

Final report

The resilience of informal labour markets

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The Resilience of Informal Labor Markets

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Final Report, March 2021

Disclaimer: This is the final report related to IGC grant UGA-20112. This research project has been partially funded by other donors and it is still in progress. In this report we motivate our research project, we describe the data collection plan, and we report on current progress and policy recommendations. We expect to produce an academic paper for submission to a peer-reviewed journal at a later stage.

Introduction

This project studies labor relations in informal economies where there are no written contracts, employment benefits, or protection for workers. ‘Informality’ is a defining characteristic of labor markets in most developing countries, making the study of employment relationships and related policy challenges especially difficult due to the paucity of administrative records (Ulyseas, 2020). The Covid19 pandemic has further accentuated the need for evidence on informal employment to guide policy action: Governments in many developing countries introduced restrictions on economic activity and mobility to curb the spread of the coronavirus. This was also true in Uganda, our study setting, where public transport and non-essential businesses were closed from early April to June 2020. While firms were shut down, there were reports of workers leaving cities and traveling back to their home villages. Consequently, the aggregate social and economic impact of the lockdown and the path to recovery is closely linked to the resilience of relationships and the extent of worker recall in the informal economy.

In this project, we fill this evidence gap by building on a representative survey of 1,115 small and medium firm owners, and their informal employees in urban and semi-urban Uganda that we conducted in 2018-19 (Bassi et al., 2020). As we had phone contacts for both firm owners and employees, we re-surveyed this sample in late 2020 to construct a labor force panel survey that allows us to track each firm and worker relationship over the lockdown period. This data allows us to study which pre-existing relationships were disrupted and why. For instance, if a worker was not rehired, we examine whether this is because the firm did not have enough work or hired replacement workers. Understanding this is crucial for formulating policy responses, such as considering subsidies for firms vs. income support for unemployed workers.

Our project documents that urban labor markets in Uganda have stable, well-paying, and informal employment relationships with limited turnover despite limited constraints to firing workers. The strict 3-month lockdown significantly impacted these firm-worker relationships: most firms closed operations and 15% of the workforce migrated in response. With the resumption of activity, we find that 99% of firms have reopened and recalled 76% of their furloughed employees to work. Therefore, we uncover substantial resilience of labor relationships to the shock. However, firms are now earning 30% lower revenues, and workers are earning 30% less incomes than before the lockdown. Consequently, our findings suggest a key role for liquidity and wage support policies to help impacted firms and workers.

Sampling

In Bassi et al., 2020 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 1,102 firm owners and their 2,177 employees for whom we were able to collect phone contact details in the initial survey.

Current Status of the Survey

The phone surveys are still in progress and proceeding according to the following plan:

A first round of firm owner and employee interviews was completed between late October-December 2020. As shown in **Table 1**, we achieved moderate attrition rates of 20 (30) percent attrition for firm owners (employees). Respondents were asked a set of screening questions to ensure that: (a) we had reached the targeted respondent or someone who knew them *and* the associated firm; and (b) we only interviewed respondents above the age of eighteen. If we failed to reach the targeted respondent, the interview proceeded only if the respondent confirmed that they are familiar with the type of job that the relevant employee or firm owner is doing.

In a second round of phone surveys over Feb-March 2021, we targeted 48 firm owner and 163 employee call backs to verify responses (where required) or seek additional information for purposes of data quality control. In this round we were able to successfully interview 39 firm owners (81%) and 154 employees (94%).

To try and reduce further our attrition rates, a third round of data collection is currently underway to recontact survey attriters by leveraging the dyadic nature of our matched employer and employee dataset. That is, our team of enumerators are reaching out to firm owners whom we have successfully interviewed by phone for assistance to contact their unreachable employees, and vice versa.

