POVERTY STATUS REPORT 2021

Jobs, informality and poverty in Uganda: Insights on performance before and during COVID-19.

ECONOMIC DEVELOPMENT POLICY AND RESEARCH DEPARTMENT
Ministry of Finance, Planning and Economic Development

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with Support from

FOREWORD

At the heart of the 2030 Agenda and its 17 Sustainable Development Goals is a commitment to eradicate poverty in all its forms and the principle to leave no one behind. For this to happen, countries must design ambitious, innovative and impactful policies and programmes. A comprehensive analysis of poverty is pertinent because the poor and most vulnerable are least represented by existing statistics and are often the missing population when policies are designed. We continue to see an increasing number of shocks and disruptions such as climate change mostly affecting the poor and vulnerable who have the least capacity to adapt to such changes. In light of this, I would like to applaud the Government of Uganda for demonstrating its commitment to deepening our knowledge of poverty and vulnerability of the population through this 2021 Poverty Status Report.

The findings in this Report confirm that eradicating poverty in all its forms will not be guaranteed solely by raising the incomes of the poor. This is because poverty is multifaceted with several interlinked dimensions such as education, water and sanitation and hygiene, and employment which are all critical in enlarging the freedoms and opportunities for the most vulnerable. I therefore commend the Government's efforts to develop a Multidimensional Poverty Index for Uganda to compliment this Report, for deeper understanding of the poverty situation in Uganda.

The 2021 Poverty Status Report is innovative as it provides an in-depth analysis of the population at risk of being left behind: who they are, where they live, why they are likely to be left behind and the vulnerabilities and deprivations that they potentially face. Extreme poverty can be eradicated with a mix of determined leadership, the right policies and investments, broad participation and wider partnerships as envisaged in the Uganda Vision 2040 and the Third National Development Plan, whose aim is to 'increase household income and improve the quality of life of Ugandans'. This demonstrates the Government's commitment to enhancing peoples' capabilities, to enable them to participate in and share the benefits of Uganda's growth.

I commend the Government of Uganda for its ambition to scale up social protection and livelihood-enhancement programmes that have the potential to reduce vulnerabilities. I would like to call for the expansion of the scope of such programmes to match the emerging vulnerability profiles, including deprivations in education, health and other areas. In addition, it is important for the Government to build robust vulnerability profiles at the household level to enable the United Nations Development Programme (UNDP) and partners to design and deliver effective programmes.

Finally, I commend the Ministry of Finance, Planning and Economic Development for its leadership in deepening knowledge and policy coherence, and entrusting UNDP as a key player in this process. The UNDP remains steadfast in its commitment to supporting the Government of Uganda in implementing innovative solutions for Uganda's sustainable development, including this Report's recommendations.

Elsie G. Attafuah
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PREFACE

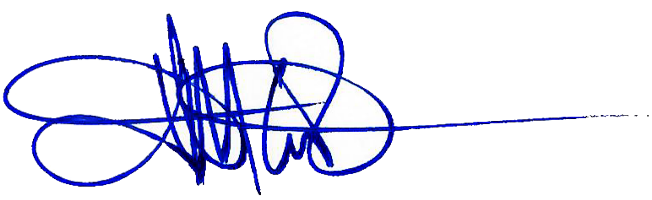
This Poverty Status Report 2021 is the third in a series under the National Development Planning cycle, guided by the theme: 'Jobs, informality and poverty in Uganda: Insights on performance before and during COVID-19'. The theme is consonant with Uganda's medium-term aspirations of increasing average household incomes and improving the quality of life of Ugandans as expounded in Vision 2040. It is also cognizant of the challenges imposed by informality and the coronavirus pandemic (COVID-19).

The Report explores Uganda's structural transformation agenda, which is hinged on transforming the livelihoods of households from low to high-productivity activities and sectors, while minimizing vulnerabilities to poverty at the same time. This is in tandem with various international development frameworks such as the global 2030 Agenda for Sustainable Development (2030 Agenda) and its 17 Sustainable Development Goals, to which Uganda is a signatory.

Over the last decade, Government of Uganda has sustained investment in the economy's productive base. These infrastructure investments have mainly been in energy; roads; and the information, communication, and technology sectors targeted to support agro-industrialization. These investments have had a positive impact on the economy, leading to a rise in average incomes. Per capita gross domestic product rose from US$ 824 in 2016/17 to US$ 964 in 2019/20. However, these gains in economic growth are threatened by high fertility rates that translate into pressures on the environment and household savings for investment. This situation is compounded by the increasing climatic changes affecting agricultural production, from where 62 per cent of the population derives their livelihood.

These challenges require flexible approaches to the way planning and policy management is conducted. This Report presents several recommendations to address the above-mentioned challenges and improve development outcomes. Government is already strengthening local economic development and public investment management by prioritizing the operation and maintenance of social and economic investments to reduce vulnerabilities to poverty. These interventions aim to improve delivery of area-specific public goods and services; promote the formalization of enterprises and employment; and commercialize agriculture. They are also geared towards building resilience against shocks to enhance households' production capacities.

As partners in the development of Uganda, I urge all stakeholders to embrace this Report and endeavour to use the findings to help further reduce poverty. Government remains committed to reducing poverty to five per cent by 2040, and to attaining Uganda's long-term aspiration of modernizing the economy.



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ABBREVIATIONS AND ACRONYMS

BTVET	Business, technical, vocational education and training
COMESA	Common Market for Eastern and Southern Africa
CPAE	Consumption per adult equivalent
EAC	East African Community
EDPRD	Economic Development Policy and Research Department
EPRC	Economic Policy Research Centre
ERP	Economic Recovery Programme
FDI	Foreign direct investment
FGD	Focus group discussion
FY	Fiscal year
GDP	Gross domestic product
ICT	Information and communication technology
IGAD	Intergovernmental Authority on Development
ILO	International Labour Organization
KCCA	Kampala Capital City Authority
MDGs	Millennium Development Goals
MDI	Microfinance deposit-taking institution
MoFPED	Ministry of Finance, Planning and Economic Development
MPI	Multidimensional Poverty Index
NAADS	National Agricultural Advisory Services
NDP	National Development Plan
NDP II	Second National Development Plan
NDP III	Third National Development Plan
NEMA	National Environment Management Authority
NGO	Non-governmental organization
NSSF	National Social Security Fund
NUSAF III	Third Northern Uganda Social Action Fund
OPHI	Oxford Poverty and Human Development Initiative
OWC	Operation Wealth Creation
PAYE	Pay as you earn
PDM	Parish Development Model
PEAP	Poverty Eradication Action Plan
PRSP	Poverty reduction strategy paper
PWDs	Persons with disabilities
SACCOs	Savings and credit cooperative organizations
SAGE	Social Assistance Grant for Empowerment
SAP	Structural adjustment programme
SCG	Senior Citizens' Grant
SDGs	Sustainable Development Goals
SMEs	Small and medium-sized enterprises
UBOS	Uganda Bureau of Statistics
UIA	Uganda Investment Authority
UNDP	United Nations Development Programme
UNHS	Uganda National Household Survey
UNPS	Uganda National Panel Survey
URA	Uganda Revenue Authority
URSB	Uganda Registration Services Bureau
UWEP	Uganda Women Entrepreneurship Programme
VAT	Value-added tax
YLP	Youth Livelihood Programme

POVERTY STATISTICS AT A GLANCE

National Picture

Table 1: Poverty trend:2012/2013-2019/20 (Table 2.18)

Year	Poor		Insecure non-poor		Middle class	
	Population (millions)	Share (%)	Population (millions)	Share (%)	Population (millions)	Share (%)
2019/20	8.31	20.3	16.99	41.50	15.64	38.20
2016/17	8.03	21.4	15.34	40.93	14.12	37.65
2012/13	6.72	19.74	14.74	43.28	12.6	36.98

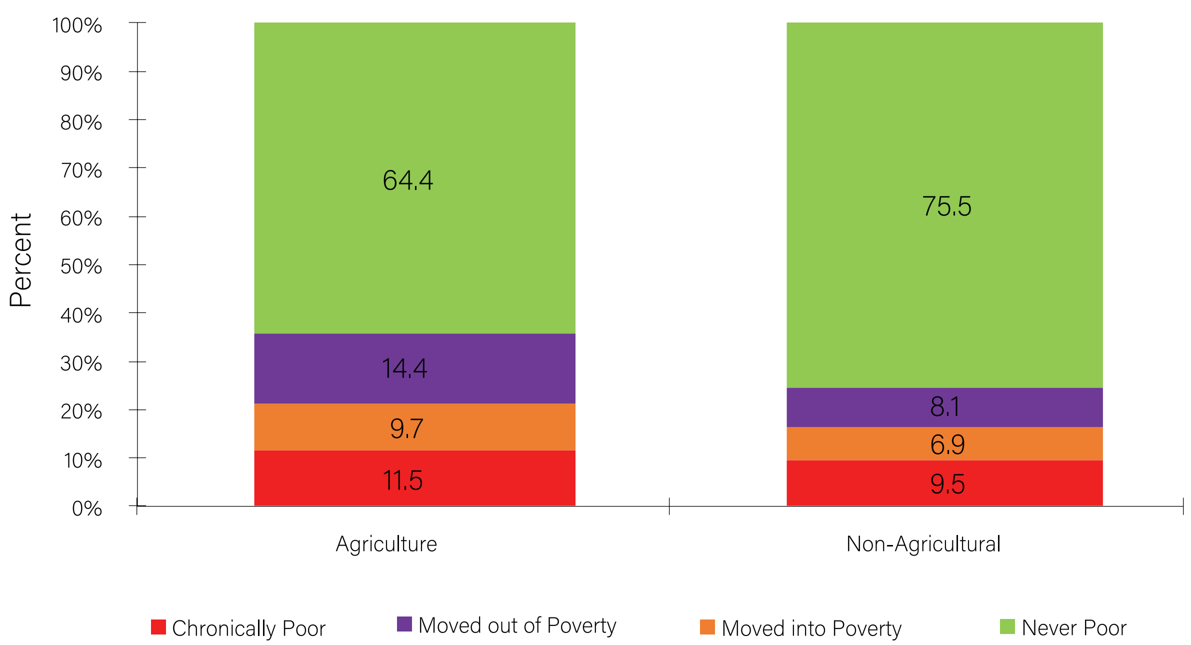
Source: Ministry of Finance, Planning and Economic Development (MoFPED) Economic Development Policy and Research Department (EDPRD) staff computations based on the Uganda National Household Survey (UNHS) data sets.

Table 2: Monetary and multidimensional poverty rates (per cent): 2016/17 and 2019/20

Sub-region	Monetary poor 2016/17 (%)	Monetary poor 2019/20 (%)	Multi-dimensional poor 2016/17 (%)	Multi-dimensional poor 2019/20 (%)
National	21.4	20.3	44.3	42.1
Kampala	2.6	1.6	2.7	0.4
Buganda South	9.0	6.9	18.3	17.9
Buganda North	11.0	13.6	29.0	31.5
Busoga	37.5	29.4	49.9	45.1
Bukedi	43.7	34.6	65.4	42.2
Elgon	34.5	13.2	55.6	40.5
Teso	25.1	22.0	52.7	55.6
Karamoja	60.2	65.6	86.7	84.9
Lango	25.6	23.5	56.3	57.0
Acholi	33.4	67.7	70.3	63.6
West Nile	34.9	16.9	62.8	59.1
Bunyoro	17.3	9.8	42.0	45.7
Tooro	11.1	12.8	49.0	45.5
Ankole	6.8	13.3	37.3	42.6
Kigezi	12.2	27.6	38.8	48.4

Source: Ministry of Finance, Planning and Economic Development (MoFPED) Economic Development Policy and Research Department (EDPRD) staff computations based on the Uganda Multidimensional Poverty Index Report (2022).

Figure 1: Poverty dynamics by main economic activities: 2013/13-2018/19 (Figure 2.15)



Source: MoFPED (EDPRD) staff computation based on the UNPS 2013/14 and 2018/19 data sets.

Table 3: Transition matrix of poverty status: 2015/16-2018/19 (Table 2.20)

Status in 2015/16	Status in 2018/19 Poor (%)	Insecure non-poor (%)	Middle class (%)	Total (%)
Poor	24.87	43.04	32.09	100 per cent
Insecure non-poor	22.23	42.32	35.45	100 per cent
Middle class	22.05	40.64	37.31	100 per cent

Source: MoFPED (EDPRD) staff computations based on the Uganda National Panel Surveys (UNPS).

Table 4: Transition matrix of poverty status: 2013/14-2015/16 (Table 2.19)

Status in 2013/14	Status in 2015/16 Poor (%)	Insecure non-poor (%)	Middle class (%)	Total (%)
Poor	42.36	49.64	8.0	100
Insecure non-poor	17.39	53.06	29.55	100
Middle class	7.06	24.29	68.65	100

Source: MoFPED (EDPRD) staff computations based on the UNPS.

Table 5: Poverty by region

Region	2012/13		2016/17		2019/20	
	(%)	(Millions)	(%)	(Millions)	(%)	(Millions)
Central	4.73	0.41	8.9	0.90	8.73	0.99
Eastern	24.5	2.48	35.7	3.49	29.2	2.77
Northern	43.7	3.13	32.6	2.54	35.92	3.05
Western	8.7	0.69	11.4	1.10	14.43	1.50

Source: MoFPED (EDPRD) staff computations based on the UNHS data sets.

Table 6: Poverty by residence

Residence	2012/13		2016/17		2019/20	
	(%)	(Millions)	(%)	(Millions)	(%)	(Millions)
Urban	9.3	0.72	9.4	0.86	11.66	1.27
Rural	22.8	6.01	25.3	7.12	23.42	7.04

Source: MoFPED (EDPRD) staff computations based on the UNHS data sets.

Table 7: Poverty by gender (household head)

Gender of household head	2012/13		2016/17		2019/20	
	(%)	(Millions)	(%)	(Millions)	(%)	(Millions)
Male	19.1	4.73	21.3	5.89	19.55	5.75
Female	21.6	1.99	21.6	2.14	22.21	2.55

Source: MoFPED (EDPRD) staff computations based on the UNHS data sets.

Sub-regional Picture

Table 8: Poverty rate by sub-region

Sub-region	2012/13 (%)	2016/17 (%)	2019/2020 (%)
Acholi	45.45*	33.4	67.65
Ankole	7.44	7.2	13.24
Buganda (North)	7.28	11.03	13.81
Buganda (South)	3.9	8.96	6.88
Elgon	25.82*	34.9	13.22
Bukedi	29.43*	43.68	34.71
Bunyoro**	8.5*	17.26	9.78
Busoga	22.79	37.48	29.44
Kampala	0.8	2.58	1.60
Karamoja	74.5	60.18	65.65
Kigezi**	7.78*	12.16	27.74
Lango	27.64*	15.64	23.44
Teso	20.83*	25.07	21.92
Tooro	11.07*	11.1	12.78
West Nile	42	34.91	16.88

Source: MoFPED (EDPRD) staff computations based on the UNHS 2016/17 data set.

