

The impact of the COVID-19 lockdown on SMEs and employment relationships in Uganda



In brief

- During 2020, governments in many developing countries introduced severe restrictions on economic activity and mobility to curb the spread of COVID-19. In Uganda, public transport and non-essential businesses were closed from early April to June 2020.
- This policy brief reports on the results from a phone survey of a representative sample of SMEs and their workers conducted in late 2020 to study how SME activity and employment relationships were impacted by a prolonged lockdown.
- The findings show the strict three-month lockdown resulted in a significant increase in firm closures, but these closures were by and large temporary.
- They also uncover substantial resilience of informal labour relationships to the shock. Although most workers were let go during the lockdown and 15% of workers migrated to other locations, 76% of the furloughed employees were recalled back to work by the same employer after the lifting of the lockdown restrictions.
- Even though most firms reopened, and a considerable share of workers were re-hired, this has been accompanied by substantial income losses: firms are now earning 30% lower revenues and workers are earning 30% less incomes than before the lockdown.
- The results suggest a key role for liquidity and wage support policies to help impacted firms and workers.

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Introduction

During the course of 2020, governments in many developing countries introduced severe 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. In this policy brief, we report the results from a phone survey of a representative sample of SMEs and their workers that we conducted in late 2020 to study how SME activity and employment relationships were impacted by such prolonged lockdown.

Labour relationships in Ugandan SMEs are mostly informal, that is, there are no written contracts, employment benefits, or protection for workers. ‘Informality’ is a defining characteristic of labour markets in most developing countries, making the study of employment relationships and related policy challenges especially difficult due to the paucity of administrative records (Ulyssea, 2020). The COVID-19 pandemic has further accentuated the need for evidence on informal employment to guide policy action: While firms were shut down, there were reports of workers leaving cities and traveling back to their home villages. As firms have no contractual obligation to keep paying informal workers during the lockdown and to rehire them afterwards, this raises the concern that the impact of the lockdown might have been particularly severe in informal labour markets, potentially leading to income losses, scarring, and human capital depreciation over periods of inactivity/alternate unskilled employment. Consequently, documenting the resilience of informal labour relationships and the extent to which informal workers were recalled by their employers after the end of the lockdown is crucial to understand the aggregate social and economic impact of the lockdown and formulate policy responses to aid the path to recovery.