	NUMBER OF RESPONDENTS	PERCENTAGE OF TARGET (%)
PANEL A: FIRM OWNERS' SURVEY		
Contacted by phone	1102	100%
Unreachable	195	17.7%
Failed pre-screening	0	0.0%
Refused consent	34	3.1%
Cannot represent firm owner	0	0.0%
Interviewed	873	79.2%
PANEL B: EMPLOYEES SURVEY		
Contacted by phone	2177	100%
Unreachable	557	25.6%
Failed pre-screening	21	1.0%
Refused consent	72	3.3%
Cannot represent employee	4	0.2%
Interviewed	1523	70.0%

Table 1: Current Sample Size and Attrition Rates

Survey Instrument

Our measurement exercise is at the establishment level and involves two types of tools: i) a questionnaire for firm owners; ii) a questionnaire for firm employees. Both questionnaires involved a highly sophisticated survey design to carefully track each labor relationship before, during, and after the lockdown period. The final draft of the survey instruments is provided as an **Appendix** to this document. Here we provide a summary of each main component of the instruments

Firm Owners Survey:

The targeted sample consists of 1,102 firm owners who owned small and medium sized enterprises in the carpentry, grain milling or welding sectors when we first interviewed them between September 2018 and April 2019. The owners' survey is designed to understand the status of firm operations: (i) before the coronavirus lockdown from January to March 2020; (ii) during the lockdown restrictions from April to June; (iii) after the lockdown from July to September; and (iv) at the time of the phone interview conducted between October and December 2020. Accordingly, the main survey begins with a set of

exploratory questions to establish the firm's operational status in each of these periods. Depending on their responses to these questions we proceed to ask relevant questions about the firm's activities before, during and after the lockdown. The survey also includes questions on firm size and revenues, worker recruitment and job applicants (before and after the lockdown), agreements and communication with employees during the lockdown, and owners' preferences for certain worker types. Firm owners were also asked to answer questions on the status of each of their "old" employees whom we surveyed in the first wave (2018-19) and on any new recruits hired since the lockdown.

Employees Survey:

The targeted sample consists of 2,177 employees who used to work in the carpentry, grain milling or welding sectors when we first interviewed them between September 2018 and April 2019. The employees' phone survey is designed to understand their work status and income generating activities: (i) before the coronavirus lockdown from January to March 2020; (ii) during the lockdown restrictions from April to June; (iii) after the lockdown from July to September; and (iv) at the time of the phone interview conducted between October and December 2020. Accordingly, the main survey begins with a set of exploratory questions to establish the respondent's employment status in each of these periods. Depending on their responses to these questions we proceed to ask relevant questions about their activities before, during and after the lockdown. The survey also includes questions on earnings, employee job search (before and after the lockdown), agreements and communication with firm managers during the lockdown, and employees' beliefs on their managers' preferences for certain worker types.

Main Findings

1. The lockdown was a large but temporary shock to SME activity

On 30th March 2020, the Government of Uganda implemented a hard lockdown for a 14-day period where all non-essential businesses were shutdown, public transportation was halted, and curfews were imposed. Lockdown restrictions were further extended through a series of (unforeseen) extensions on April 21st, May 4th, and May 18th. These measures were partially eased from May 26th onward, when shops were permitted to reopen, but restrictions on mobility continued to be in-place till July.¹ Consistent with this timeline, **Figure 1** shows that most firms in the carpentry and welding sectors closed operations through April-June 2020 to comply with lockdown restrictions. We observe heterogeneity in patterns of temporary firm closure by sector as the grain milling sector was not required to halt operations during the lockdown period since it was classified as an essential sector (see **Figure 2**). Notably, we find that 98.7% of firms that closed for the lockdown have resumed operations. In Figures 1 and 2 a firm is reported to be 'open' if a firm owner reports that it was open for at least 20 days in that month; 'partially open' if it was open for between 6 and 19 days; and, 'closed' if the firm was open for 5 or less days in that month. The extent of firm closures during the lockdown, coupled with the resumption of business reported since the easing of restrictions suggests that the lockdown was indeed a large but temporary shock to SME activity in Uganda.