* Based on the 2019 sub-regional categorization of districts.

** The coefficients of variation are higher than 20 per cent for the 2012/13 data. Consequently, the poverty rate may not represent these sub-regional populations at that time.

Table 9: Sub-regional income inequality measured using Gini Coefficient (Table 2.33)

Sub-region	2016/17	2019/2020	Percentage Change
Kampala	0.409	0.342	-16.4
Buganda South	0.41	0.428	4.4
Buganda North	0.338	0.343	1.5
Busoga	0.359	0.353	-1.7
Elgon	0.327	0.373	14.1
Lango	0.403	0.334	-17.1
Karamoja	0.341	0.386	13.2
West Nile	0.315	0.317	0.6
Bunyoro	0.386	0.347	-10.1
Ankole	0.387	0.33	-14.7
Acholi	0.354	0.345	-2.5
Bukedi	0.344	0.335	-2.6
Tooro	0.377	0.471	24.9
Kigezi	0.367	0.337	-8.2
Teso	0.307	0.288	-6.2
Rural	0.376	0.37	-1.6
Urban	0.419	0.425	1.4
Uganda	0.419	0.413	-1.4

Source: MoFPED (EDPRD) staff computations based on 2016/17 and 2019/2020 UNHS data.

Table 10: Vulnerability to poverty predictions (Table 4.1)

Category	2020 prediction (%) (UNPS 2018/19)	2017 prediction (%) (UNPS 2015/16)	2015 prediction (%) (UNPS 2013/14)
Highly vulnerable	54.66	65.72	63.28
Relatively vulnerable	34.07	27.25	30.43
Not vulnerable	11.27	7.03	6.29
Total	100	100	100

Source: Economic Policy Research Centre (EPRC) and United Nations Development Programme (UNDP) (2019) computations based on the UNPS.

Table 11: Vulnerability to poverty

Category	Poor (%)	Middle class (%)
Highly vulnerable	89	2
Moderately vulnerable	11	66
Not vulnerable	0	32
Total	100	100

Source: EPRC and UNDP (2019) computations based on the UNPS 2018/19 data sets.

Table 12: Vulnerability of poverty related to employment (Table 4.3)

Occupation/ Industry	Not vulnerable (%)	Relatively vulnerable (%)	Highly vulnerable (%)	Total (%)
Agriculture	33.61	56.88	70.95	62.05
Manufacturing	6.22	6.57	4.45	5.37
Construction	2.12	2.53	3.22	2.86
Trade	25.01	16.65	9.18	13.47
Transportation	6.35	5.82	4.18	4.98
Services	26.69	11.55	8.02	11.27
Total	100	100	100	100

Source: EPRC and UNDP computations based on the UNPS 2018/19 data sets.

Table 13: Performance of Districts on NDP II target of poverty rates of 14 per cent by 2019/20

	Number of districts	Proportion (%)
Met NDP II target	7	5
Didn't meet NDP II target	139	95
Total	146	100

Source: MoFPED (EDPRD) staff computations based on 2019/2020 UNHS data.

Table 14: Performance of sub counties on NDP II target of poverty rate of 14 per cent by 2019/20

	Number of sub counties	Proportion (%)
Met NDP II target	102	6
Didn't meet NDP II target	1,706	94
Total	1,808	100

Source: MoFPED (EDPRD) staff computations based on the UNHS 2019/20 data set.

EXECUTIVE SUMMARY

The 2021 Poverty Status Report provides an update on Uganda's poverty dynamics over the last five years. The thematic focus of the report is on jobs, informality, and poverty in Uganda: Insights on performance before and during COVID-19 and how they influenced household welfare and structural transformation in the economy. The relationship between subsistence farming and household welfare is examined as a cross-cutting issue that impedes structural transformation. Both income and multidimensional poverty are discussed to holistically capture poverty trends and dynamics because several factors beyond household consumption influence welfare. The report also examines vulnerability to poverty by estimating the likelihood of future poverty. This is meant to inform policy debates towards poverty prevention rather than poverty reduction. Policy recommendations to address informality, poverty and vulnerability to poverty are explored.

A) The dynamics of poverty

The national poverty rate decreased from 21.4 per cent in 2016/17 to 20.3 per cent in 2019/20. The decline in the poverty rate is consistent with the overall long-term trend, although the incidence of poverty higher in rural areas than in urban areas.

Based on the Uganda National Panel Survey (UNPS), 2018/19, only 24.87 per cent of those who were poor in 2015/16 remained poor in 2018/19. This indicates that in the long run, chronic poverty is falling. However, 22 per cent of those who were non-poor in 2015/16 fell into poverty in 2018/19. This indicates a need to design programmes to prevent the non-poor from falling into poverty.

The Northern Region remains the epicentre of poverty in the country, albeit with sub-regional peculiarities. The poverty rate for the northern region increased from 32.6 per cent in 2016/17 to 35.92 per cent in 2019/20. This is attributable to adverse weather conditions and a high dependency on subsistence crop farming. Data from Uganda National Household Survey (UNHS) 2019/20 shows that the northern region has the highest percentage (52.2) of households in the subsistence economy, 30.2 per cent of whom depend on subsistence farming, which makes the area vulnerable in times of weather shocks and poor farm harvests. The Acholi Sub-region emerged as the poorest in the country with a poverty rate of 67.68 per cent, which was a more than 100 per cent increase from the 2016/17 level (33.4%). Similarly, Karamoja Sub-region saw a reversal in fortunes as the poverty rate increased from 60.18 to 65.65 per cent. Lango Sub-region also experienced an increase in poverty from 15.64 to 27.64 per cent in 2019/20. West Nile is the only sub-region in the northern region which experienced a decrease in poverty. The reduction in West Nile's poverty from 34.9 per cent to 16.9 per cent is laudable and needs to be sustained.

In 2019/20, the Eastern Region's poverty rate decreased from 35.67 per cent in 2016/17 to 29.2 per cent. The six-percentage point reduction is encouraging, given that in 2012/13, the poverty rate was 24.5 per cent. All the sub-regions in the eastern region experienced a decrease in the poverty rate. The Elgon Sub-region had the greatest improvement with a drop from 34.9 per cent to 13.2 per cent.

The Central Region experienced a slight decrease in the poverty rate from 8.9 per cent in 2016/17 to 8.73 per cent in 2019/20. Although the poverty rate is lower than the national level, the number of poor people increased from 900,000 to 990,000. It is plausible that the lower poverty rate in the central region is primarily skewed by the better living conditions of the population of the Kampala Metropolitan area, which has a low poverty rate. If Wakiso, Mukono Municipality and Kampala are excluded from the central region, the poverty rate shoots to 12.41 per cent. Therefore, policies and interventions for poverty reduction in the central region should be mindful of the outlier influence of the Kampala Metropolitan area.

In the Western Region, the poverty rate increased from 12.5 per cent in 2016/17 to 14.4 per cent in 2019/20. Animal pests and diseases are some of the systemic causes of poverty in the region. The Kigezi Sub-region is the poorest within the area, with a poverty rate of 27.8 per cent. Ankole Sub-region also experienced an increase in poverty from 7.2 per cent in 2016/17 to 13.2 per cent in 2019/20. Whereas the poverty rate in Tooro remained relatively stable (about 13 per cent), Bunyoro experienced an impressive reduction in poverty from 17.26 per cent in 2016/17 to 9.78 per cent in 2019/20. Overall, Acholi, Karamoja, Bukedi and Busoga are the sub-regions with poverty rates higher than the national average.

Multidimensional Poverty

Although the measurement of the poverty rate is based on the monetary poverty line, households often face multiple deprivations beyond consumption or expenditure. A multidimensional poverty approach shows that if deprivation in terms of education, health, welfare, and empowerment is considered, 42.1 per cent of Ugandans are poor. The eastern and northern regions have the highest proportion of the population in multidimensional poverty. Karamoja, Acholi, Busoga, West Nile and Lango are some sub-regions with a multidimensional poverty headcount ratio exceeding the national average. For the Karamoja Sub-region, 84.9 per cent of the population is multidimensionally poor. The analysis showed that limited access to clean toilets, poor housing conditions, limited access to clean energy and deprivation in financial services are some of the primary drivers of multidimensional poverty. In the spirit of the 2030 Agenda and its fundamental principle of leaving no one behind, there is a need to tackle poverty in all its dimensions and empower the poor to meet their basic needs through inclusive development policies.

B) Explaining the dynamics of poverty

Drivers of poverty and the central role of subsistence farming

This report finds that the major drivers of poverty are systemic shocks such as drought, animal and crop pests and diseases, storms, and the COVID-19 pandemic. The impact of drought and pests and diseases was more pronounced in the north than in other regions. This probably explains why the northern region emerged the poorest region. At the household level, being poor is highly associated with large family sizes, limited education and dependence on subsistence farming. The Acholi and Karamoja Sub-regions have very high proportions of the population that depend on subsistence farming. Given that these sub-regions were affected by flooding in 2019/20, the high poverty rate is attributable to the underperformance of subsistence production.

Decelerators of poverty

Whereas there was an increase in poverty in northern and western regions, many sub-regions saw a reduction in the poverty rate. Elgon and Bunyoro Sub-regions experienced the most significant decrease in the poverty rate. Access to government programmes such as Operation Wealth Creation; the Uganda Women Entrepreneurship Programme; and the Youth Livelihood Programme, new roads, electricity, schools, area development projects and improved healthcare is associated with statistically significant poverty reduction. The third Northern Uganda Social Action Fund was found to have a poverty-reducing impact, but the effect is not substantial.

Vulnerability to poverty

Vulnerability to poverty is the risk of becoming poor in the future. In Uganda, many households frequently face shocks that make them vulnerable to poverty. Based on the variance of expected future consumption expenditure per adult equivalent, 70.2 per cent of the population is highly susceptible to poverty. Households that depended on agriculture were more likely to fall into poverty than those engaged in other income-generating activities. The north, north east, Buganda (North) and parts of Ankole regions are more vulnerable to poverty in terms of location, which is linked to rainfall patterns. Thus climate change can be a significant driver of vulnerability to poverty. Gender and age seem to have limited influence on vulnerability to poverty; persons below the age of 20 and those above 60 appear less vulnerable than those in the age bracket of 20-59 years.

C) Poverty and Vision 2040

Growth of the middle class

From a microeconomic perspective, the country's middle class, defined as the proportion of the population whose consumption expenditure is more than twice the poverty line, is increasing in size, albeit at a slow pace, and stood at 38.2 per cent in 2019/20. This is because some households fell back from middle-class status due to shocks, and only a small proportion of the poor moved out of poverty and reached the middle class. Uganda, however, aspires to attain middle-income status, which, from a macroeconomic perspective, is defined as a GDP per capita of US$1,039. A back-of-the-envelope calculation based on consumption per adult equivalent shows only 9.7 per cent of the population in 2019/20 could be considered as being middle-income. This indicates that the country's imminent graduation to middle-income status will take much longer to translate into the equivalent average household income level. Most of the individuals who meet the middle-income threshold are concentrated in urban areas and the Kampala, Buganda (South), Ankole and Elgon Sub-regions.

D) Jobs, informaility, and poverty reduction

COVID-19, jobs, informality, and labour market outcomes

Informality in the labour market involves working for a business establishment that is not registered with a government agency or employees who are not given written contracts, paid leave days or pension benefits. Informality makes workers vulnerable to poverty. Indeed, the poverty rate is higher among households that earn their livelihood from informal employment than those that are formally employed. The COVID-19 pandemic and lockdown worsened the poverty situation for workers in the informal sector.

Formalization and structural transformation

Formalization of enterprises requires registration and compliance with agencies such as the Uganda Registration Services Bureau for legal registration of businesses, the Uganda Revenue Authority for tax purposes, the National Society Security Fund for social security, local government agencies for trading licences as well as sector-specific agencies for professional and quality regulations. Registration of businesses with the Uganda Registration Services Bureau provides legal recognition and protection of firms and can spur innovation and the growth of firms. Though the entity recently introduced simplifications, the formalization process is still bureaucratic. As a result, firms often opt for the easiest and least costly formalization steps, such as registering the business name and acquiring a trading licence. Such businesses tend to employ workers informally. The ability of the informal sector players to evade or avoid taxes also motivates many individuals to enter the sector. Consequently, the formalization of businesses and expansion of decent employment will take time to be achieved.

E) Policy recommendations

There is a need to improve agricultural production and commercialization of agriculture. This can be done by strengthening demand-driven agricultural extension services tailored to suit agro-ecological zones to improve agricultural enterprise selection.

Cooperatives should be revived to coordinate extension services, value addition and marketing. The Parish Development Model should harness agricultural households' value chain development and production capacity.

The government should develop strategies to improve farmers' responses to natural shocks such as drought, storms, pests and diseases. This could involve training in climate change adaptation, agricultural insurance, and increased funding for research in drought and disease-resistant crops.

The effectiveness and efficiency of public goods and services such as health care, education, roads and electricity should be improved. This is because public goods are essential for unlocking the productive capacity of individuals for poverty reduction. Service delivery and the supervisory capacity of government agencies need to be strengthened to provide public goods and services efficiently.

Family planning and population control should be prioritized. For the country to reap demographic dividends, household size needs to be optimal. Evidence has shown that the larger the household size, the lower the consumption per adult equivalent, hence poverty. Therefore, a robust reproductive health and family planning programme should be integrated into all sectoral development plans. The programmatic approach in the third National Development Plan and various programmes linked to human capital development should encourage the growth of functional and economically-viable households.

Targeted interventions should be introduced for the reduction of poverty and vulnerability. Social protection such as special grants, job training and reskilling, and temporary subsidies should be provided to reduce poverty among the most vulnerable groups, such as orphans, persons with disability, homeless children, child-headed families and needy elders. The lockdown occasioned by COVID-19 showed the need for a robust and formal social protection system.

The formalization of enterprises should be promoted to enhance formal employment. This can help to reduce precarious employment conditions and improve the welfare of wage earners. The role of the National Chamber of Commerce in facilitating business growth needs to be revitalized at district and sub-region levels. This can support the Uganda Registration Services Bureau in the formalization of businesses. Large informal sector firms should be encouraged to formalize their operations and provide social protection for their employees.

Area-specific planning should be adopted to tackle unique sub-regional needs. The findings showed that there are sub-regional variations in the incidence and dynamics of poverty. However, poverty was reduced in areas where government and development partners had special development programmes. This indicates that poverty reduction programmes should be planned to address the unique problems that affect each sub-region. Modern methods of experimental economics should be applied in designing and piloting interventions to ensure desired scale-up effects.

01 CHAPTER ONE: INTRODUCTION

1.1 Overview of the Poverty Status Report

This report is a follow-up to the 2014 Poverty Status Report. It examines poverty trends and dynamics in Uganda over the last eight years. The report comes at a time when the economy is grappling with the after-effects of the COVID-19 pandemic, rising costs of living, income inequality, a bulge in the youth population, climate change, land conflicts, a call for deeper economic cooperation through the African Continental Free Trade Area and admission of Democratic Republic of Congo to the East African Community. It also comes in the backdrop of the national drive to reduce subsistence farming and informality and drive the economy towards middle-income status through industrialization. The report coincides with the renewed government commitment to improve the welfare of Ugandans through the National Development Plan III (NDP III) and the Parish Development Model (PDM). This is important because the second National Development Plan (NDP II) targeted a reduction in the poverty rate to 14 per cent by 2020.