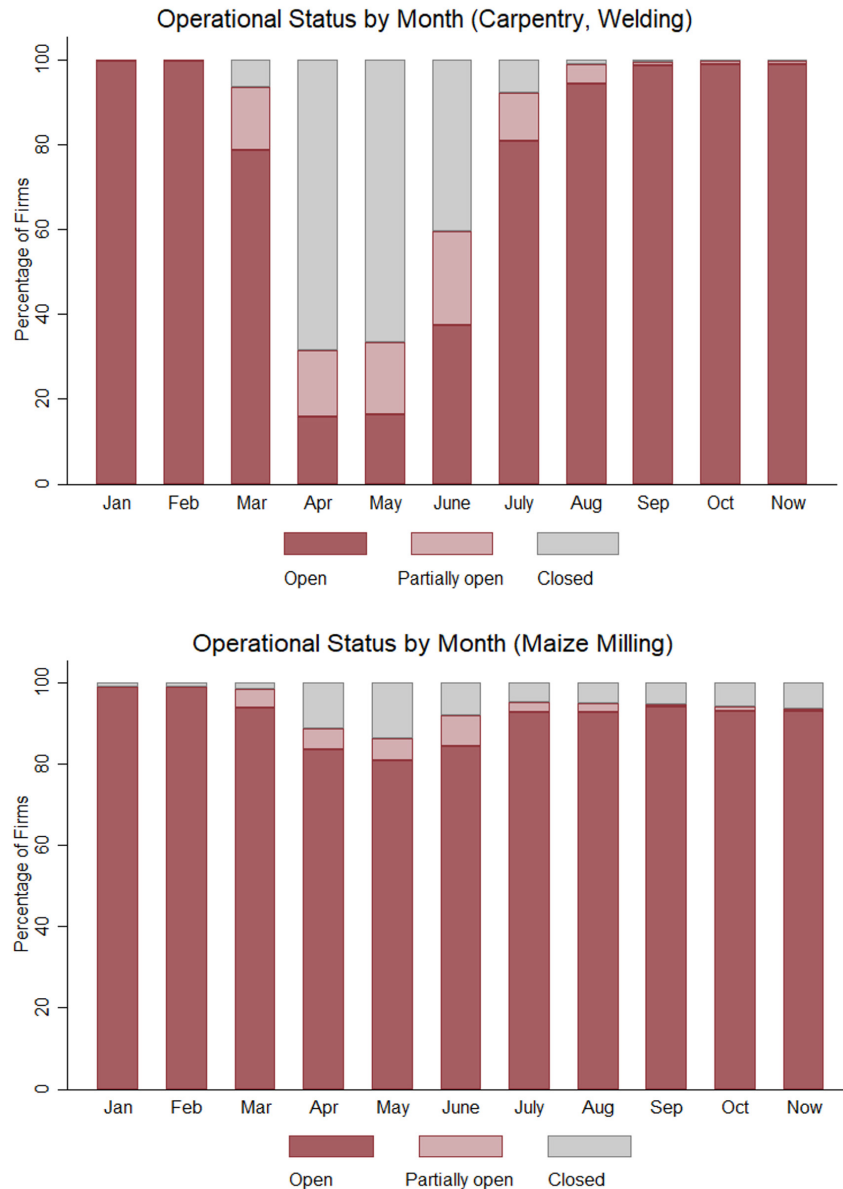
In this project, we fill this evidence gap by building on a representative survey of 1,115 small and medium firm owners, and their informal employees in urban and semi-urban Uganda that we conducted in 2018-19 (Bassi et al., 2020). Our survey covered firms in carpentry, welding and grain-milling. As we had phone contacts for both firm owners and employees, we re-surveyed this entire sample in late 2020 to construct a labour force panel survey that allows us to track each firm and worker relationship over the lockdown period. We use this data to study the impact of the lockdown on firm closures, firm performance, and worker-firm relationships.

Impact of the COVID-19 lockdown on SMEs and workers in Uganda

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.

Our first finding is that the strict 3-month lockdown¹ resulted in a significant increase in firm closures, but these closures were by and large temporary: as shown in Figure 1, most firms in carpentry and welding, which were sectors directly affected by the lockdown, closed operations during the lockdown. This was not the case in grain-milling, which was exempt from the lockdown as it was classified as an essential sector. With the resumption of activity after the lockdown, we find that 99% of firms have reopened (see Figure 1).

Figure 1: 99% of firms that closed for the lockdown have now resumed operations



Note: There are fewer temporary firm closures in grain milling (bottom) compared to carpentry and welding (top) since the sector was not required to halt operations during the lockdown, as it was classified as an essential sector.

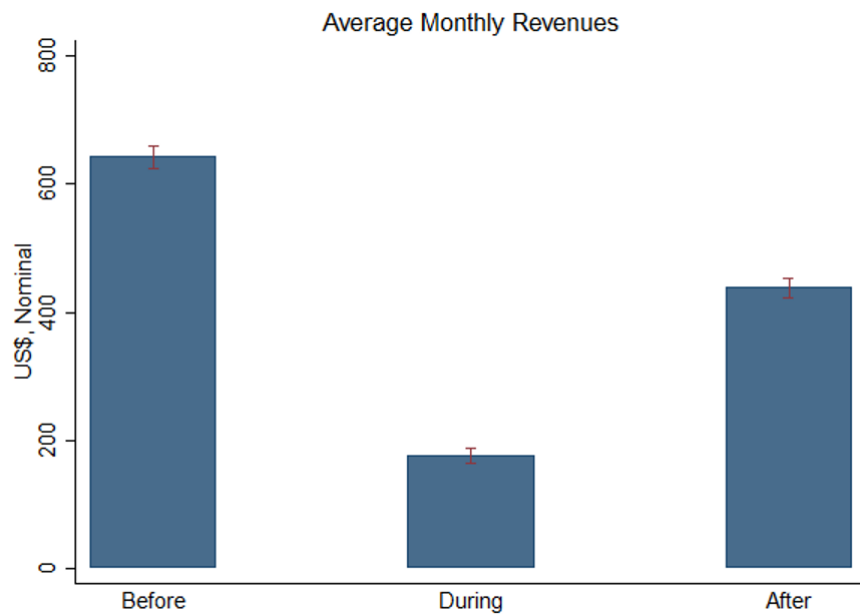
1. See <https://covid19.gov.ug/timeline.html> for more details (last accessed on 25th March 2021)

