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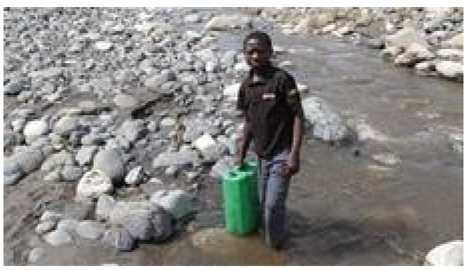
Youth Unemployment Challenge in Uganda and the Role of Employment Policies in Jobs Creation



Introduction

Youth unemployment remains a serious policy challenge in many sub-Saharan African countries, including Uganda. In 2013, youth (aged 15 to 24) in sub-Saharan Africa were twice likely to be unemployed compared to any other age cohort. For Uganda, in 2012, the Uganda Bureau of Statistics revealed that the share of unemployed youth (national definition, 18-30 years) among the total unemployed persons in the country was 64 percent. Given the rapid growth of the Ugandan population—three-quarters of the population are below the age of 30 years—coupled with the fact that the youth are getting better educated through higher access to primary and secondary education, a stronger focus on job creation for this cohort of people cannot be overemphasized.

Causes of youth unemployment are believed to be multifaceted, ranging from an inadequate investment/supply side of jobs, insufficient employable skills (i.e., youth possess skills that are not compatible with available jobs) and high rates of labor force growth at 4.7 percent per annum.

State and Structure of Youth Unemployment in Uganda

According to the International Labor Organization (ILO) definition, Uganda's measured unemployment[1] rates are relatively low for the region though they have been increasing over time (from 1.9 percent in 2005/06, to 3.6 percent in 2009/10, and recently to 5.1 percent in 2012). At the same time, the characteristics of the unemployed vary widely. Urban youth are more likely to be unemployed (12 percent) than rural youth (3 percent). In addition, female youth are twice as likely to be unemployed compared to male youth. Interestingly, the report notes that unemployment increases with the level of education attained: Unemployment is lower among persons with no education and primary education, and higher among those with secondary education and above. This is not to negate the importance of education—as it is widely known that education is a significant factor in securing good employment over time—however, the more educated are biased towards wage-paying formal jobs, which are harder to find. Indeed, persons with education above the secondary level are more likely to be in wage employment (59.1 percent) compared to those with primary education (18 percent), and their earnings tend to be higher.

These low unemployment statistics may appear counterintuitive given the prevalent concern about youth unemployment in Uganda. The low measured unemployment figures do not necessarily signify a healthy labor market. For instance, a large proportion of youth have given up the search for jobs and are more likely to be discouraged[2] than unemployed, and the official measured unemployment does not capture this. A better alternative would be to consider the NEET (not in employment, education or training) population as a proportion of the youth population. Recent statistics estimate youth NEET figures at about 18 percent in Uganda. Underemployment indicators—such as those identified by the ILO related to time, wage and skills[3]—show that labor potential is heavily underutilized. Young people work in jobs that do not fully utilize their skills and competencies, earn low pay and do not work full time as desired. Hence, focusing on unemployment measures fails to take into consideration the gruesome reality of vulnerable employment—characterized by low pay and job insecurity—in which youth are currently engaged since many cannot afford to be openly unemployed.

In What Jobs Are Ugandan Youth Engaged?

Agriculture is the predominant sector of employment in Uganda—providing employment to about 66 percent of the workforce. The services and industrial sectors employ about 28 percent and 7 percent of the labor force, respectively.

Despite the bulk youth employment in agriculture, less than 5 percent of those in agriculture are in wage-paying jobs. The majority are engaged as subsistence family workers with no wages accruing to them. Similarly, informal employment accounts for the highest proportion of employed youths outside agriculture. In 2011, about 95 percent of youth in non-farm enterprises were in informal employment. Informal jobs are of low-quality, characterized by low and unstable earnings and job insecurity. About 24 percent of employed youth are in wage-paying jobs while the remaining jobs are either in self-employment or household enterprises as contributing workers. Involvement in the wage sector is predominant among urban youth and those with at least a secondary school level of education. From a gender perspective, females are more likely to be in non-wage employment compared to the male youth. Since the informal sector has been and will continue to be a major source of employment in Uganda in the short to medium term, it is imperative that productivity of the workforce engaged in the informal sector is increased to address the underemployment associated with this sector.

A Brief Review of Major Employment Interventions in Uganda

Uganda has implemented a number of programs aimed at creating employment specifically for youth. These policies consist of those aimed at providing an enabling environment for the private sector to create jobs and those targeted at building the skills and requisite knowledge to make youth more employable.

Providing an enabling environment for private sector investment to create jobs

While the Ugandan public sector was the major employer before the 1990s, the civil service reform that started in 1992 led to a large reduction in the number of public servants in Uganda. This reduction was achieved through retrenchment, voluntary retirement schemes, divestiture and privatization of public enterprises. The private sector was envisioned to be the driver of economic growth and employment creation. Macroeconomic stability—low inflation and stable foreign exchange rates—was looked at as a sufficient prerequisite for investment, economic growth, structural transformation and jobs creation. While these policies have generated much-needed economic growth, they have not created enough decent and productive jobs for the Ugandan youth. Analysts have blamed this poor performance on the failure of the policies to consider the structural nature of the economy, which is largely agrarian. Investment in agriculture is still low and subsequently the sector has been experiencing low average growth rates of about 2 percent for the 1990-2012 period, and offering quantity but low productivity jobs.