Thematically, the report provides insights on jobs, informality and poverty before and after COVID-19 in Uganda, in line with the structural transformation agenda and national ambition to reach middle-income status. This theme is premised on the fact that the informal sector contributes 51 per cent of the gross domestic product (GDP) (Uganda Bureau of Statistics, 2021) and is a major employment source. The sector consists of small and medium-sized businesses with low capital and workers who are employed without formal contracts and social security benefits. Most informal sector businesses operate in makeshift stalls, roadside markets, streets and unlicensed premises, and they do not keep records. Data from the Uganda National Household Survey (UNHS) (2016/17) indicates that 19.1 per cent of informal sector workers were poor. On the other hand, only 0.4 per cent of the population who derive their livelihood from the formal sector were poor. The poor work conditions of the informal sector impede the country's transition to a middle-income economy.

Notwithstanding government efforts to expand the formal sector and decent employment, the informal sector remained entrenched in urban and rural areas. Uganda Bureau of Statistics (2014, 2019) estimates that 79 per cent of firms in Uganda are in the informal sector. With increasing urbanization and limited formal job opportunities in the public service, there is a need to examine the extent to which informality in the job market influences poverty and what policy interventions can be used to accelerate the transition to the formal sector. Moreover, urban authorities are also grappling with rising demand for social services and infrastructure amidst a large informal sector that does not directly contribute to tax revenue while also demanding better services.

Besides the informal sector, subsistence agriculture is a source of livelihood for a significant proportion of Uganda's population, yet agriculture is vulnerable to weather shocks and low productivity. The UNHS 2016/17 shows that 47.8 per cent of the poor were in subsistence agriculture. This is followed by self-employed persons (29.71 per cent) and paid employees (18.54 per cent). Data from the International Labour Organization (ILO) shows that in 2018, 78 per cent of employed persons in Uganda were self-employed, most of them in the informal sector. This implies that factors associated with subsistence farming and informal employment are some of the significant drivers of poverty in the country. Analysis of the complex relationship between jobs, informaility, and poverty reduction is vital in providing information to guide sustainable poverty reduction strategies. Similarly, the slow transition out of subsistence agriculture amidst modernization efforts needs to be addressed if the country is to move a significant proportion of the population to a high-productivity sector. The COVID-19 pandemic and associated control measures affected the operation of informal sector small and medium-sized enterprises (SMEs) as well as employment in the informal sector. Therefore, it is pertinent that a deeper analysis is undertaken to unpack the intertwined and complex links between informality, subsistence economy, COVID-19 pandemic, jobs, poverty and vulnerability to poverty in Uganda.

1.2 Historical and development planning context of the Poverty Status Report

Uganda's long-term development goal is the transformation of society from a predominantly peasant to a modern and prosperous country. The post-independence government identified poverty, ignorance and disease as the significant development challenges of the time. It prioritized the delivery of social services to address these challenges based on a mixed-economy development planning approach. Between 1962 and 1970, the economy achieved a modest average real GDP growth rate of about five per cent, and there was an improvement in the literacy rate and access to healthcare services. But this progress was reversed by political instability and the suboptimal policies of the 1970s. Between 1971 and 1980, the economy registered a negative GDP growth rate and increased poverty. Kasozi (1994) reports that poverty, illiteracy and high disease prevalence became the norm for many Ugandans. This trend continued through 1986 due to high inflation, scarcity of commodities and political instability.

Between 1986 and 1997, the Ugandan Government implemented several reforms to achieve structural transformation, the modernization of the economy and poverty reduction. These include the Economic Recovery Programme (ERP), the Structural Adjustment Programme (SAP) and the liberalization of the economy. These reforms reversed the negative trajectory of the GDP growth rate. For instance, over the ERP period (1987 and 1992), per capita GDP growth averaged 5.6 per cent per annum. However, poverty remained high, and most of the population remained in subsistence farming. The 1992/93 UNHS showed that 56.2 per cent of the population was living below the poverty line. In 1997, the proportion of the population below the poverty line decreased to 44 per cent, albeit with regional variations and rising income inequality.

Cognizant of the need for sustained structural change and poverty reduction, in 1997 Government developed the Poverty Eradication Action Plan (PEAP), which also represented its first Poverty Reduction Strategy Paper (PRSP). The first PEAP was adopted as the overarching development framework. It was established on four pillars: creating a framework for economic growth and transformation, good governance and security, actions that directly increase the ability of the poor to raise their incomes, and actions that directly improve the quality of life of the poor. These aspects targeted the poor while at the same time promoting stable economic growth.

One of the bold steps the government took towards structural formation and poverty alleviation during the PEAP era was the introduction of Universal Primary Education in 1997. This was meant to increase access to primary education for all primary school-going-age children. Total enrolment increased from 2.9 million children in 1996 to almost double the number (5.3 million) in 1997. The second PEAP (2000-2003) and third PEAP (2004-2007) were aligned with the Millennium Development Goals (MDGs). They emphasized poverty reduction and economic growth based on the eight goals of the MDGs. Increasing the incomes of the poor; improving the quality of life of the poor; enhancing production, competitiveness and incomes; security, conflict resolution, and disaster management; good governance; and human development were prioritized.

Between 2000 and 2010, the GDP growth rate[1] averaged 7.3 per cent per year, while the share of agriculture in the GDP decreased from 32 per cent to 26 per cent. Over the same period, life expectancy increased from 47 years to 57 years. The poverty headcount ratio fell from 33.8 per cent in 2002 to 24.5 per cent in 2009. However, income inequality remained high, with the Gini coefficient increasing from 0.43 in 1999 to 0.44 in 2009. The primary school completion rate also dropped from 60 per cent in 2000 to 55 per cent in 2010. Other development indicators, such as the maternal mortality rate, improved from 505 per 100,000 live births in 2001 to 435 per 100,000 in 2006. This was still higher than the MDG target of 131 per 100,000 by 2015. As such, it is apparent that the economy made significant strides over the PEAP era whilst encountering a few challenges, including income equality.

In 2010, Uganda moved away from using the PRSP framework to National Development Plans (NDPs) guided by the Comprehensive National Development Planning Framework. Vision 2040 was conceptualized under the Framework. It aimed at strengthening five identified fundamentals of the Ugandan economy.[2] The first NDP focused on transport infrastructure and energy. Some of the targets included the reduction of poverty, increasing the primary school completion rate to 89.2 per cent, raising the labour force employed to 78.2 per cent, and increasing the proportion of households receiving electricity from the national grid to 20 per cent. Over the first NDP period (2010-2015), the GDP growth rate was unstable and averaged 5.5 per cent, lower than the target of 7.2 per cent. The proportion of the labour force employed increased to 75 per cent, and the poverty rate fell to 19.7 per cent. Over the NDP I period, the proportion of the population accessing electricity from the national grid increased to 14 per cent, albeit lower than the target rate of 17 per cent. Whereas some targets were not achieved, progress in tackling poverty was made during the first NDP. The inability to achieve some targets was attributed to weak implementation capacities that manifested in the poor management of contracts (National Planning Authority, 2013).[3]

The second NDP (2016-2020) aimed at increasing sustainable production, productivity and value addition; improving the stock and quality of infrastructure; human capital development; and better service delivery. Some of the targets under NDP II included reducing the proportion of the population living below the poverty line from 19.7 per cent to 14 per cent, increasing income per capita to US$1,039, increasing the GDP growth rate to 6.3 per cent, and reducing the maternal mortality rate to 320 of 100,000, among others. The evaluation of NDP II showed mixed performance. For instance, between the financial year (FY) 2015/16 and FY 2019/20, the real GDP[4] growth rate averaged 4.7 per cent. This is lower than the target rate of 6.3 per cent. Similarly, the proportion of the population living under the poverty line increased from 19.7 per cent in 2012/13 to 21.4 per cent in 2016/17. However, in 2019/2020, the poverty rate declined to 20.3 per cent, still above the NDP II target of 14 per cent. Income inequality, measured by the Gini coefficient, also increased from 0.38 in 2012/13 to 0.42 in 2016/17 and slightly decreased to 0.41 in 2019/20. This indicates that growth is not as inclusive as desired, with only a small section of the population benefiting from related developments.

1 UBoS (2018). GDP 1998/99-2017/18 Fiscal Years.
2 The development fundamentals include: infrastructure; science, technology, engineering and innovation; land use and management; urbanization; human resources; and peace, security and defence.
3 Synthesis Report: Mid-Term Review of National Development Plan.
4 At 2016/17 constant prices.

Amidst these hiccups, there is slow growth in Uganda's middle class. The middle class represents households which are less likely to fall into poverty, and their average consumption per adult equivalent is more than twice the poverty line.[5] The growth in the middle class is critical for sustainable poverty reduction, production, consumption and transition towards a middle-income economy. As the country strives to achieve Vision 2040, the middle class should be less vulnerable to both monetary and multidimensional poverty.

Over the last three decades, deliberate efforts have been made to promote regional integration and foreign direct investments (FDI) to enhance economic growth and reduce poverty. According to the Africa Integration Index (2019), Uganda ranks highly in its integration efforts in the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC), and the Intergovernmental Authority for Development (IGAD). This resonates with the 2030 Agenda, the African Union Agenda 2063 and the East African Community Vision 2050. The unifying theme of these international development agendas and visions is the aim to promote shared prosperity and inclusive and sustainable development and improve the quality of life of the population. It is important to note that Uganda has been and is part of these and many international development initiatives that aim at promoting the transformation of African economies. It is envisaged that Uganda's membership in the African Continental Free Trade Area shall expand markets for export and boost manufacturing and household income.

In terms of dimensions, the country is performing well in the integration of trade, production, and free movement of persons but is weak in the integration of infrastructure and financial and macroeconomic convergence. Good trade and production integration performance are expected to widen the market for goods and increase household earnings. Evidence from Gohou and Soumaré (2012) showed a positive relationship between economic integration net inflows and poverty reduction in Central and East Africa. There is significant formal and informal cross-border trade with Southern Sudan, the Democratic Republic of Congo, Kenya and Rwanda. The private sector continues to play a significant role. Private-sector-led growth is being championed by creating an enabling policy environment for enterprise development, value chain linkages and public-private partnerships. This is in line with the 2015 Addis Ababa Action Agenda, which recognized the critical role that domestic public resources play in driving the Sustainable Development Goals (SDGs).

Overall, NDP III and the 20 programmes therein emphasize industrialization through agro-processing, manufacturing, mineral beneficiation and oil production. This is expected to improve economic growth prospects further and encourage labour mobility from subsistence agriculture to high-productivity sectors. The development of information and communication technology (ICT) and the digitalization of the economy are also expected to spur innovation and job creation among youth and drive structural transformation and poverty reduction. Digitalization has the potential to connect the informal sector to formal sector opportunities through e-registration, e-markets, e-commerce and access to market information and advisory services. However, the high population growth rate of over three per cent per annum is likely to exert pressure on natural resources and exacerbate climate change resulting in adverse welfare effects. This needs to be addressed as a part of the poverty prevention and development

5 It is important to note that some non-poor households are just barely above the poverty line and can easily fall back into poverty. This group of households are the vulnerable non-poor. The middle class, on the other hand, are less likely to fall into poverty should they be affected by shocks. To avoid misinterpretation, middle class is not the same as middle-income status as the two concepts are defined on the basis of different parameters.

policy framework. It is in this context that this report provides an in-depth analysis of the relationship between informality, vulnerability, COVID-19 jobs, and poverty in Uganda based on UNHS 2016/17 and 2019/20 data sets.

1.3 Recap of policy recommendations of the 2014 Poverty Status Report

It is informative to note that in the 2014 Poverty Status Report, several recommendations were made to guide poverty reduction interventions. The policy recommendations include the provision of subsidized credit, support of education and skills development, promotion of the agro-processing industry, market-oriented production, improvement in quality extension and advisory services, land management, orderly urbanization, provision of social protection for the vulnerable, the need for a pension scheme for informal sector workers and health insurance coverage for the poor and vulnerable.

The extent to which these recommendations have been implemented is mixed. For instance, agricultural extension services through Operation Wealth Creation (OWC) are hinged mainly on input distribution, which sharply contrasts with National Agricultural Advisory Services (NAADS). There is a resurgence in commercial farming, boosting the growth of the agro-processing industry. However, access to affordable credit for agricultural ventures is still a hurdle. Whereas social protection under the Social Assistance Grant for Empowerment (SAGE) project is being expanded across the country, the eligibility age has been increased from 65 to 80 years, leaving out other vulnerable elderly populations outside the grant scheme. Workers in the informal sector remain vulnerable as they have no social protection.

Furthermore, most Ugandans do not have health insurance, and the National Health Insurance scheme is yet to be operationalized. This implies that households continue to face high out-of-pocket health expenditures.

The relevance and quality of education are being addressed through curriculum reforms and specialized training programmes though this is yet to translate into job creation among the youthful population that has continued to migrate to urban areas and abroad in search of jobs. A significant proportion of migrants to urban areas find themselves in the informal sector and in precarious working conditions and settlements, usually in slums. This complicates urban improvement and likely increases urban poverty. In general, many recommendations in the 2014 Poverty Status Report remain a work in progress.

1.4 Methods and analytical approaches used in the 2021 Poverty Status Report

A combination of qualitative and quantitative methods was used in writing the report. Descriptive and inferential statistics were used in data analysis. Cross-tabulation was extensively used to estimate poverty rates for regions and sub-regions and how demographic and socioeconomic characteristics influence poverty. Cross-tabulation was useful in building a poverty profile and examining trends over time and across areas and other dimensions. The report also used econometric methods to examine the relationship between poverty status, welfare and several variables. The propensity score matching method, logistic regression, and fixed-effect regression are some econometric methods employed in the analyses.

Besides the analysis of the dynamics of monetary poverty, the report used multidimensional poverty measurement, which involves analysis of various forms of deprivations such as limited access to education, health, assets and financial services, among others. Qualitative methods were employed to examine poverty as viewed by the poor and policy actors. Participatory appraisal methods such as livelihood analysis and poverty/well-being ranking were used to explore the perception of the poor on their understanding of the meaning of poverty, its causes and changing trends and the concept of jobs and informality. A review of background papers was also used to enrich the report.