Our second finding is that we uncover substantial resilience of informal labour relationships to the shock. Although most workers were let go during the lockdown and 15% of workers migrated to other locations, we find that 76% of the furloughed employees were recalled back to work by the same employer after the lifting of the lock-down restrictions.

Our third finding is that even though most firms reopened, and a substantial share of workers were re-hired, this has been accompanied by substantial income losses: firms are now earning 30% lower revenues (Figure 2), and workers are earning 30% less incomes (Figure 3) than before the lockdown.

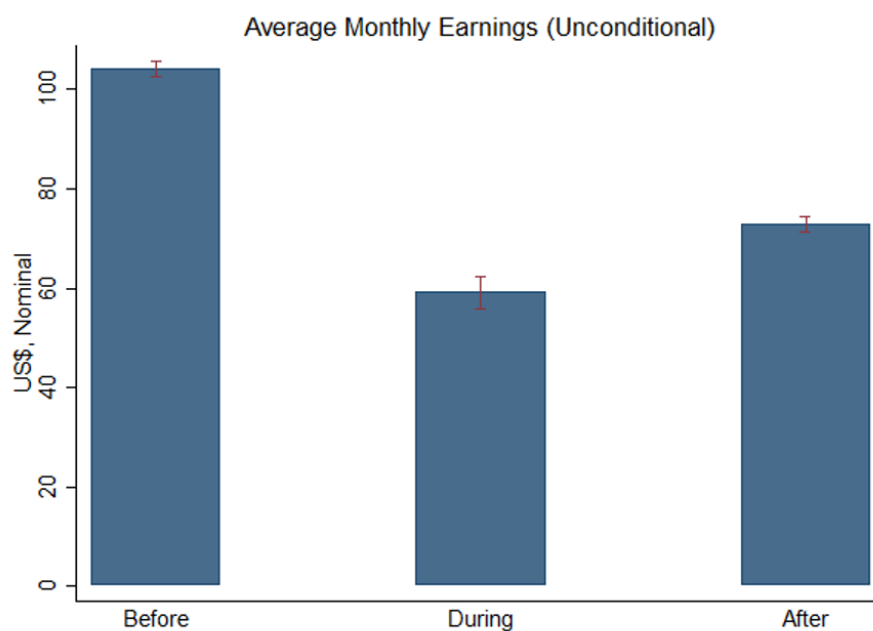
Put together, these results suggest a *key role for liquidity and wage support policies* to help impacted firms and workers.

Figure 2: Monthly firm revenues are still 30% lower than before the lockdown



Note: This graph is based on reports from firm owners in the carpentry, grain milling and welding sectors. The sample is restricted to firms that closed at some point during the lockdown. Averages are calculated over firms that earn strictly positive revenues in each period. That is, the figure excludes firms that were not operational in any given period.

Figure 3: Monthly earnings for workers are still 30% lower than before the lockdown



Note: This graph is based on reports from firm owners in the carpentry, grain milling and welding sectors. The sample is restricted to firms that closed at some point during the lockdown. Averages are calculated over firms that earn strictly positive revenues in each period. That is, the figure excludes firms that were not operational in any given period.

References

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