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Recovery from the COVID-19 shock and the informal labour market in urban Uganda

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- We conducted a phone survey of a representative sample of manufacturing firms and their workers in Uganda in Spring 2022, two years after the onset of the pandemic.
- We find that the second lockdown implemented in Uganda in June-July 2021 resulted in a sharp increase in business closures, but these were largely temporary.
- However, a sizeable share of firm owners and workers remain economically vulnerable after the lockdown, earning less than $50 per month.
- Firm owners report lack of customer demand and difficulties in accessing inputs among their primary concerns, with little heterogeneity between high- and low-performing firms.
- Our results speak to the need for liquidity and income support policies to ease the recovery from the pandemic, and highlight the importance of policies that can boost customer demand.
- These include interventions to facilitate consumer's mobility within the city and increase their spending power, as well as policies to facilitate access to inputs, such as supplier development programmes to strengthen linkages between firms, and trade reforms that can reduce tariffs on imported inputs.

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Overview

As coronavirus cases escalated across developing countries in 2021, many governments reimposed harsh lockdown policies, reversing months of gradual economic recovery. This was also true in Uganda, where public transport and non-essential businesses were suspended for 42 days (Presidential order, 18th June 2021) echoing a prior shutdown through April-June 2020. These restrictions significantly impacted the informal economy, where workers are especially vulnerable given the lack of formal contracts, employment benefits or protection. In a previous report, we combined a rich cross-sectional survey of firms and their workers from 2018-19 and phone interviews to study how manufacturing firms in urban Uganda reacted to the COVID lockdown in 2020.[1] Through a new follow-up phone survey conducted in early 2022 and described in this report, we further examined the longer-term effects of COVID-19 related restrictions on firm closures in manufacturing and the challenges that firms surviving firms are still experiencing two years into the pandemic.

Sampling

In Bassi et al. (2022) we surveyed a representative sample of firm owners and their employees from three key manufacturing sectors in Uganda: carpentry, metal fabrication, and grain milling. These sectors were selected based on their contribution to the share of manufacturing employment in "large firms" (i.e., firms with five or more employees) as indicated by the latest Census of Business Establishments (2010). The survey was conducted in late 2018 and early 2019 in a representative sample of urban and semi-urban areas across three of the four macro-regions of Uganda: Central, Western, and Eastern region. A representative sample of 52 sub-counties were randomly extracted, while stratifying by total population and by whether the sub-county is in the broader Kampala area. We conducted a full listing of all the firms in our three sectors in the sampled areas, identifying close to 3,000 firms. We then randomly extracted about 1,000 firms from our listing to be included in the survey, oversampling firms with five or more employees, to ensure coverage of a sufficient number of relatively large firms. Across the three sectors we interviewed 1,115 firms and 2,883 employees. For the current project, we aimed to resurvey the 1,101 firm owners and their 2,177 employees for whom we were able to collect phone contact details in the initial survey.

Findings

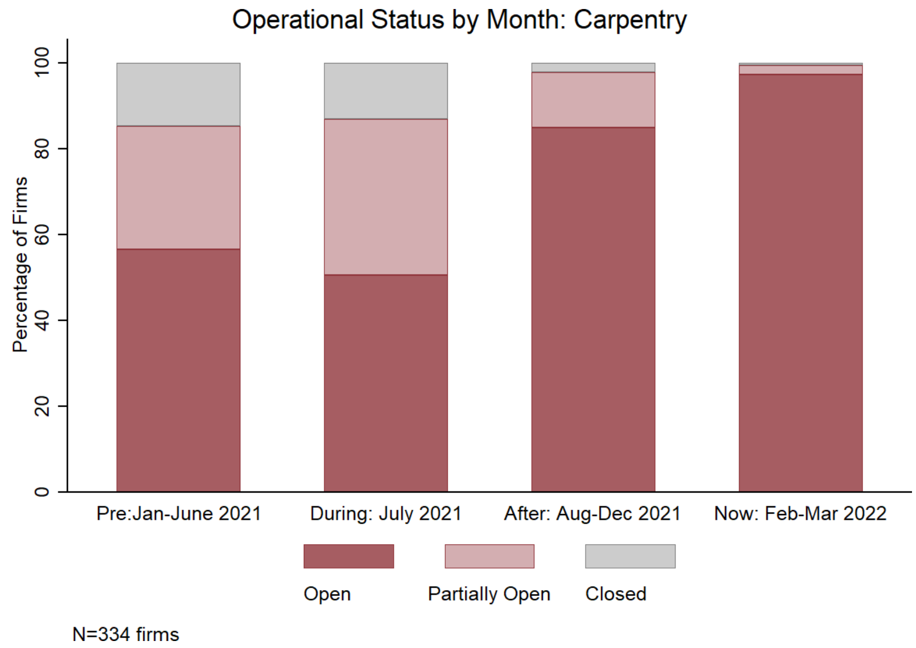
1. The second lockdown was a temporary shock to the operational status of firms