1.5 Data sources

The 2021 Poverty Status Report benefited from various data sources, including background research papers, qualitative and quantitative data, and focus group discussion with stakeholders. Quantitative data was obtained mainly from the Uganda Bureau of Statistics. The data sets included: Uganda National Household Surveys (UNHS) for the periods 1999/2000, 2002/03, 2005/06, 2009/10, 2012/13, 2016/17 and 2019/20; Uganda National Panel Surveys (UNPS) 2005/06, 2009/10, 2010/11, 2011/12 and 2018/19; and the 2014 Census Report. These data sources were used to analyse poverty dynamics and the impact of strategic interventions on household welfare. The Uganda Manpower Survey was used to examine the nature and degree of informality and prospects of formalization of employment and businesses. These data sets have sample weights and are nationally representative. For instance, UNHS 2019/20 obtained data from 13,732 households with sample weights representative of the population of 40.9 million persons. A 2018 Mini Participatory Poverty Assessment was used to collect qualitative data from six selected districts. The districts selected were Mbale, Arua, Jinja, Kampala, Mbarara and Wakiso. In the data collection, focus group discussions (FGDs) were supplemented by key informant interviews. The results from the Mini Participatory Poverty Assessment have been used to enrich the discussion on the quantitative evidence.

1.6 Structure of the Poverty Status Report

This report consists of seven chapters. Chapter One introduces the report and sets its overall context. It also traces the progress and challenges of poverty reduction in Uganda over the historical planning periods. Chapter Two provides insights into poverty trends and dynamics in Uganda between 2013/14 and 2019/20. The spatial distribution of poverty, the drivers, and the impact of interventions on poverty reduction are examined in Chapter Two. It also discusses the measurement of middle income and the revised poverty line. Chapter Three examines Multidimensional poverty in terms of its incidence and spatial distribution. Chapter Four examines vulnerability to poverty and introduces a forward-looking measure of the likelihood of becoming poor. The dominant role of subsistence farming as a driver of poverty and vulnerability to poverty is examined. In Chapter Five, the role of the informal sector as a driver of poverty is analysed amidst the challenges imposed by COVID-19. Chapter Six examines the role of formalization in poverty and vulnerability reduction. Chapter Seven provides a summary of findings and policy recommendations.

02

CHAPTER TWO:

INSIGHTS INTO POVERTY IN UGANDA

2.1 Introduction

This chapter examines the trends and dynamics of poverty in Uganda over the last five years. The analysis is based mainly on the UNHS 2016/17 and 2019/20 data sets. This analysis is supplemented with qualitative data collected from various parts of the country. A spatial analysis of poverty is performed to provide a profile of the poor, where they live and what they do for a living.

2.2 Measurement of poverty in Uganda

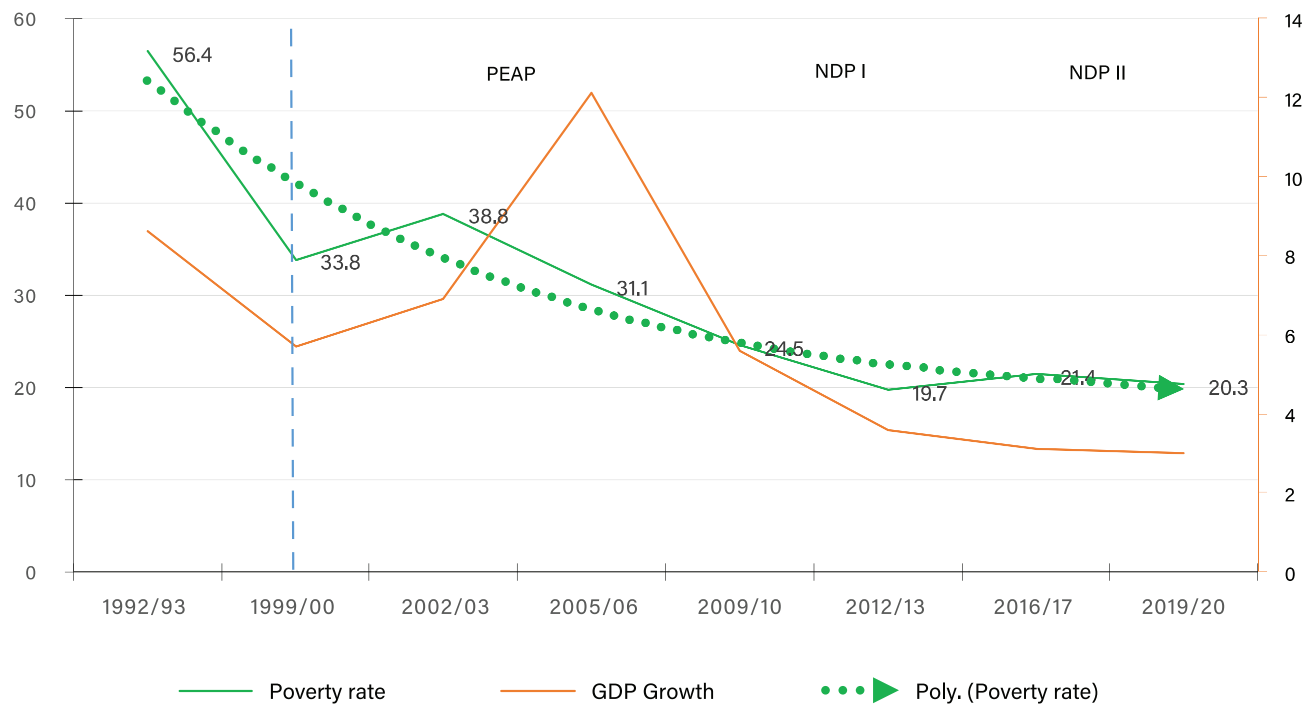
Since 1992/1993, Uganda's welfare and poverty rate measurement has been based on consumption expenditure per adult equivalent (CPAE). This entails measuring the expenditure on a basket of goods covering food and non-food items over 12 months to account for seasonal variation in household consumption. The cost of meeting a 3,000-calorie food basket is adjusted using a 1985 World Health Organization methodology that converts household food expenditures into adult equivalents. The calorific level accounts for the fact that most Ugandans are engaged in agriculture, which requires more energy than the recommended level of 2000-2500 calories. In the 2016/17 and 2019/20 UNHS data sets, 2009/10 prices were used to adjust household consumption expenditures to take care of the effect of price level changes.[6] In 2016/17, the CPAE monthly mean was UGX 96,918. In 2019/20, it marginally decreased to UGX 96,772. A household is considered poor if its CPAE falls below the poverty line. The official poverty line based on CPAE is equivalent to USD 1.00 per day(equivalent to UGX 49,153).

2.3 Poverty trends in Uganda (1992/93-2019/20)

Uganda has registered commendable progress in reducing the proportion of the population living below the poverty line from 56.4 per cent in 1992/93 to 19.7 per cent in 2012/13, as shown in Figure 2.1. However, the poverty headcount ratio increased to 21.4 per cent in 2016/17. In absolute terms, the number of poor people increased from 6.6 million in 2012/13 to 8.03 million in 2016/17. The observed increase in the headcount poverty rate was a setback to the progress made during the last decade. It also jeopardized the likelihood of achieving the NDP II target of reducing poverty to 14.2 per cent by FY 2019/2020. On a positive note, in 2019/20, the headcount poverty rate decreased to 20.3 per cent, albeit above the NDP II target rate. The COVID-19 pandemic and associated public health measures are partly responsible for the observed increase. This is because, before March 2020 (COVID-19 lockdown in Uganda), the poverty rate was 18.7 per cent, but after March 2020, the poverty rate increased to 21.91 per cent.

6 UBoS (2017) observes that household consumption expenditure provides a better measure of poverty than income, as expenditure is often more accurately reported than income.

Figure 2.1: Poverty trend 1992/93-2019/20



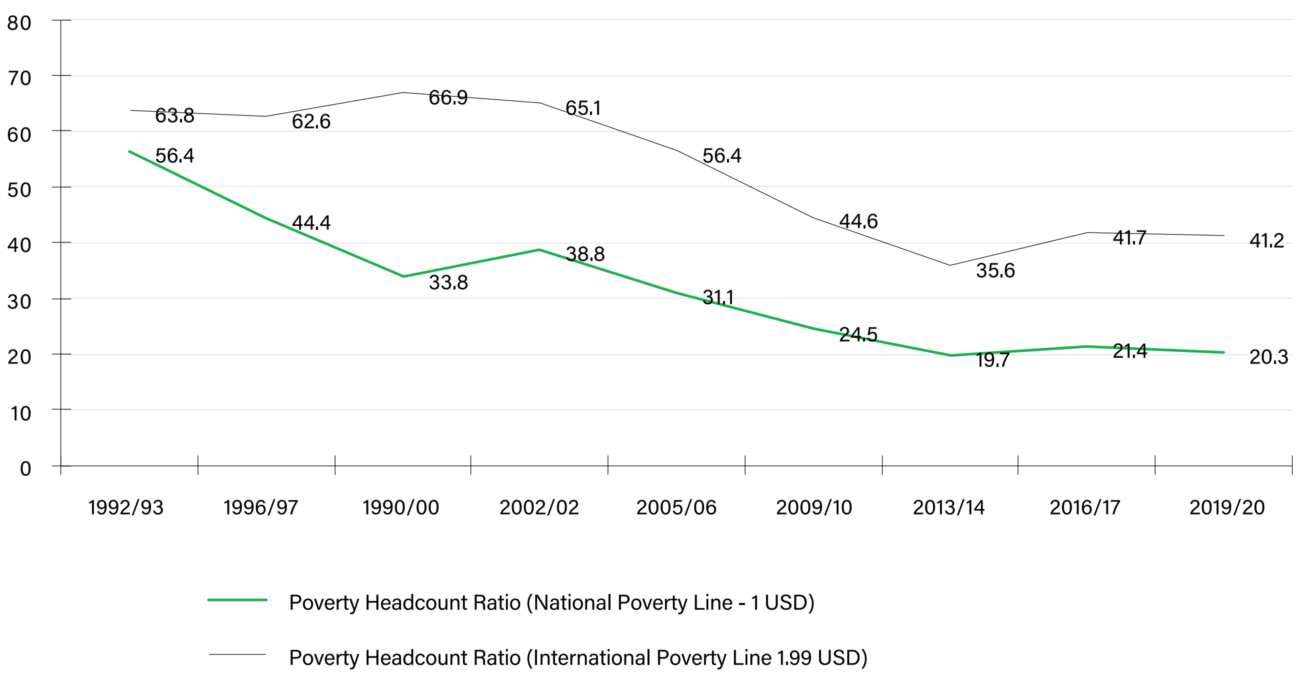
Source: MoFPED (EDPRD) staff computation based on UNHS 1992/93-2019/20 data sets.

Although the poverty rate decreased between 2016/17 and 2019/20, in absolute terms, the number of poor persons increased from 8.03 million to 8.31 million. This indicates that as much as the poverty rate is falling, the number of poor people is increasing, which needs to be factored into the design of interventions. Furthermore, Figure 2.1 indicates that over the NDP I and II periods, the poverty-reducing effect of GDP growth appears to be weaker relative to the PEAP era.

2.3.1 Comparative trend of poverty based on the national and international poverty line

The national poverty line of one United States Dollar (US$1) has been used since the 1992/1993 UNHS. However, since then, there have been tremendous changes in the country. The long-run poverty trend is downwards, and under Vision 2040, there is a robust national ambition to reach the lower middle-income status. From that perspective, comparing the changes in poverty based on the international poverty line of CPAE of US$1.99 per day is informative. Figure 2.2 indicates that the poverty rate is higher if the international poverty line is used but with a similar downward trend.

Figure 2.2: Comparative trend of poverty based on national and international poverty lines

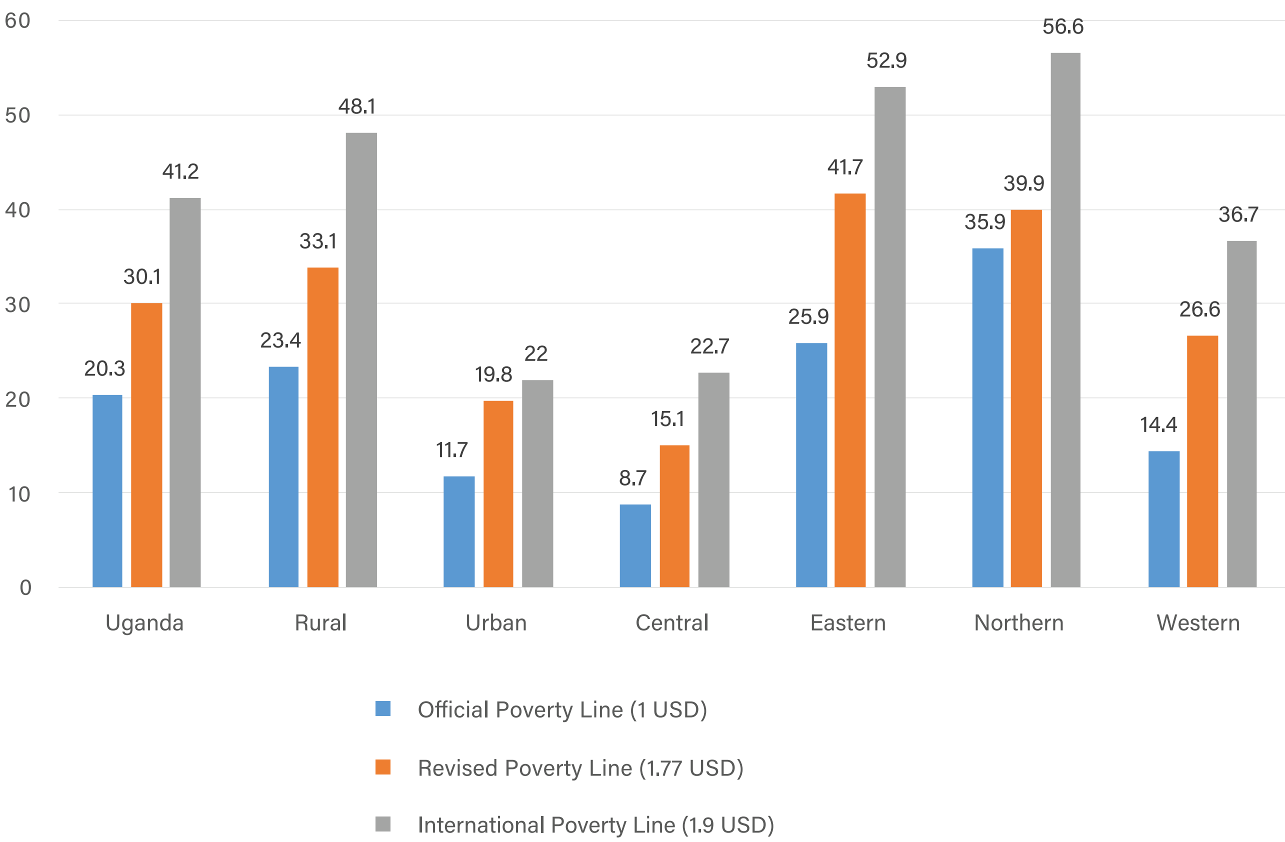


Source: MoFPED (EDPRD) staff computation based on UNHS 1992/93-2019/20 data sets.