¹ See <https://covid19.gou.go.ug/timeline.html> for more details (last accessed on 25th March 2021)

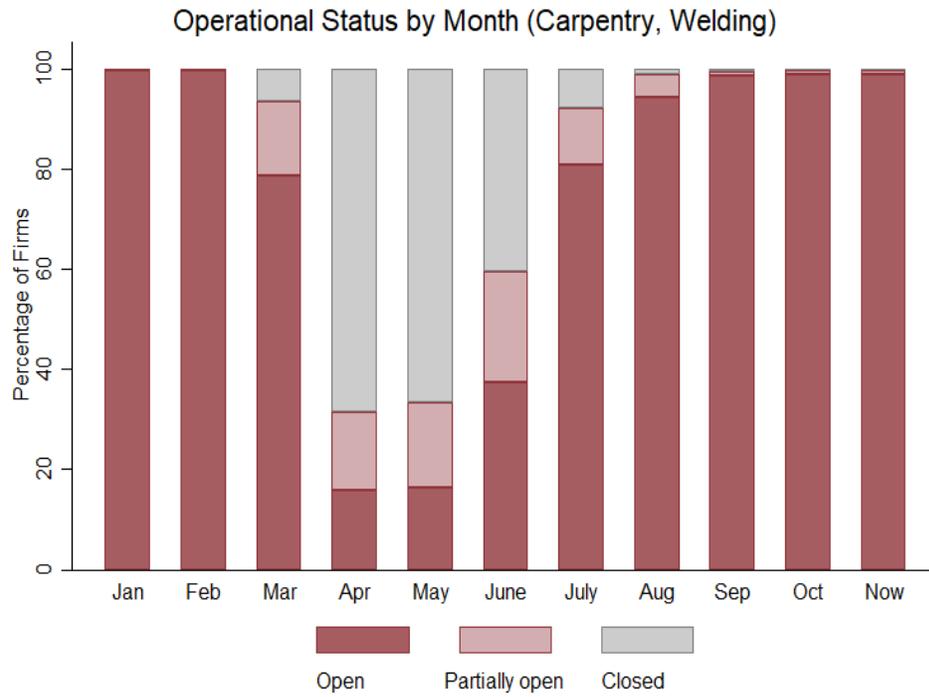


Figure 1: Operational Status of firms in Carpentry and Welding. *Source: Firm Owners Survey*

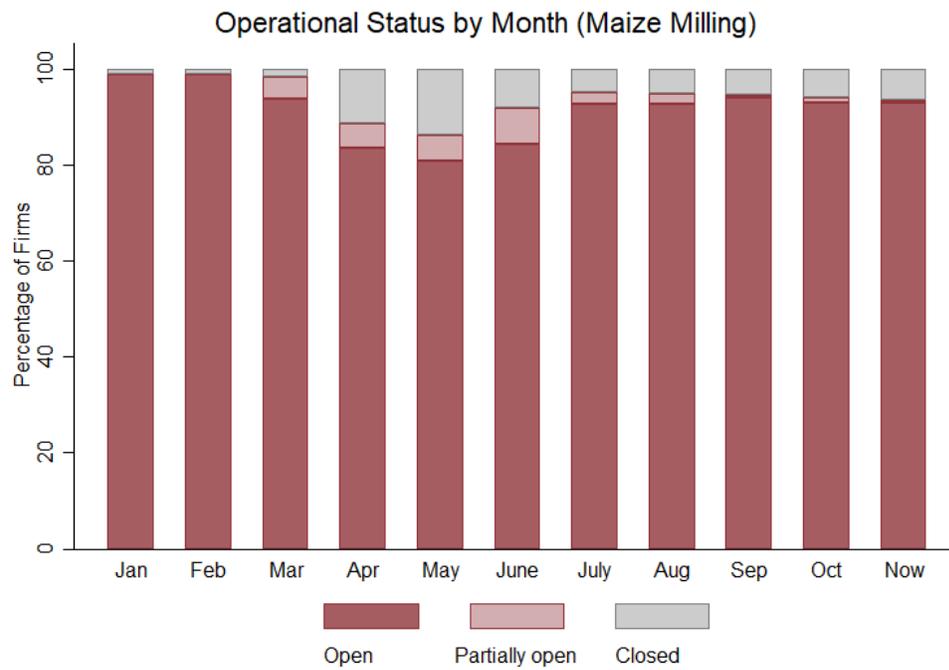


Figure 2: Operational Status of Firms in Maize Milling. *Source: Firm Owners Survey*