On 7th June 2021, the Government of Uganda imposed a lockdown for a 42-day period where public transportation was restricted, and harsher

1 See IGC report F-20112-UGA-1 "The resilience of informal labour markets".

curfews were imposed (7 pm).[2] Small and medium enterprises were allowed to operate, but under strict regulations such as adherence to curfew and Standard Operating Procedures (SOPs). Factories, such as in the grain milling sector, were exempt from the curfew. Restrictions on public transport were partially eased on 30th July 2021. However, the curfew was lifted only in the new year on January 24th, 2022 – marking the full reopening of Uganda's economy after a two- year period. Consistent with this timeline, Figures 1 and 2 show that 86.5% of carpentry firms and 88% of welding firms and 94% of grain milling firms were either partially or fully operational in the pre-period up till June 2021. However, approximately 50% of firms in these sectors were either inactive or only partially operational in the month of July 2021. That is, these businesses were open for less than 19 days in a month. Once the restrictions were eased in August, we observe that over 97% of carpentry and welding firms resumed operations between August-December 2021. Reassuringly, 96.9% of firms in carpentry and 97.12% of firms in welding are currently running at full operational status (19-30 days per month) since the opening of the economy in late January 2022. We also observe heterogeneity in patterns of temporary firm closure by sector as the grain milling sector was not required to halt night shift operations during the lockdown and curfew period since it was classified as an essential sector (see Figure 3).