The decline in poverty between 2016/17 and 2019/20 was more pronounced with the national poverty line (1.1 percentage points decrease) compared to the international poverty line (a 0.5 percentage points decrease). However, due to the difference in the bundles of commodities in the global and national poverty lines, it is difficult to compare how worse off or better off Ugandans are using the international poverty line. Furthermore, preferences and weights for each commodity tend to vary across countries and time. Consequently, there is a need to revise the poverty line to reflect changes in preferences and commodities in the basket of basic needs.

Through a consultative process, UBOS has developed a revised poverty line to reflect changes in preferences. Furthermore, the basket of goods that households buy now includes new goods and services that were non-existent in 1992/1993. These changes in the bundle of goods and ranking affect the weights of the commodities in the computation of the CPAE. In the 2019/20 UNHS, introduced the revised poverty line of US$1.77 to reflect the changes in the consumption basket and the national aspiration of Vision 2040. Based on the revised poverty line, the poverty rate stood at 30.1 per cent. The rural and urban poverty rates stood at 33.8 per cent and 19.8 per cent, respectively. As illustrated in Figure 2.3, the poverty pattern remained unchanged except for the eastern and northern regions.

Figure 2.3: Comparative patterns of poverty based on different poverty lines



Source: (2021): 2019/20 UNHS Final Report.

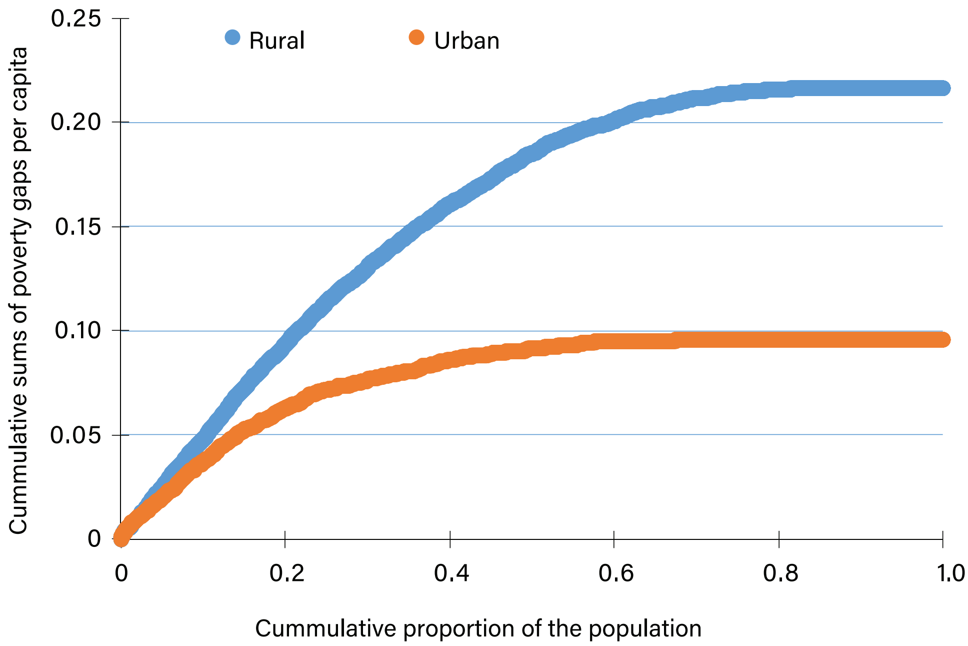
At the revised poverty line, the poverty rate in the eastern region exceeds that of the northern. This implies that in the eastern region, many people considered non-poor on the basis of the lower poverty line (one USD per day) are barely above the poverty line when the revised poverty line is used. Therefore, there is a need to consider the new poverty line to motivate policy debates and reforms and eventually achieve the national aspiration of reaching a middle-income society. Note that, for this report, the old poverty line is used for all the subsequent analyses.

2.3.2 The trend in urban and rural poverty

According to the 2014 National Population and Housing Census, 21.4 per cent of Ugandans lived in urban areas, while the remaining 78.6 per cent lived in rural areas.[7] The proportion of the urban population increased to 23.2 per cent in 2017.[8] The change in rural-urban population distribution influences poverty rates. According to UNHS 2016/17 data, 25.28 per cent of the rural population were poor, compared to 9.41 per cent of urban residents. The 2012/13 UNHS data shows that the poverty rate in urban areas was 9.32 per cent and 22.78 per cent in rural areas. Therefore, the increase in the poverty rate from 19.7 per cent in 2012/2013 to 21.41 per cent in 2016/17 is felt more in rural areas than urban areas, as illustrated in Figure 2.4.

7 UBoS (2016). The National Population and Housing Census 2014: Main Report.
8 United Nations Population Division. World Urbanization Prospects: 2018 Revision.

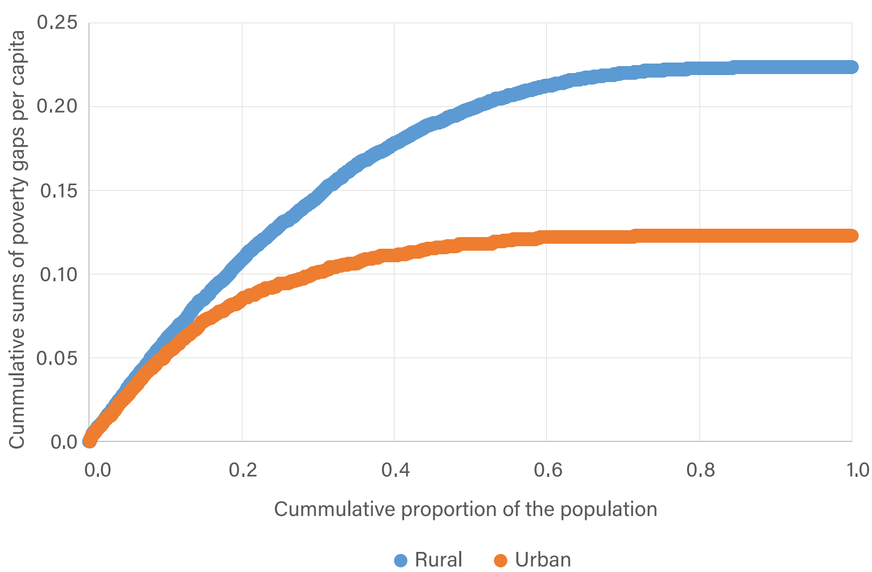
Figure 2.4: Rural-urban poverty incidence, intensity and inequality in 2016/17



Source: MoFPED (EDPRD) staff computation based on the UNHS 2016/17 data set.

Similarly, data from 2019/2020 shows the poverty rate in rural areas was 23.42 per cent, while in urban areas, the average poverty rate was 11.66 per cent. This indicates that the incidence of poverty is more severe and persistent in rural areas than in urban areas. The generalized Lorenz curve in Figure 2.5 shows that poverty's incidence, intensity and inequality (Three I's of Poverty-TIP)[9] fall heavily on the rural population. The more pronounced curvature of the rural poverty distribution indicates that poverty is unequally felt among the rural poor than the urban poor.

Figure 2.5: Rural-urban poverty incidence, intensity and inequality in 2019/20



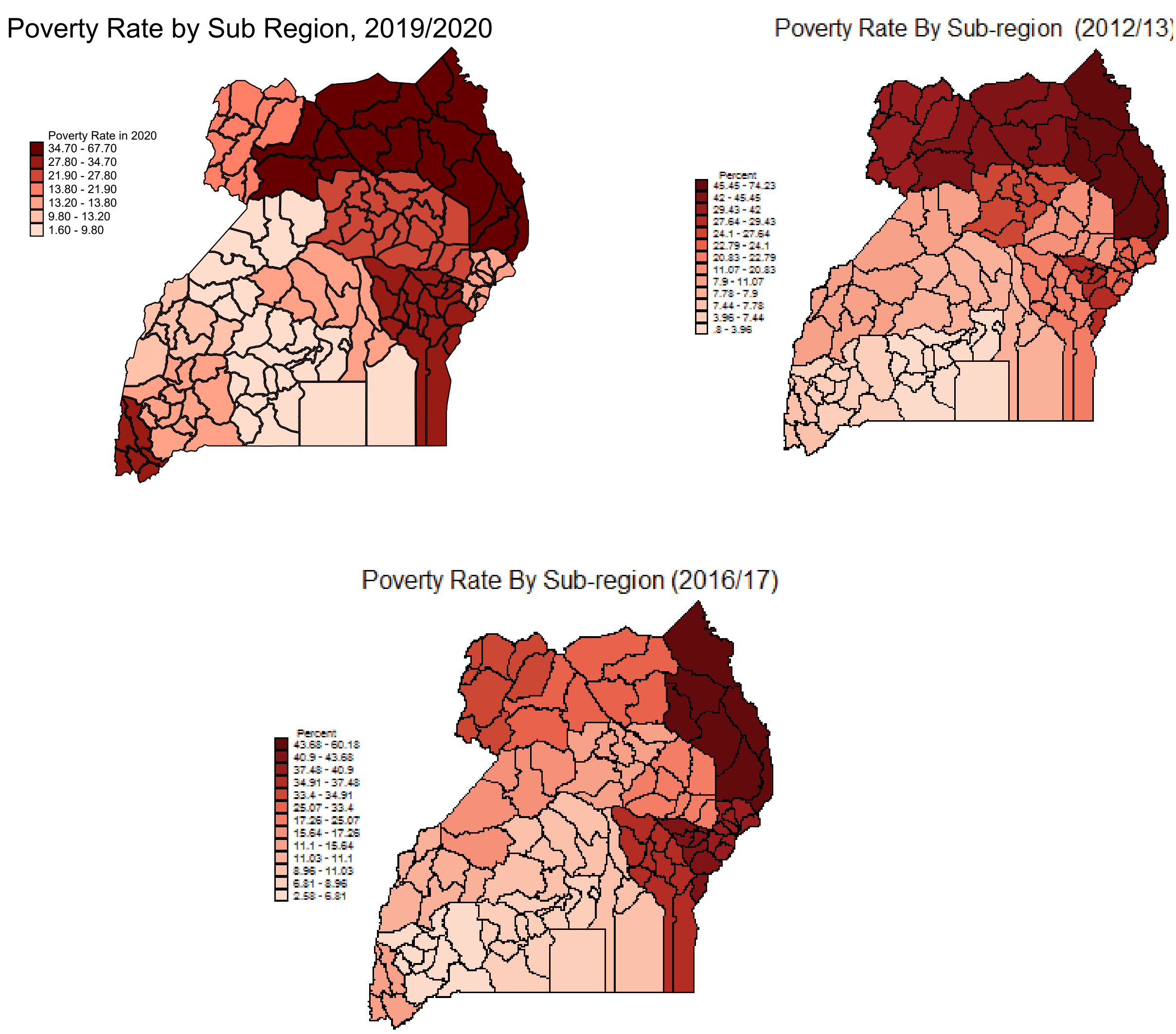
Source: MoFPED (EDPRD) staff computation based on the UNHS 2019/20 data set.

9 See Jenkins and Lambert, 'Three 'I's of Poverty Curves, with an Analysis of UK Poverty Trends,' *Oxford Economic Papers New Series*, Vol. 49, No. 3 (Jul., 1997), 1997, pp. 317-327 (11 pages)

2.3.3 Sub-regional poverty trend

Within the four regions that comprise the country, there are sub-regional differences in resource endowments and economic activities. This is partly reflected in differences in the sub-regional poverty rates. Figure 2.6 illustrates the spatial distribution of poverty across sub-regions in 2012/13, 2016/17 and 2019/20. In 2019/20, Acholi Sub-region emerged as the poorest sub-region with a poverty rate of 66.7 per cent. This reversed the gains recorded between 2012/13 and 2016/17 (from 45.45 per cent to 34.4 per cent). The second poorest sub-region in 2019/20 was Karamoja. Figure 2.6 and Table 2.1 show that in 2016/17, Karamoja was the poorest sub-region in the country, with a poverty rate of 60.18 per cent, which was an improvement from 74.5 per cent registered in 2012/13. However, the progress was reversed in 2019/20 as the poverty rate increased to 65.7 per cent.

Figure 2.6: Comparative spatial distribution of poverty by sub-region



Source: MoFPED (EDPRD) staff computation based on the UNHS 2013/14, 2016/17 and 2019/20 data sets.

Table 2.1: Change in poverty rate between 2012/13, 2016/17 and 2019/20

Sub-region	Poverty rate 2012/13*	Poverty rate 2016/17	Poverty rate 2019/20	Per cent change (2013-2017)	Per cent change (2017-2020)
Elgon	25.82	34.9	13.2	35.2	-62.2
West Nile	42	34.91	16.9	-16.9	-51.6
Bunyoro	8.5	17.26	9.8	103.1	-43.2
Kampala	0.8	2.58	1.6	222.5	-38.0
Buganda (South)	3.9	8.96	6.9	129.7	-23.0
Busoga	22.79	37.48	29.4	64.5	-21.6
Bukedi	29.43	43.68	34.7	48.4	-20.6
Teso	20.83	25.07	21.9	20.4	-12.6
Karamoja	74.5	60.18	65.7	-19.2	9.2
Tooro	11.07	11.1	12.8	0.3	15.3
Buganda (North)	7.28	11.03	13.8	51.5	25.1
Lango	27.64	15.64	23.4	-43.4	49.6
Ankole	7.44	6.81	13.2	-8.5	93.8
Acholi	45.45	33.4	67.7	-26.5	102.7
Kigezi	7.78	12.16	27.8	56.3	128.6

Source: MoFPED (EDPRD) staff computation based on the UNHS 2012/13 and 2016/17 data sets.

* 2012/13 Poverty rates were recalculated using the latest sub-regional grouping of districts. After regrouping, the sub-region sample sizes are still large enough to make the estimated poverty rates generalizable to the population, except for the Bunyoro and Kigezi Sub-regions. Appendix 2A and Appendix 2B provide the coefficient of variation of the recalculated poverty rates.

In the 2012/13 UNHS, the Lango Sub-region had a poverty rate of 27.64 per cent[10] which dropped to 15.64 per cent in 2016/17. However, the gains of the Lango Sub-region were reversed in 2019/20 as the poverty rate increased to 23.4 per cent. Generally, three sub-regions within the northern region experienced increased poverty between 2016/17 and 2019/20; only the West Nile Sub-region registered a consistent fall in the poverty rate. West Nile's poverty rate decreased from 42 per cent in 2012/13 to 34.91 per cent in 2016/17 to 16.9 per cent in 2019/20. This was a 51.6 per cent decrease in the poverty rate over five years.

The Elgon Sub-region exhibited a noteworthy decline in the poverty rate between 2016/17 and 2019/20. There was a fall from 34.9 per cent to 13.2 per cent (a whopping 62 per cent decrease within five years). Other sub-regions which recorded a decrease in poverty are Bunyoro, Kampala, Buganda South, Busoga, Teso and Bukedi. In fact, there was a decrease in poverty in all sub-regions in the eastern region. On the other hand, Buganda (North), Karamoja, and Tooro Sub-regions experienced slight increases in the poverty rate. There was a reversal of gains in poverty reduction in the Kigezi and Ankole Sub-regions. Of great policy concern is the poverty increase in the Kigezi Sub-region. Between 2016/17 and 2019/20, the poverty rate more than doubled, from 12.16 per cent to 27.8 per cent. This represents a 128.6 per cent increase over five years.