Investment in infrastructure, promotion of foreign direct investment (FDI), and support to local investors were anticipated to spur growth in jobs. The Uganda Investment Authority (UIA) was put in place by an act of parliament in 1991 to foster private sector investment and, subsequently, creation of employment through foreign, joint-venture and local projects. Efforts to promote FDI have focused on generating new investments with foreign and domestic private sector actors. Although the UIA has created some jobs—particularly in telecommunication and banking—the number is inadequate compared to the huge number of annual labor market entrants. According to the Uganda Employment Policy, employment stemming from the UIA's projects absorbs less than 10 percent of labor market entrants annually. By 2013, the UIA's jobs conversion rate (the difference between jobs at licensing and actual jobs at implementation) was about 60 percent. The majority of these jobs (63.5 percent) are of an unskilled or casual nature. This poor performance of the UIA is due to a number of challenges, which include its urban bias (yet the majority of the youth reside in rural areas and are highly underemployed), its lack of strategic focus beyond attraction of FDI, and weak support to domestic investors. Further analysis reveals that close to 70 percent of businesses in Uganda operate below installed capacity, citing inadequate infrastructure—both energy and transport. Even more so, Uganda's business environment is not very favorable: When measured for ease of doing business in 2014, Uganda was ranked 132 out of 189 countries.

Support to enterprise development

Recognizing that micro-, small- and medium-sized enterprises have been a considerable source of employment in Uganda, the government has promoted the culture of "self-employment" through microfinance. This kind of intervention dates back to the late 1990s when the government introduced the *Youth Entrepreneurial Scheme* (YES). The YES program was designed as a loan scheme for youth who wished to venture into business. The scheme did not perform as anticipated because it was largely perceived as a political tool. While it was meant to be a loan, it ended up being a handout with very low (if any) recoveries made. Despite the glaring poor performance of the credit program, the government has continued to use microfinance as a way of addressing constraints to starting and running businesses. It is hoped that the present lending model through financial intermediaries or commercial banks will circumvent the challenges faced with the YES scheme. For example, since 2011/12, three venture capital funds—the Youth Venture Capital Fund in 2011/12, Graduate Venture Fund, and the Youth Livelihood Programme—have been introduced to target youth who wish to venture into business. However, a recent evaluation study notes that these venture capital funds are based in urban settings, have stringent criteria attached to them (e.g., a requirement of collateral), are less likely to be accessed by rural youth in agriculture, and are not very likely to solve the unemployment problem.

It is thus important that entrepreneurship be approached comprehensively beyond just credit provision. For example, although the enterprise scheme introduced in the 2011/12 budget had four broad components that have synergies and are complementary in nature, (the youth venture fund, entrepreneurship training, business development services—such as incubation—and workspace/infrastructure development) only the youth venture fund (credit) seems to have taken off. Yet for entrepreneurship to thrive, it is crucial that these components are not implemented piecemeal, lest they have less impact. The youth who access the four components are likely to acquire the requisite skills, attitude, knowledge and support services, which increases their chances of starting and sustaining businesses or being employable.

Building skills and equipping labor with requisite knowledge

Another major intervention undertaken by the government relates to skills development for young people. Upon recognizing that youth lack employable skills or possess skills that are irrelevant in the current job market, since 1997 the government has focused on a phased curriculum review at all levels of education with a focus on business, technical, vocational education and training (BTVET). Entrepreneurship was further introduced as a subject in both lower levels of education and university levels with a view of imparting practical knowledge and skills to enable youth to become job creators. In addition, the Ugandan government put an emphasis on science by paying higher wages to science teachers, building science labs and allocating more government-sponsored slots (75 percent) for science students at universities. At the tertiary level, mandatory internships and introduction of courses that teach skills that are sought after by employers were some interventions. Despite these measures, the levels of unemployment and underemployment have remained high. The BTVET programs continue to be plagued by various challenges. They have remained largely theoretical since most lack the infrastructure for undertaking practical lessons, most offer low-cost skills training that are mismatched with labor market demands, and most are largely privately owned with insufficient government funding. Poor community attitudes about vocational education are still a challenge, leading to low enrollment rates. Indeed, many BTVET institutions run below capacity. It is thus imperative that an evaluation study is undertaken to ascertain the extent to which these programs have contributed to employment creation in Uganda.

Although improvements in the investment climate and building of skills are crucial to jobs creation, there is a need for an effective strategy for industrial development. It is thus imperative that the government builds on the efforts to address skill gaps, investment constraints faced by the private sector, and, above all, prioritize industrialization. International initiatives, such as the African Growth and Opportunity Act (AGOA) and Everything but Arms (EBA) should be exploited to boost exports and create jobs.

Note*: Gemma Ahaibwe is a research analyst at the Economic Policy Research Centre (EPRC) in Uganda. Swaibu Mbowa is a senior research fellow at EPRC. EPRC is one of the Brookings Africa Growth Initiative's six local think tank partners based in Africa. This blog reflects the views of the authors only and does not reflect the views of the Africa Growth Initiative.*

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[1] Unemployment as defined by the International Labor Organization (ILO) occurs when people are "without work," "currently available for work" and are "actively seeking work" in a specified reference —normally the past four weeks.

[2] Discouraged persons may not be captured among the unemployment official statistics since they are not actively searching for work yet they would take up a job if they are offered one

[3] The ILO has identified several indicators of underemployment, including: 1) time-related underemployment, whereby employees work fewer hours than previously agreed upon or than they were willing and available to work; 2) income-related underemployment, whereby employees earn a lower income than would otherwise be the case due to specific characteristics of the employer or workplace, such as a lack of equipment, poor training or a disorganized working arrangement; and 3) skills-related underemployment, whereby employees' skill sets exceed those required for the job.

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