FIGURE 1: Operational status of firms in carpentry



2 Uganda continued to observe a 9 pm curfew since the first COVID-19 lockdown in 2020.

FIGURE 2: Operational status of firms in welding

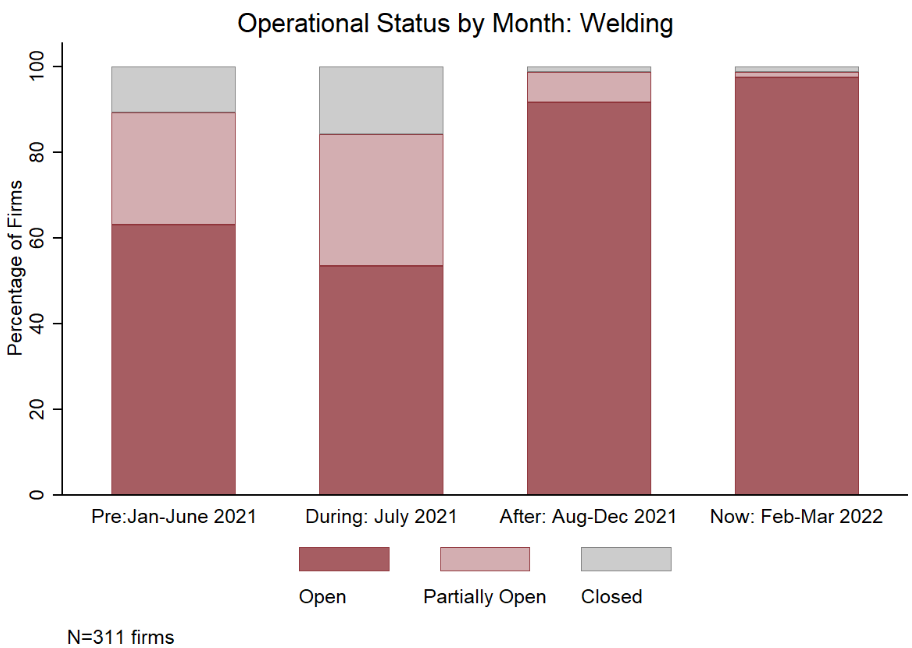
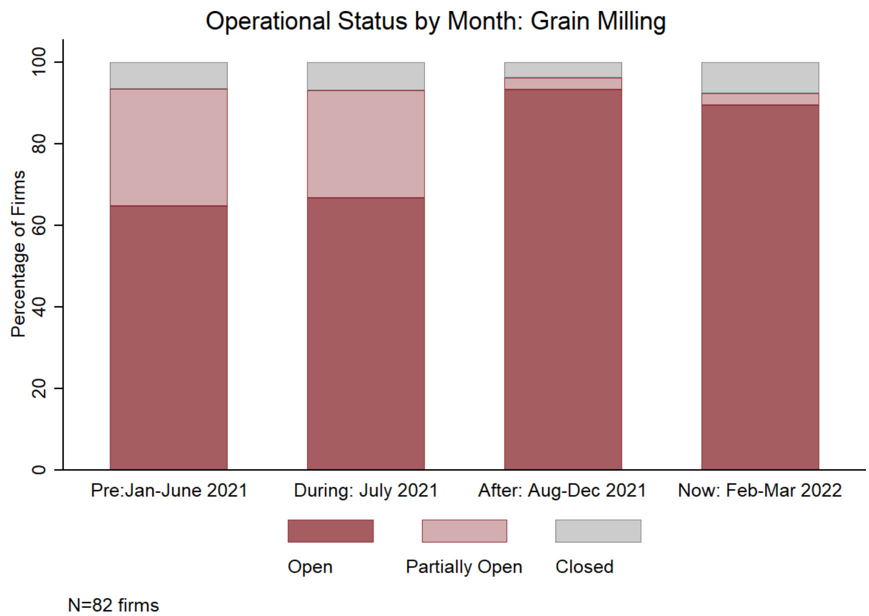


FIGURE 3: Operational status of firms in grain milling



2. Firms continue to cite challenges in access to demand and suppliers due to the economic impact of the shock

The aggregate shock from the lockdown resulted in a significant change in the economic environment for both firms and workers. First, Table 2 shows basic descriptives for our sample of (surviving) firms at the time of the 2022 survey, so after the end of the COVID-19 restrictions and as the economy is reopening. The average firm in our sectors have about 3-4 employees, has monthly revenues of $631 and monthly profits of $195. Employee monthly earnings are about $100. There is however substantial heterogeneity across firms, with some firms making less than $30 of monthly profits, and some workers making less than $50 per month. This indicates that a sizeable share of workers and firm owners remain economically vulnerable after the end of the restrictions.

To better understand if the shock continues to have persistent effects since July 2021, we asked firm owners if their business has been facing a number of potential challenges due to the COVID19 crisis and related restrictions in the past 30 days in January-February 2022. This is important to understand whether firm owners still perceive the negative impacts of the COVID-19 shock after the end of the lockdown and related restrictions. In Figure 4 we depict the share of firms that reported various COVID19-related economic challenges almost two years since the onset of the first lockdown and six months since the second lockdown in Uganda. We present the results separately for firms that earned above or below median revenues prior to the first lockdown in March 2020.[3] Notably, the ordering of economic challenges are remarkably similar for firms across the initial revenue distribution, implying a **clear ranking of priorities for policy makers.**