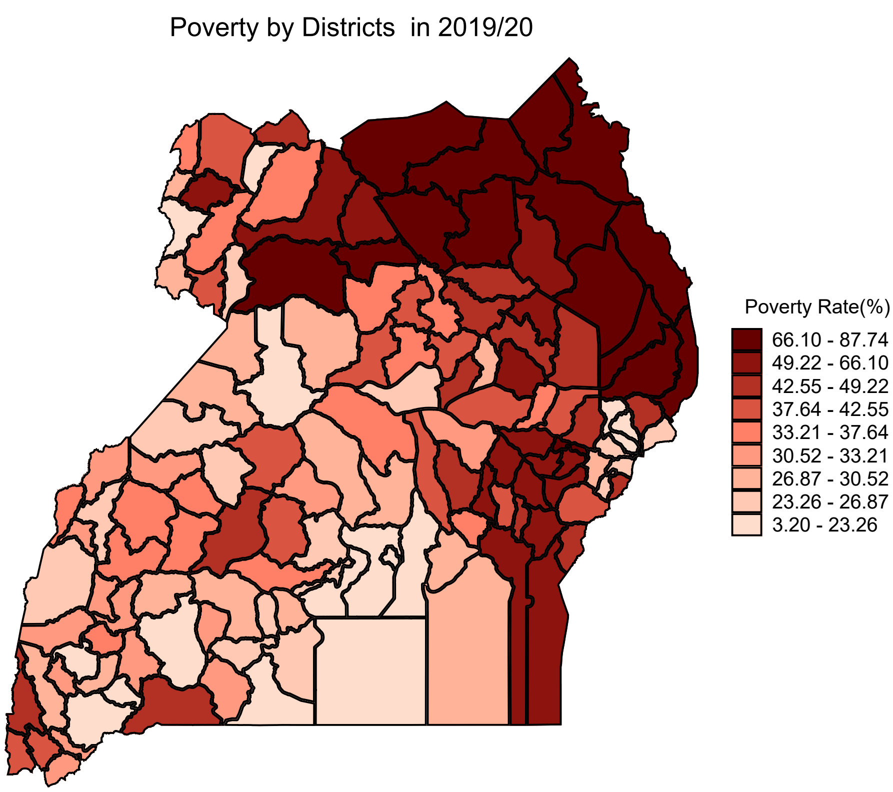
10 In the 2012/13 UNHS data set, the Lango Sub-region was classified under the Mid-North Sub-region which is currently made up of the Acholi and Lango Sub-regions.

Overall, poverty decreased in all sub-regions of the Eastern region but increased in all sub-regions in the Northern region, except West Nile. Elgon Sub-region recorded the best improvement, while Kigezi Sub-region had the highest percentage poverty rate increase.

2.3.4 District-level poverty patterns

Districts and sub counties are basic units for planning and service delivery in Uganda. Their ability to cause change and impact household livelihoods and welfare cannot be underestimated. Based on the 2014 Population and Housing Census data, UNHS 2016/17 and 2019/20, UBOS applied Small Area Estimation technique and computed poverty rates for all districts and sub counties as per Figure 2.7.

Figure 2.7: Spatial pattern of poverty at the district level



Source: MoFPED (EDPRD) staff computation based on the UNHS 2019/20 data set.

In Table 2.2, the 10 poorest districts are in descending order. Notably, eight out of 10 poorest districts are from the Karamoja Sub-region, and the remaining two are from the Acholi Sub-region.

Table 2.2: Poorest districts in 2019/20

District	Poverty rate	Sub-region
Nabilatuk	87.7	Karamoja
Kaabong	87.2	Karamoja
Kotido	84.7	Karamoja
Karenga	81.2	Karamoja
Amudat	80.9	Karamoja
Napak	80.7	Karamoja
Nakapiripirit	79.4	Karamoja
Omoro	75.3	Acholi
Moroto	73.6	Karamoja
Nwoya	73.3	Acholi

Source: MoFPED (EDPRD) staff computation based on UNHS 2019/20 data.

Tables 2.3 and 2.4 show the decile ranking of districts based on 2016/17 and 2019/20 poverty rates, with the poorest districts at the top. In 2016/17, at the 30th percentile, the maximum district poverty was 15.21 per cent, but in 2019/20, it was 27.5 per cent. It is evident that district poverty rates have increased, and more districts have higher rates than the national poverty rate of 20.3 per cent.

Table 2.3: Decile of the poverty rate and number of districts in 2016/17

Decile of headcount poverty rate	Number of districts	Percentage	Poverty rate range
1	14	10.37	2.5-10.1
2	13	9.63	10.2-13.3
3	14	10.37	13.5-15.21
4	13	9.63	15.23-16.9
5	14	10.37	16.95-19.4
6	13	9.63	19.5-26.9
7	14	10.37	27.2-31.9
8	13	9.63	32-37.2
9	14	10.37	37.5-44.4
10	13	9.63	45.5-72.6
Total	135	100	

Source: MoFPED (EDPRD) staff computation based on UNHS 2016/17 and 2014 Census data.

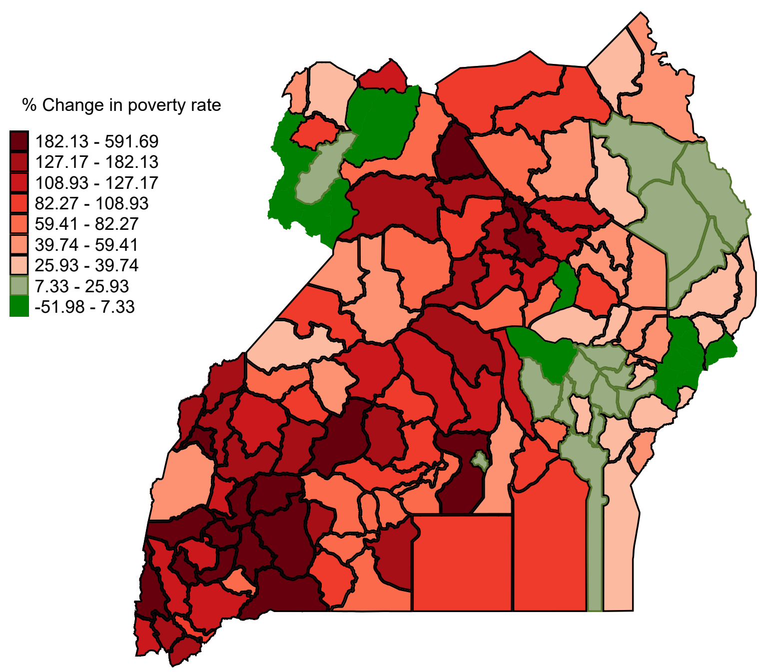
Table 2.4: Decile of the poverty rate and number of districts in 2019/20

Decile of headcount poverty rate	Number of districts	Percentage	Poverty rate range
1	15	10.27	3.2-17.3
2	16	10.96	19.5-24.7
3	13	8.9	24.8-27.5
4	15	10.27	28.1-31.4
5	14	9.59	31.6-34.1
6	15	10.27	34.3-38.1
7	15	10.27	38.6-42.9
8	14	9.59	43.3-49.6
9	15	10.27	49.7-67.5
10	14	9.59	68.9-87.7
Total	146	100	

Source: MoFPED (EDPRD) staff computation based on UNHS 2019/20 and 2014 Census data.

Figure 2.8 illustrates the worsening poverty situation at the district level. Of the 146 districts (including cities), 82 had over a 50 per cent increase in their poverty rate. The districts in the Ankole Sub-region had the highest increase in poverty rate between 2016/17 and 2019/20, while Wakiso, Gulu, and Lira also registered over a 100 per cent increase in their poverty rate. Only 13 districts recorded a decrease in their poverty rates, mainly in West Nile and Elgon Sub-regions.

Figure 2.8: Percentage change in poverty headcount rate (2016/17-2020)



Source: MoFPED (EDPRD) staff computation based on UNHS 2016/17 and 2019/20 data.

Although cities are legally and administratively organized as districts, their urban setup and economy substantially differ from rural districts. Following the elevation of 10 municipalities to city status, as of July 2020, Uganda had 11 cities. It is vital to track how city status unlocks economic opportunities and improves residents' welfare.

Table 2.5 ranks the 11 cities based on 2019/20 poverty rates. The cities of Kampala, Mbarara, Masaka, Mbale and Jinja have poverty rates which were within the 14 per cent NDP II target. Gulu city has the highest poverty rate (34.7 per cent). Cities on the Northern Corridor[11] have lower poverty rates than those on the Great North Road[12]; therefore, new cities need to be made vibrant centres for inclusive growth.

Table 2.5: Ranking of cities by poverty rate

City	Poverty rate (%)
Kampala	3.2
Mbarara	10.8
Masaka	10.8
Mbale	11.7
Jinja	12.2
Hoima	14.6
Soroti	15.5
Fort Portal	17.3
Arua	19.5
Lira	20.7
Gulu	34.7

Source: MoFPED (EDPRD) staff computation based on UNHS 2019/20 data.

2.3.5 Poverty at the sub county level

In view of informing policy decisions in the NDP III and the Parish Development Model (PDM), it is informative to examine the patterns and dynamics of poverty at the sub county level. Using the small area estimation method, (2021) computed sub county poverty rates. Table 2.6 and Table 2.7 rank the top 10 poorest sub counties in 2016/17 and 2019/20. In both 2016/17 and 2019/20, the poorest sub counties are from the Karamoja Sub-region, with poverty rates above 70 per cent.

11 Jinja, Kampala, Masaka, Fort Portal and Mbarara.
12 Mbale, Soroti, Lira, Gulu and Arua.

Table 2.6: Poorest sub counties in 2016/17

Sub county	Poverty rate (%)	District
Abiliep	86.3	Amudat
Maaru	82.2	Kotido
Kanair	81.7	Kotido
Panyangara	77.2	Kotido
Loroo	77.1	Amudat
Longaroe	76.2	Kotido
Nakapelimoru	75.4	Kotido
Lolachat	74.8	Nabilatuk
Kacheri	74.5	Kotido

Source: MoFPED (EDPRD) staff computation based on UNHS 2019/20 data.

Table 2.7: Poorest sub counties in 2019/20

Sub county	Headcount poverty rate (%)	District
Kathile South	94.6	Kaabong
Kaabong East	94.2	Kaabong
Kalapata	94.0	Kaabong
Kaabong West	93.6	Kaabong
Lotim	93.1	Kaabong
Lemusui	92.8	Nakapiripirit
Kathile	92.6	Kaabong
Kawalakol	92.5	Karenga
Kamion	92.0	Kaabong
Timu	91.6	Kaabong
Loroo	91.2	Amudat

Source: MoFPED (EDPRD) staff computation based on UNHS 2019/20 data.

In 2019/20, the poorest sub counties were concentrated in Kaabong District, while in 2016/17, the sub counties in Kotido District had the highest poverty rates. Loroo Sub County, in Amudat District, features among the poorest sub counties in both 2016/17 and 2019/20. The stagnation of such sub counties calls for better targeting for inclusive economic development under the Parish Development Model.

In the Eastern Region, the poorest sub counties are in Butebo District. Kabelai Sub County in Butebo District was the poorest sub county in the eastern region with a headcount poverty rate of 80.7 per cent. Other sub counties with high poverty rates include Kanginima (79.9 per cent), Maizimaza (77 per cent), Kanyum (76 per cent) and Putti (74.3 per cent). Lyama Sub County in Budaka District also has a high poverty rate (73.2 per cent), and Goli-Goli Sub County in Kibuku District has a poverty rate of 70 per cent. Generally, most sub counties in the Bukedi Sub-region have very high poverty rates. It is evident that the sub-region is yet to recover from the shocks of the high poverty rate of 2016/17.

In the case of the central region, the poorest sub counties are in Kyankwanzi and Mubende Districts. Kyankwanzi and Kayebe (in Mubende District) are the poorest sub counties in the central region. On the other hand, the sub counties in Wakiso and Kampala continue to have the lowest poverty rates in the region and country at large. This is expected since Kampala and Wakiso are highly urbanized with monetized and diversified economies.

At the sub county level, Kikagate Sub County in Isingiro District is the poorest in the western region, with a poverty rate of 70.4 per cent. Kabale Central Division had the lowest poverty rate of 6.8 per cent. Generally, the western region continues to have a lower poverty rate in comparison with the rest of the country.

Overall, the small area estimation results show that within sub-regions and districts, there are variations in the poverty rate. Targeted interventions at the lowest administrative units can tackle unique drivers of poverty and lead to shared prosperity in the spirit of Leave No One Behind, as envisaged in Agenda 2030. It is hoped that the Parish Development Model will harness the capacity of households to build sustainable livelihoods.

2.4 COVID-19 and poverty in Uganda

Generally, there was an increase in poverty in Uganda during the COVID-19 pandemic. Whereas many people were infected and others died due to COVID-19 complications, our analysis does not include the health effect of the disease on persons affected but rather the effect of the lockdown measures put in place to combat the pandemic.

In March 2020, when the first positive cases of COVID-19 were confirmed in Uganda, the government instituted the first lockdown, which ran from March through June 2020. Disease control measures such as suspension of public transport, closure of schools, crowded business premises, international flights and night curfews were put in place. Furthermore, businesses which were allowed to operate were required to control the spread of the virus by providing handwashing facilities/sanitizers and checking temperatures with temperature guns. These increased operational costs and many businesses laid off workers amidst uncertain cash flows. Consequently, households' labour market participation, earnings, consumption and savings were negatively affected. General social interactions and access to goods and services were at their bare minimum.

It is plausible that household welfare was affected by the COVID-19 pandemic. The UNHS-2019/20 that was conducted in two phases; pre-COVID-19 and during COVID-19, and (2021) reported that the 'mean monthly consumption expenditures were lower during COVID-19 compared to the pre-COVID-19 period'. Before COVID-19, the mean monthly CPAE was UGX 98,677, but it decreased to UGX 94,859 during the pandemic. The reduction was more pronounced in rural areas (from UGX 86,524 to UGX 73,413) than in urban areas (UGX146,834 to UGX 138,145). Notwithstanding the insignificant differences in CPAE at the national level, there was an increase in the poverty rate from 18.7 per cent (pre-COVID-19) to 21.91 per cent (during the COVID-19 period). This implies that the national poverty rate would have been lower than 20.3 per cent without the COVID-19 pandemic, all other factors constant.

The pandemic interacted with several socioeconomic household characteristics such as gender, employment status and household size to influence poverty rates. One possible factor that could have influenced the impact of COVID-19 on poverty is the gender of the household. This is because gender affects occupational choice, productivity, income, consumption decisions, and coping mechanism, all of which strongly influence household welfare. The UNHS 2019/20 data shows that before the COVID-19 pandemic, the poverty rate in male and female-headed households was 17.3 per cent and 22.3 per cent, respectively. However, during the pandemic, the poverty rate in male-headed households increased to 21.83 per cent, while in female-headed households, the rate slightly decreased to 22.1 per cent. It is plausible that males, who are the major breadwinners in many households, lost jobs or closed businesses which were households' livelihoods, during the lockdown. Consequently, poverty was bound to increase given the loss of livelihoods, apart from cases where households had accumulated savings which they used during the lockdown.

