS microdata

Figure 2: Rural-Urban Transitions (age 15+)



Source: Staff calculation based on UNPS microdata.

Rural-urban Transitions

As in other parts of Africa, rural-urban transition is not a common phenomenon. Movements from rural to urban areas were less common than from urban to rural areas: around 5 percent in the first case versus 15 percent in the second. This is in line with

⁴ Workers are classified as formal if they are: (i) employees contributing to a pension fund, (ii) employers, own account, unpaid family workers registered for VAT and/or income tax or (iii) paid apprentice; and informal if they are: (i) employee not contributing to a pension fund, (ii) employers, own account, unpaid family workers not registered for VAT

the Sub-Saharan African experience of low levels of rural-to-urban migration linked to the slow pace of structural transformation in the region (World Bank, 2012). Younger workers are more likely to transition, especially from urban to rural areas, more educated workers are more likely to move from rural to urban areas, and transition rates are very similar for males and females.

The changes in wellbeing that accompany these transitions depend greatly on gender, education and age. Moving from rural to urban areas benefit workers in the 25 to 34 years age bracket and brings women higher consumption growth when compared to men (albeit not compared to having stayed in rural areas), as seen on Figure 2. Moreover, more educated individuals obtain larger gains from a rural to urban transition in terms of wage growth, and those moving from urban to rural areas experience a lower increase in hours worked across all groups analyzed

Informal-to-formal transitions

Informality is the norm and persistent for workers, as in most countries of the region (ILO, 2015).⁴ An important finding of the study is that transitioning out of informality is very unlikely for workers (we observe this movement for only 2 percent of the workers in our sample). Informality seems to be a more permanent condition in Uganda than in other countries of the region such as Tanzania and Ghana (Falco et al. 2014).⁵ Transitioning out of formality it is slightly more probable for more educated (primary completed and higher) and older (above 35 years of age) workers. This seems to coincide with a labor market model in which

and/or income tax, (iii) unpaid apprentice or (iv) household farmer.

⁵ While the authors separate self-employment and unpaid work as separate employment status, persistency in these states is high, close to 80 percent for self-employment and slightly lower for unpaid work.

informality is comparable to queuing for high quality jobs, particularly amongst the young (Bosch and Maloney, 2010).

Transitioning from formality to informality carries a penalty (see Figure 3). While consumption growth is about 10 percent for those that remain formal, it is only 3 percent for those that transition into informality and negative for men. It is also negative for the young (15-24 age bracket) and the less educated. Transitioning into formality or informality leads to an increase in the number of hours worked (compared to being static), which may be explained by a learning or adjustment period implied by the change of status.

Sectorial transitions

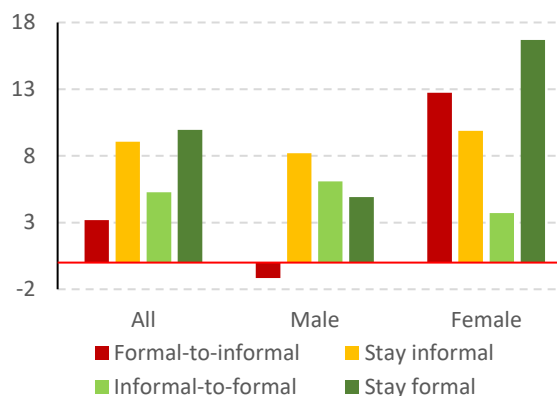
The more educated are more likely to move out of agriculture. While transitioning out of the agricultural sector is rare, workers are slightly more likely to transition from agriculture to services than from agriculture to the industrial sector; consistent with the aggregate employment trends. Importantly, more educated workers have a higher chance of moving out of agriculture, and of remaining in the industrial and services sectors. Inter-sectorial transitions do not seem to be correlated with gains in terms of consumption growth, and the results on hours worked are mixed (see Figure 4).

However, the outlook changes somehow when only wage workers are considered. Wage workers gravitate towards the services sector, and those transitioning out of agriculture into the industrial sector *do exhibit a higher hourly wage growth*. This is not true for the services sector, a result likely linked to the productivity differences across sectors. These patterns are similar to those observed in Mauritius,

where there is significant sector persistency and workers moving away from the primary sector experience positive changes in earnings (World Bank 2018).

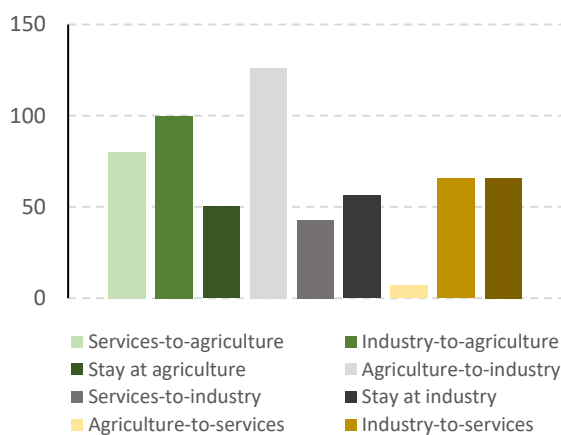
Percentage Change in Consumption by Adult Equivalent

Figure 3: Informal-Formal Transitions (age 15+)



Source: Staff calculation based on UNPS microdata.

Figure 4: Sectorial Transitions (age 15+)



Source: Staff calculation based on UNPS microdata.

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