TABLE 1: Firm-level descriptive statistics

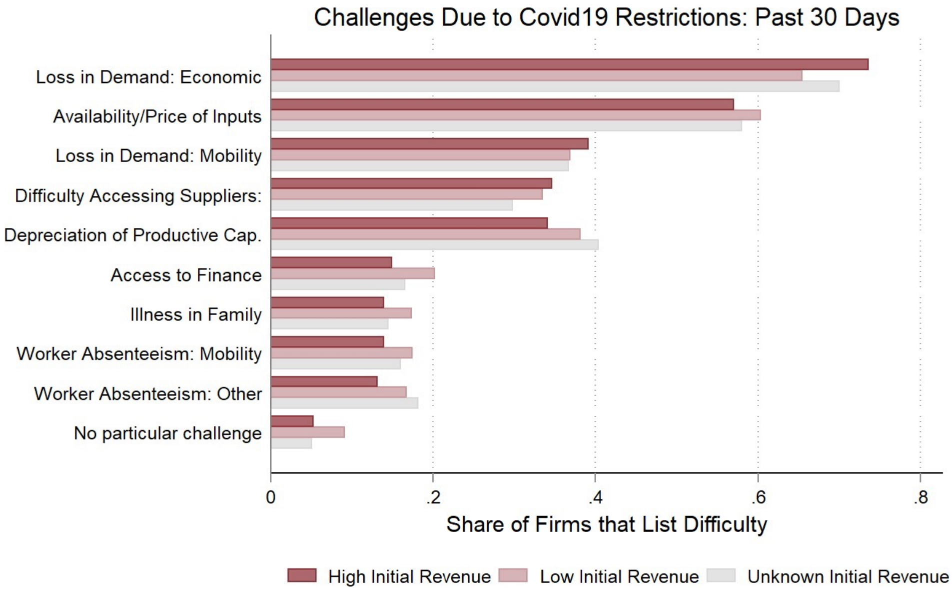
	Carpentry		Metal Fabrication		Grain Milling	
No. of surveyed firms	334		311		82	
	Mean	**[Q20: Q80]**	**Mean**	**[Q20: Q80]**	**Mean**	**[Q20: Q80]**
No. of employees	3.7	[2,5]	4.0	[2,6]	3.7	[2,5]
Monthly revenues (USD)	549.5	[105, 790]	673.3	[132, 921]	842.0	[105,1263]
Monthly profits (USD)	171.9	[26, 210.5]	211.4	[39.5, 263.2]	237.2	[13.2, 315.8]
Employee monthly wage (USD)	100.58	[47.4, 131.6]	95.38	[65.8,151.3]	108.08	[52.6,131.6]

Notes: The table reports means, together with the 20-80 inter-quantile range.

The predominant challenge cited by over 65% of all firm owners is a loss in demand due to economic reasons, e.g., regular customers can no longer afford their products or services or have cancelled orders. 57%-60% of SMEs also reported facing supply chain concerns, i.e., a reduction in the availability or increase in the price of key inputs.[4] Loss in demand and difficulty accessing suppliers continued to be a challenge for several firms interviewed in January 2022, due to the prolonged night-time curfew imposed in Uganda. Only 5-10% of firm owners interviewed observed that they did not face any COVID19 related challenges six months since the last lockdown. Interestingly, access to finance does not appear to be a primary concern for the manufacturing firms in our sample.

3 We also present the results for firms whose revenue position in March 2020 is unknown as we were unable to interview them after the first lockdown in 2020. The consistency in answer patterns suggest that these results are not driven by selection into the first COVID19 phone survey sample.
4 The percentages add up to more than 100 as this was a multiple-choice question.

FIGURE 4: Challenges cited by firms, by pre-pandemic revenue distribution



Policy recommendations

These results carry important policy recommendations. First, the fact that most firms were able to reopen after the second lockdown speaks to the resilience of informal firms to aggregate shocks such as COVID-19. However, a sizeable share of firm owners and workers in our sample are earning less than $50 per month, which points to the need for liquidity support and income support policies to ease the recovery from the pandemic. Finally, our results on perceived challenges by firm owners speak to the importance of policies that can boost customer demand, such as interventions that can facilitate consumer's mobility within the city and increase customer's spending power, as well as policies that can facilitate access to inputs, such as supplier development programmes that can strengthen linkages between firms, and trade reforms that can reduce tariffs on imported inputs.