According to UNHS 2019/20 data, the poverty rate in rural areas before COVID-19 was 20.58 per cent, but it increased to 26.86 per cent during the pandemic. However, the poverty rate in urban areas did not significantly increase (11.2 per cent before and 11.9 per cent during the pandemic). As much as urban residents were affected by the lockdown, it is plausible they had diverse coping mechanisms such as change of business types, change of career, past savings and even liquidation of accumulated assets. These strategies are not reachable to most rural residents amidst a reduction in remittances from urban-based relatives and those in the diaspora. At the sub-regional level, the COVID-19 pandemic was associated with a statistically significant increase in the poverty rate in Teso, Tooro, and Bukedi Sub-regions, as shown in Table 2.8.

Table 2.8: Poverty and COVID-19

	Pre-COVID-19 poverty rate (%)	Poverty rate during COVID-19 (%)	Percentage Point Difference
Kampala	2.1	1.3	-0.8*
Buganda (South)	7.2	6.6	-0.6
Buganda (North)	13.3	14.4	1.1
Busoga	27.9	31.3	3.4
Bukedi	30.8	38.8	8
Elgon	11.3	15.2	3.9
Teso	15.7	29.4	13.7*
Karamoja	62	68.9	6.9
Lango	21.9	25	3.1
Acholi	68	76.4	8.4
West Nile	17.7	16	-1.7
Bunyoro	10.4	9	-1.4
Tooro	6.9	17.3	10.4*
Ankole	10.3	16.3	6
Kigezi	25.4	30.5	5.1
Rural	20.6	26.9	6.3*
Urban	11.2	11.8	0.6
Uganda	18.7	21.9	3.2*

Source: (2021) UNHS 2019/20 Final Report * Indicates that the estimate is statistically significant.

Another socioeconomic factor that could have influenced the effect of COVID-19 on poverty is the size of households. Large households require more resources to provide basic needs for their members. This implies that income shocks associated with COVID-19 would lead to a reduction in CPAE. Indeed, data shows that, on average, the poverty rate among households with four or more members increased from 22 per cent (before COVID-19) to 25.6 per cent during the pandemic. In households with up to four members, the poverty rate did not significantly increase.

The age of the household head was another demographic characteristic which influences household income and welfare. Data shows that for households with a head aged 31-60 years, the poverty rate increased from 18.7 per cent to 21.9 per cent during the pandemic. Similarly, for households with heads aged 60 and above, the poverty rate increased from 17.33 to 20.27 per cent. It is evident that during COVID-19, livelihoods were negatively affected, and poverty increased. Therefore, it is important to examine how COVID-19 influenced poverty rates through the employment sector and economic activity from which household heads derived their livelihood.

Table 2.9 shows that poverty increased by 7.2 percentage points during COVID-19 in households whose primary employment was in crop agriculture. The increase in the poverty rate was smaller in households in which non-crop agriculture, industry, trade and services were the main sectors of employment for household heads.

Table 2.9: Poverty rate by sector of employment and COVID-19

Sector of employment	Poverty rate before COVID-19 (%)	Poverty rate during COVID-19 (%)
Crop agriculture	22.2	29.4
Non-crop agriculture	19.4	23.9
Industry	14.3	16.3
Trade	9.0	10.7
Services	7.3	8.9
Not working	28.3	27.9

Source: (2021) UNHS 2019/20 Final Report

In households with a head who was not working, there was a slight decrease in the poverty rate during the COVID-19 period. It is plausible that those who were not working before COVID-19 pandemic benefited from relief items distributed by government and NGOs during the lockdown period or some of the people in household whose head was not working used their income and accumulated savings to support household consumption.

Considering the type of employment of household heads, there was a significant increase in the poverty rate of those in private employment, the contributing family workers,[13] and those in self-employment (own account workers). On the other hand, there was a very modest increase in poverty in households headed by persons who worked in the public sector. This is due to the government's decision to continue paying employees during the lockdown. Table 2.10 summarises poverty rates by employment type of the household heads.

13 Contributing family workers are those workers who hold 'self-employment jobs' as own-account workers in a market-oriented establishment operated by a related person living in the same household.

Table 2.10: Poverty rate by employment type

Employment type	Poverty rate before COVID-19 (%)	Poverty rate during COVID-19 (%)
Own account worker	17.5	20.9
Public sector employment	4.5	5.5
Private employment	15.3	20.5
Contributing family worker	13.4	40.5

Source: (2021) UNHS 2019/20 Final Report

2.4.1 COVID-19 and increased poverty in Northern Uganda

In 2019/2019, most sub-regions in the northern region experienced significant increases in poverty rates and there is need to understand the drivers of poverty in the region. A Propensity Score Matching method was implemented to estimate the causal impact of COVID-19 on the poverty rate. It is conceivable to take COVID-19 as a natural experiment, which affected welfare, and the data collected before and during the pandemic provided a random assignment to a treatment and control group. The likelihood of surveying a household before and during COVID-19 was estimated after controlling for observable household characteristics. After that, households with similar probabilities were matched to compare poverty rates. The results showed statistically significant differences (Average Treatment Effect[14]) in poverty in the northern region, and the COVID-19 pandemic caused the difference. The analysis shows that after controlling differences in gender, age, education level, and main source of income for household heads and location, COVID-19 and lockdown caused a 4.59 per cent increase in the poverty rate in northern Uganda. It is arguable that without COVID-19, the poverty rate in northern region would have fallen from 33.6 per cent, as was experienced in 2016/17. Table 2.11 shows that there are sub-regional variations within the North; whereas the impact of COVID-19 was significant in Karamoja, Acholi and West Nile Sub-regions, it was not significant in Lango.

Table 2.11: The impact of COVID-19 in Northern Uganda

Sub-region	Average treatment effect (Impact of COVID -19 on poverty rate)	T-Statistic
Karamoja	16.37*	13.99
Lango	0.39	0.31
Acholi	10.1*	13.22
West Nile	3.09*	4.9
Northern Region	4.59*	8.66

Source: MoFPED (EDPRD) staff computations based on UNHS 2019/20 data

Note: The Average treatment effect (ATE) is estimated through the propensity-matching method.

* indicates that the ATE is statistically significant at a five per cent level. The nearest neighbour matching algorithm was applied. Rubin (2001) suggests that the value of B should lie below 25 and R should lie between 0.5 and 2 for the overall balance to be sufficient. Our estimates meet these conditions; thus, they are robust.

14 Treatment effects are causal effects of a binary treatment, in this case COVID-19 and lockdown. Since the treatment is binary, individuals are either treated (COVID-19 period) or they are not treated (pre-COVID-19 period) The Average Treatment Effect (ATE) is the average of the individual treatment effects of the population under consideration. In this case, the difference in poverty rate between COVID-19 periods and the period before, after controlling for and balancing the observable characteristics (such as major source of income, age, education level, location, gender and household size) is the ATE.

Lango Sub-region also had a lower poverty rate in 2016/17 (14.7 per cent), meaning many households likely had resources to last them through the lockdown period. One plausible explanation is that Lango Sub-region is in the interior of the Northern region without any international border, and reliance on cross-border trade is minimal, unlike border districts of Karamoja, Acholi and West Nile. The explanation could apply to the rest of the country. As illustrated in Table 2.12, poverty in districts with international borders have higher poverty rates in comparison with those without borders.

Table 2.12: COVID-19, border location and poverty

	Poverty rate pre-COVID-19 (%)	Poverty rate during COVID-19 (%)
Border districts	21.4 (8.23)	25.9 (6.91)
Interior districts	17.5 (5.86)	20.2 (4.82)
National	18.7 (4.70)	21.9 (3.94)

Source: MoFPED(EDPRD) staff computations based on UNHS 2019/20 data.

Note: The coefficient of variation is in parentheses.

It is advisable that during disease outbreaks, lockdown periods should be applied based on local infection rates such that the economy is open in areas with no or small infection rates. That way, the control of diseases would have a limited impact on household welfare and the national agenda for poverty reduction.

2.5 Climate change and poverty

There is a growing global consensus that climate change affects livelihoods especially of the poor households in developing countries, who depend on subsistence agriculture. This is because of agricultural production susceptible to floods, drought, pests and diseases. Uganda experiences a tropical climate characterized by relatively stable rainfall patterns. However, there are changes in rainfall patterns with shorter or longer rains and severe droughts, especially in north eastern Uganda. This is likely to destroy the livelihoods of the poor and deepen poverty.

In 2019/20, there was extensive flooding in the country, especially in the Tooro/Rwenzori Sub-regions and many parts of the central and eastern regions. In the northern region, farmlands were inundated, resulting in poor harvests. These negative shocks to agriculture often lead to a rise in the cost of living and a reduction in welfare. Table 2.13 shows the positive tetrachoric correlation between poverty status and shocks, although it should be noted that correlation does not mean causation.

Table 2.13: Correlation between natural disasters and poverty

	Poverty	Floods	Drought	Crop pests/ diseases	Livestock diseases
Poverty	1				
Floods	0.082*	1			
Drought	0.192*	0.352*	1		
Crop pests and disease	0.083*	0.071*	0.361*	1	
Livestock diseases	0.025*	0.205*	0.438*	0.760*	1

Source: MoFPED (EDPRD) staff computations based on UNHS 2019/20 data

Note: Tetrachoric correlation measures the correlation between two binary variables. * indicates statistical significance at a five per cent level.

A propensity score matching analysis was applied to estimate the causal impacts of climatic shocks on poverty. The estimates are the average differences in the poverty rate between households that experienced a shock and those that did not. Although the ATE are small, they statistically significant and therefore the effects should be put into consideration when designing poverty reduction strategies.

Table 2.14: The impact of natural disasters on poverty

Natural disaster	Average treatment effect[15] (ATE)	T- Statistic	Rubin's B
Floods	0.56	14.94	17.8
Droughts	0.21	16.46	14.1
Crop pest and disease	0.45	2.21	17.6

Source: MoFPED (EDPRD) staff computations based on UNHS 2019/20 data.

Table 2.14 shows that for the population affected by floods in the three years before 2019/20, the poverty rate was 0.56 per cent higher. Drought and crop pests and diseases outbreak caused increases in poverty in the affected population to increase by 0.21 per cent and 0.45 per cent, respectively.

The systemic causes of the increase in poverty are often associated with a decline in farm yields, a decrease in household food supply and a fall in household welfare. Therefore, there is a need to combat climate change so that floods and droughts are controlled for sustainable poverty reduction.

2.6 Welfare implications of selected interventions

Through several interventions, the government and private sector have invested enormous resources to improve the economy's performance, social services and the population's welfare. These interventions include increasing access to education, electricity, roads, financial services, ICT, agricultural extension services, peace and security. Interventions such as Operation Wealth Creation (OWC), Youth Livelihood Programme (YLP), and Uganda Women Entrepreneurship Programme (UWEP) are meant to increase the productivity and livelihood of farmers, youth and women. The Senior Citizens' Grant (SCG) is a social protection programme meant to improve the well-being of elders and their families. The third Northern Uganda Social Action Fund (NUSAF III) aimed at providing adequate income support and building the resilience of the poor and vulnerable households in northern Uganda. Some of the components of NUSAF III include labour-intensive public works, disaster risk financing, improved household income support programmes, sustainable livelihoods, sensitization and awareness of targeted communities to prevent misuse of project resources and enhanced citizen and stakeholder engagement. Table 2.15 shows the correlation between poverty status and receipt of benefits from OWC, SCG, YLP, UWEP and NUSAF III.

15 Average treatment effect (ATE) is the average difference in the pair of potential outcomes averaged over the entire population of interest. In this case, it is the difference in poverty rate in the population due to differences in exposure to climate-related problems. The nearest neighbour matching algorithm was applied. Rubin's B and Rubin's R were used to check whether these individual covariates are balanced across treatment and control groups. Rubin's B reflects the absolute standardized difference of the means of the propensity score in the treated and control groups (unmatched and matched). Rubin's R is the ratio of the treated to control variances of the propensity scores. Rubin (2001) states the value of B should lie below 25 and that of R should lie

Table 2.15: Correlation between government programmes and welfare status

	Poverty status	OWC	SCG	YLP	UWEP	NUSAF III
Poverty status	1					
OWC	-0.2142*	1				
SCG	0.2198*	-0.003	1			
YLP	-0.4084	0.9396*	0	1		
UWEP	-0.3462*	0.8463*	0.4815	-1	1	
NUSAF III	0.2399*	0.5786*	-0.286	0.7352*	0.5592	1

Source: MoFPED (EDPRD) staff computations based on UNHS 2019/20 data set.

OWC=Operation Wealth Creation; SCG=Senior Citizens Grant; YLP=Youth Livelihood Project; UWEP=Uganda Women Enterprise Project; NUSAFIII=Northern Uganda Social Action Fund III
*Indicates statistical significance at a five per cent level.

The correlations between poverty status and the programmes are all negative except for SCG and NUSAF. The causal impact of the programmes on poverty was estimated through the propensity score matching method. The results in Table 2.16 show that for those who live in households with at least one beneficiary of OWC, the poverty rate is lower by 7.69 per cent relative to those who didn't have beneficiaries. Similarly, the poverty rate is lower by 15.75 per cent and 23.07 per cent for households with at least one beneficiary of SCG and UWEP interventions compared to those who did not receive the intervention. The poverty-reducing impact of these programmes gives hope that interventions planned in NDP III and the PDM could be transformative if they are effectively and efficiently implemented.

Table 2.16 shows that YLP and NUSAF III have poverty-reducing effects, although the estimated results are not strong enough based on the available data. This indicates that the programme could be facing implementation challenges, or the beneficiaries are not taking full advantage of the intervention. It is crucial that as the PDM takes shape, effectiveness and efficiency must be emphasized. The Mind Change pillar of the PDM should be prioritized to ensure buy-in and ownership of other interventions.

Table 2.16: Average causal impact of government interventions on poverty

Intervention	Treated group (Poverty rate)	Control group (Poverty rate)	ATT (Percentage difference)	T-Statistic
OWC	13.41	21.10	-7.69	-2.92
SCG	29.25	45.00	-15.75	-3.64
YLP	7.89	17.11	-9.22	-1.45
UWEP	9.62	32.69	-23.07	-4.8
NUSAF III	33.21	37.55	-4.34	-1.21

Source: MoFPED (EDPRD) Staff computations based on UNHS 2019/20 and Propensity Score Matching.