2. Mature labor relationships were very resilient to a large economic shock

The panel survey of employees allows us to track firm and worker relationships with precision before, during and after the lockdown period. It should be noted that these relationships represent a selected sample of higher tenure employees who have remained employed at the firms in our sample since we first interviewed them in 2018-19. Consequently, our findings from the employee panel (e.g., employment status, worker earnings) are representative of relatively high-tenure employees, rather than of the average employee.

We use the employees survey to document the extent of disruptions, separations and rematching after the lockdown. **Figure 3** confirms that the lockdown provided a large shock to labor relationships - approximately 92% of those employees who we surveyed in 2018-19 and who were still employed at the same firm in March 2020 were let go by firms that closed operations during this period. This raises potential concerns related to income losses, potential scarring, and human capital depreciation over periods of inactivity/alternate unskilled employment. However, we observe that of the employees that were let go, almost half found alternative income sources through casual/daily wage work or agriculture during the lockdown, and 91% were hired back *by the same firm* after the lockdown. We also observe that workers find employment in similar sectors (shown in red) both during and after the lockdown, which further suggests that human capital deterioration is not a predominant concern in our setting.

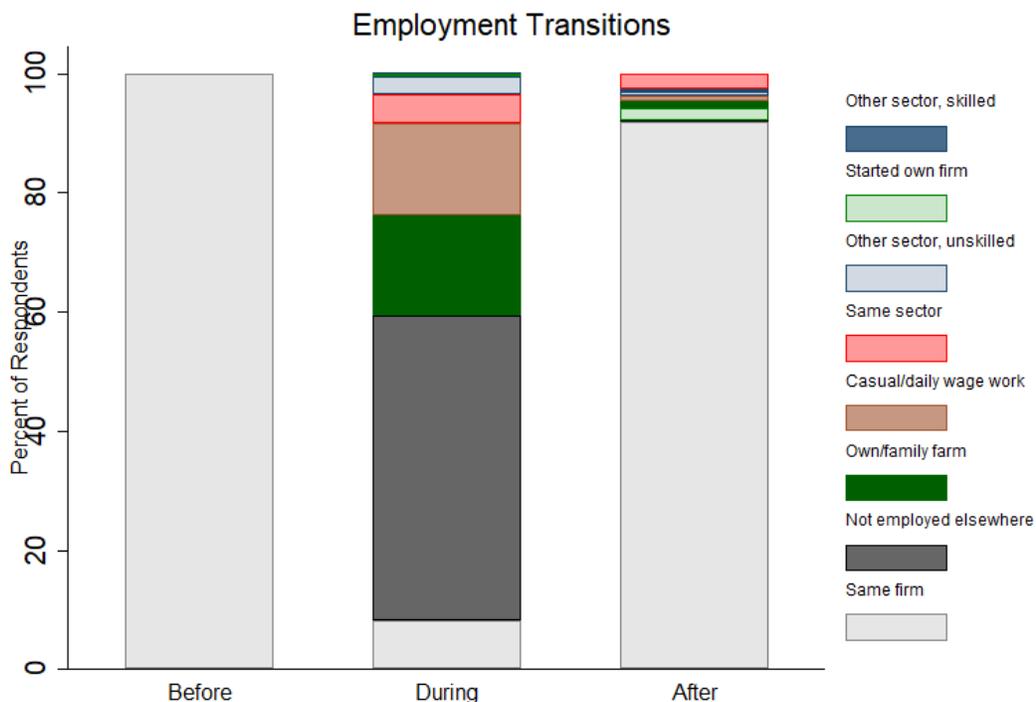


Figure 3: Employment transitions over the lockdown period.

Sample: Employees surveyed in 2018-19 who were employed at the same firm before the lockdown. The figure shows the evolution of these relationships over the lockdown period

These results confirm that mature labor relationships were highly resilient to the lockdown, and also highlight how a large share of workers were able to temporarily engage in alternative income generating activities during the lockdown.

Using data from the firm owners' survey we find that the retention rate of *all* workers within a firm (not just higher tenure ones) is 76%. This implies that labor relationships are resilient overall, with resilience being particularly strong among mature (higher tenure) firm-worker matches.

3. Firms and workers have experienced a significant drop in earnings

The aggregate shock from the lockdown resulted in a significant change in the economic environment for both firms and workers. We find that: (i) firm size decreased by 3.8% on average; (ii) both monthly firm revenues and worker earnings are still down by 30% compared to their pre-pandemic levels. These trends are consistent with the general economic downturn and drop in consumer demand in Uganda. Trends in the distribution of the log of firm revenues and worker earnings before and after the lockdown are shown in Figures 4 and 5, respectively. The two scatter plots (and 45-degree line show in red) demonstrate that the impact of the economic shock has affected firms and workers *across* their respective earnings' distributions.

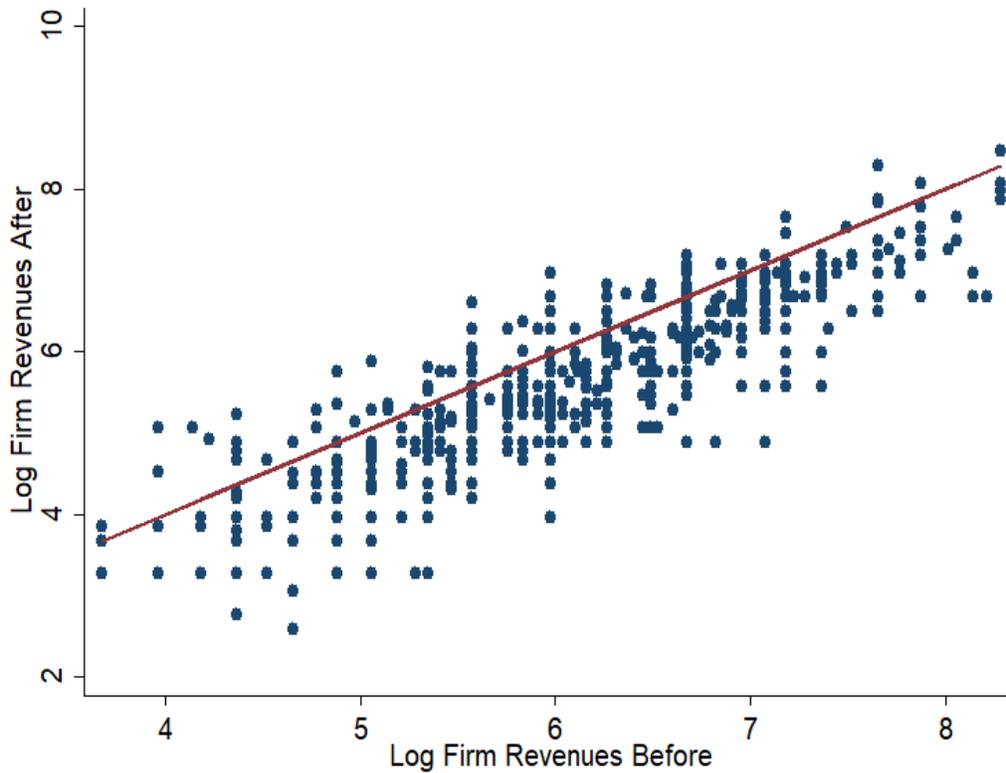


Figure 4: Effects of the Aggregate Economic Shock Across the Firm Revenue Distribution

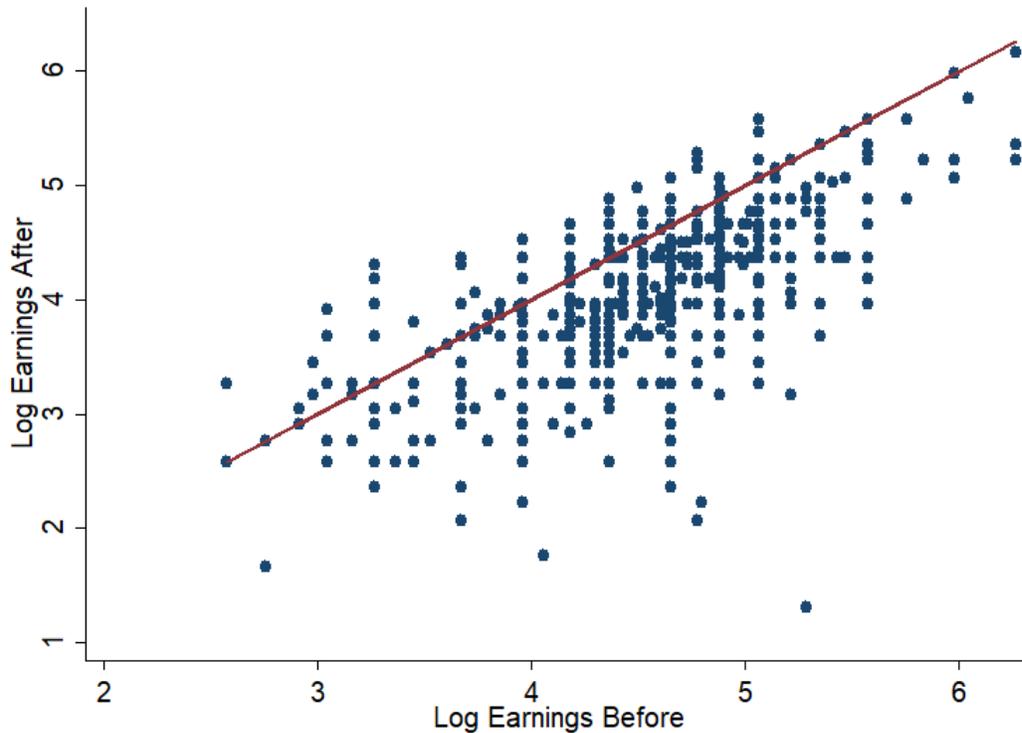


Figure 5: Effects of the Aggregate Economic Shock Across the Worker Earnings Distribution

Policy Implications and Recommendations

Descriptive evidence on the impact of the lockdown suggests two key policy lessons:

1. Informal employment relationships are resilient, with most workers being reemployed by the same firm after a prolonged lock-down.
2. Post-lockdown reductions in firm size, revenues and worker earnings appear to be driven by lower demand rather than limited firm-worker attachment.

These two lessons point to the following policy interventions as promising avenues to aid the recovery from the Covid-19 economic downturn:

1. **Helping firms remain open** by facilitating access to liquidity will be critical, as they provide essential employment to workers.
2. The Government can also play an enabling role through **wage support programs** for workers, most of whom have been reemployed but are earning much less than before. Such programs are more likely to be effective than job search assistance programs given the strength of employment relationships documented by our study.

Conclusion and Next Steps

Informal labor relations in Small and Medium Enterprises are strong - a lack of formal contracts does not hinder the reemployment of workers who found alternative sources of employment or moved to their home villages during the lockdown. These relationships appear to be valuable for both firms and

workers. Through further data collection and analysis, we hope to study the drivers of firm and worker attachment – e.g., to disentangle whether relationships survive due to the strength of relationship capital (firm-specificity of skills, teamwork, communication) or simply because it is too costly to recruit replacement workers due to search and information frictions. Answers to this question are informative for policy as they speak directly to the efficiency of informal labor markets and the incentives of firms and workers to invest in skills.

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