Notes: The observations were matched based on gender, age, source of income, education level, region, and urban/rural location. The nearest neighbour matching algorithm was applied. Rubin's B and Rubin's R were used to check whether these individual covariates were balanced across treatment and control groups. Rubin's B reflects the absolute standardized difference of the means of the propensity score in the treated and control groups (unmatched and matched). Rubin's R is the ratio of the treated to control variances of the propensity scores. Rubin (2001) suggests that the value of B should lie below 25 and R should lie between 0.5 and 2 for the overall balance to be sufficient. Our estimates meet these conditions, and hence they are robust.

2.7 Public goods and poverty reduction

The preceding section examined the impact of interventions provided to households/ individuals. The government, the private sector and non-governmental organizations (NGOs) provide public goods and social services with positive externalities at household and community levels. Data from UNHS 2019/20 shows that community leaders were asked if the community got new schools, roads, healthcare facilities, access to electricity, area development programmes and other social amenities in their community in the last three years preceding the survey. The causal impact of these programmes was estimated using the propensity score matching method as per Table 2.17.

Table 2.17: Average causal impact of public goods on poverty

Public good/social service	Average treatment effect[16] (ATE)	T- Statistic	Rubin's B
New road in the area	-4.48	-26.00	14.9
New electricity access	-10.27	-16.91	22.2
New health facility	-7.69	-18.10	25.8
New school	-8.03	-19.05	19.9
New development projects	-4.81	-21.84	13.9

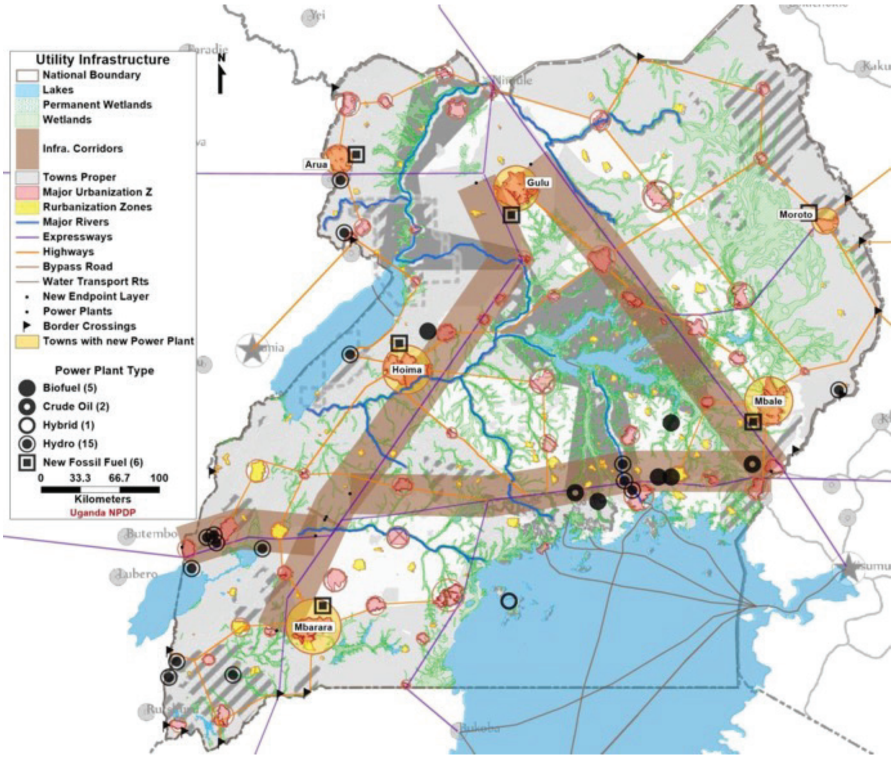
Source: MoFPED (EDPRD) staff computations based on UNHS 2019/20 data and Propensity Score Matching.

Note: The observations were matched based on gender, age, source of income, education level, region, and urban/rural location. The nearest neighbour matching algorithm was applied. Rubin's B and Rubin's R were used to check whether these individual covariates were balanced across treatment and control groups. Rubin's B reflects the absolute standardised difference of the means of the propensity score in the treated and control groups (unmatched and matched). Rubin's R is the ratio of the treated to control variances of the propensity scores. Rubin (2001) suggests that the value of B should lie below 25 and R should lie between 0.5 and 2 for the overall balance to be sufficient. Our estimates meet these conditions except for new health facilities.

Road construction is one of the public investments that has consistently attracted a lot of budgetary allocation in the era of National Development Plans. According to Uganda National Roads Authority (UNRA) annual reports, the stock of paved roads increased from 4,257 in 2017/18 to 5,370 kilometres in 2019/20. Dercon et al. (2009) and Gibson and Rozelle (2003) indicate that government road investments in Ethiopia and Papua New Guinea have significantly impacted poverty reduction. Results in Table 2.17 show that the construction of new roads in an area in the last five years preceding the UNHS 2019/20 led to a 4.48 per cent decrease in the poverty rate. Thus, there is a strong need to improve the transport network in the countryside. It is envisaged that the development of the southern growth corridor (Malaba-Kampala-Katuna), the eastern-northern corridor (Malaba-Lira-Gulu-Arua) and the Albertine-Northern growth corridor shall contribute to poverty reduction in the country. This is in line with the Uganda National Physical Development Plan 2019-2020, as illustrated in Figure 2.9.

16 Average treatment effect is the average difference in the pair of potential outcomes averaged over the entire population of interest. In this case, it is the difference in poverty rate in the population due to differences in public good provision.

Figure 2.9: Infrastructure corridors map



Source: Uganda National Physical Development Plan 2019-2040.

There have been significant efforts to increase the quantity, access and reliability of electricity supply in Uganda. NDP I and NDP II emphasized investment in electricity generation and improving efficiency in transmission and distribution. The significant investment has led to an increase in installed production capacity to 1,268 megawatts[17] in 2020. According to UNHS 2019/20 data, 56.7 per cent of households used electricity (grid, home solar system and solar kits) as the major energy source for lighting. This was an increase from the 38.8 per cent recorded in 2016. Generally, access to electricity is known to improve health and education outcomes (Kanagawa and Nakata, 2008). Access to grid electricity can increase output and consumption for households involved in cottage industries and agro-processing businesses. The results in Table 2.17 show that for households in areas which received an electricity project in the last three years before 2019/20, the poverty rate is lower by 10.27 per cent. Thus, government investments in electrification programmes can play a significant role in poverty reduction. Much as the government has made strides in accessibility, focus now should be placed on reliability and cost reduction to encourage business growth, income generation and environmental sustainability.

Access to quality and affordable health care influences household welfare and productivity. Evidence presented in Table 2.17 shows that in communities which received a new health facility in the last three years, poverty was lower on average by 6.97 per cent. Although the estimate is statistically significant, it should be taken with caution since the diagnostic Rubin's B statistic is slightly above the 25 per cent threshold.

17 Uganda Electricity Regulatory Authority.

Relevant and quality education is instrumental for human capital accumulation. Education also increases the capacity of individuals to function and participate in critical decision-making at both the household and societal levels. Through universal primary and secondary education, business, technical, vocational education and training, and tertiary institutions, the government and the private sector have expanded access to education. However, the quality of education remains a public policy concern. Table 2.17 shows that households who lived in areas that got new schools in the last three years experienced a decline in poverty rate by 8.0 per cent relative to households that did not get a new school. Thus, the government's effort to expand educational opportunities is vital for poverty reduction.

The government and NGO interventions in area development projects and programmes are essential in addressing local development challenges. Such programmes often have multiplier effects in the areas where they are implemented, potentially impacting household welfare. Under NDP III, the Area Development Programme aims to accelerate equitable regional economic growth and development. It is expected to reduce poverty in Karamoja, Bukedi, Bugisu, Busoga, West Nile, Acholi, Teso and Bunyoro since their poverty rates have consistently been above the national poverty rate. The estimates in Table 2.17 show that the poverty rate among communities that received area development programmes was 4.81 per cent lower than those who lived in places without area development programmes. In this respect, the PDM and the Area Based Commodity Development (ABCD) strategy can be used to boost local economic development for sustainable poverty reduction and sub-regional convergence to the national poverty trajectory.

2.8 Poverty dynamics in Uganda

As much as there was a decrease in the poverty rate, there was also an increase in the number of individuals who moved back into poverty. The transition out of poverty can take some households slightly above the poverty line while some could reach what may be referred to as the middle class.[18] Households that are near the poverty line are vulnerable to shocks and can fall back into poverty; hence, they are sometimes referred to as the insecure non-poor. In absolute terms, the population of the insecure non-poor increased from 14.74 million in 2013/14 to 15.34 million in 2016/17 and 16.99 million in 2019/20, as shown in Table 2.18.

Table 2.18: Poverty trend: 2012/13-2019/20

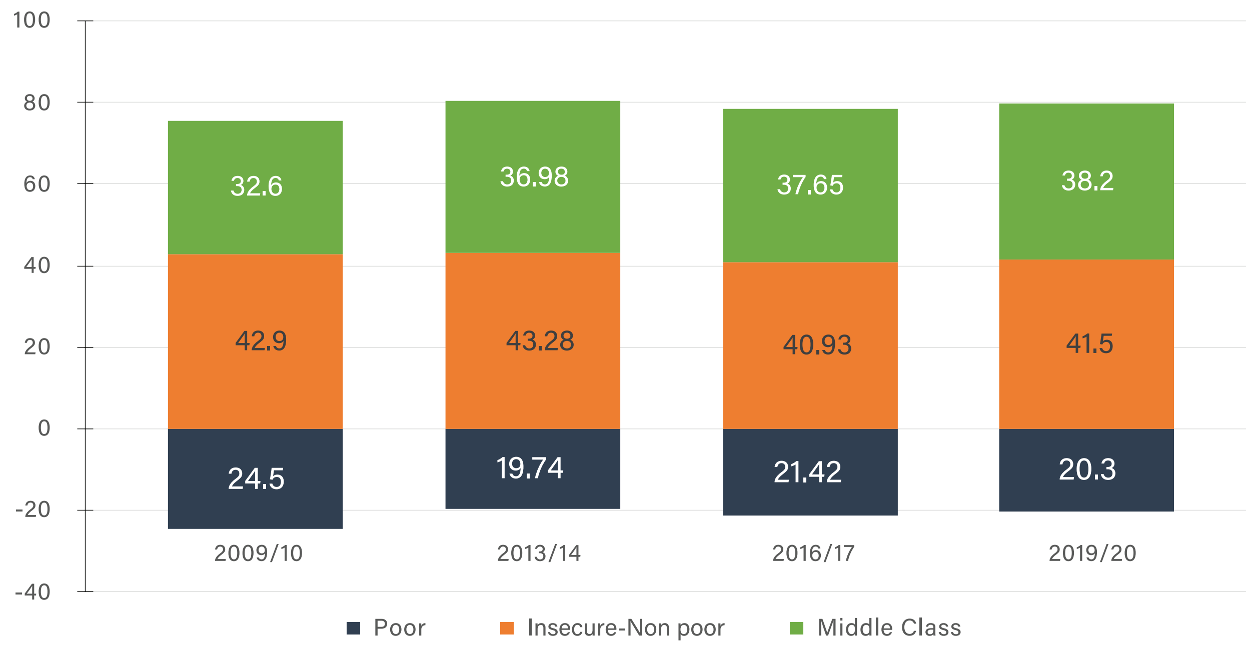
Year	Poor		Insecure non-poor		Middle class	
	Population (millions)	Share (%)	Population (millions)	Share (%)	Population (millions)	Share (%)
2019/20	8.31	20.3	16.99	41.50	15.64	38.20
2016/17	8.03	21.4	15.34	40.93	14.12	37.65
2012/13	6.72	19.74	14.74	43.28	12.6	36.98

Source: MoFPED (EDPRD) staff computation based on UNHS 2012/13-2016/17 data.

18 The middle class is defined as those households whose income is greater than twice the poverty line. Birdsall (2010) defines the middle class in the developing world to include people living on the equivalent of US$10 a day or above in 2005 and at or below the 95th percentile of the income distribution in their own country.

As defined earlier, the insecure non-poor are those individuals whose consumption per adult equivalent (CPAE) is above the poverty line but less than twice above the poverty line. This makes them vulnerable to falling back into poverty. In terms of the proportion of the population, the share of the insecure non-poor decreased from 43.28 per cent in FY 2012/13 to 40.93 per cent in FY 2016/17, and it further increased to 41.5 per cent in 2019/20 (see Figure 2.10). Some of these individuals could have fallen back into poverty from the middle class, a group that comprises households whose monthly CPAE is more than twice the poverty line. Between 2016/17 and 2019/20, the proportion of the middle class increased from 37.65 per cent to 38.2 per cent. Although the increment is small, it is a good sign that the proportion of the population with high CPAE is increasing, which is vital for building a middle-class society.

Figure 2.10: Middle class and vulnerable non-poor, 2009-2020



Source: MoFPED (EDPRD) staff computation based on UNHS 2009/10-2019/20 data.

A clearer picture of the dynamics of poverty can be shown by examining changes in the living conditions of households that are repeatedly observed over time. As such, the Uganda National Panel Survey (UNPS) 2013/14, 2015/16 and 2018/19 were analysed. From the UNPS 2013/14 data set, 28.09 per cent of the population was poor, far greater than the poverty rate recorded in the 2012/13 UNHS. However, the UNPS 2015/16 data set shows that 21.35 per cent were poor, and this is quite close to the poverty estimate from the 2016/17 UNHS.

Table 2.19 shows the status of households in 2015/16 relative to their initial status in 2013/14. It reveals that 42.36 per cent of households that were poor in 2013/14 remained poor in 2015/16. This indicates that a significant proportion of the poor is in chronic poverty.[19]

19 Chronic poverty entails deprivation that persists over a long period of time and can be passed on across generations. In contrast, transitory poverty describes the situation in which households fall in and out of poverty occasionally.

Table 2.19: Transition matrix of poverty status: 2013/14-2015/16

Status in 2013/14	Status in 2015/16			
	Poor (%)	Insecure non-poor (%)	Middle class (%)	Total (%)
Poor	42.36	49.64	8.0	100
Insecure non-poor	17.39	53.06	29.55	100
Middle class	7.06	24.29	68.65	100

Source: MoFPED (EDPRD) staff computation based on UNPS 2013/14 and 2015/16 data.

On the other hand, 49.64 per cent of the population that was poor in 2013/14 moved out of poverty to the insecure non-poor.[20] Encouragingly, eight per cent of those who were poor in 2013/14 moved to the middle class. If these were the only transitions, the poverty rate would continue to fall drastically. However, due to shocks and other dynamics, some individuals that were non-poor in 2013/14 became poor in 2015/16. For instance, 17.39 per cent of the insecure non-poor of 2013/14 became poor in 2015/16, while seven per cent of the middle class fell into poverty. This shows that poverty status is dynamic over time; the non-poor can become poor in the future and vice versa.

Between 2015/16 and 2018/19, 24.87 per cent of those who were poor in 2015/16 remained poor, as illustrated in Table 2.20. This indicates that chronic poverty is on a decline. However, 22.23 per cent of households in the insecure non-poor class in 2015/16 fell into poverty in 2018/19. This shows that the middle class is volatile.

Table 2.20: Transition matrix of poverty status: 2015/16-2018/19

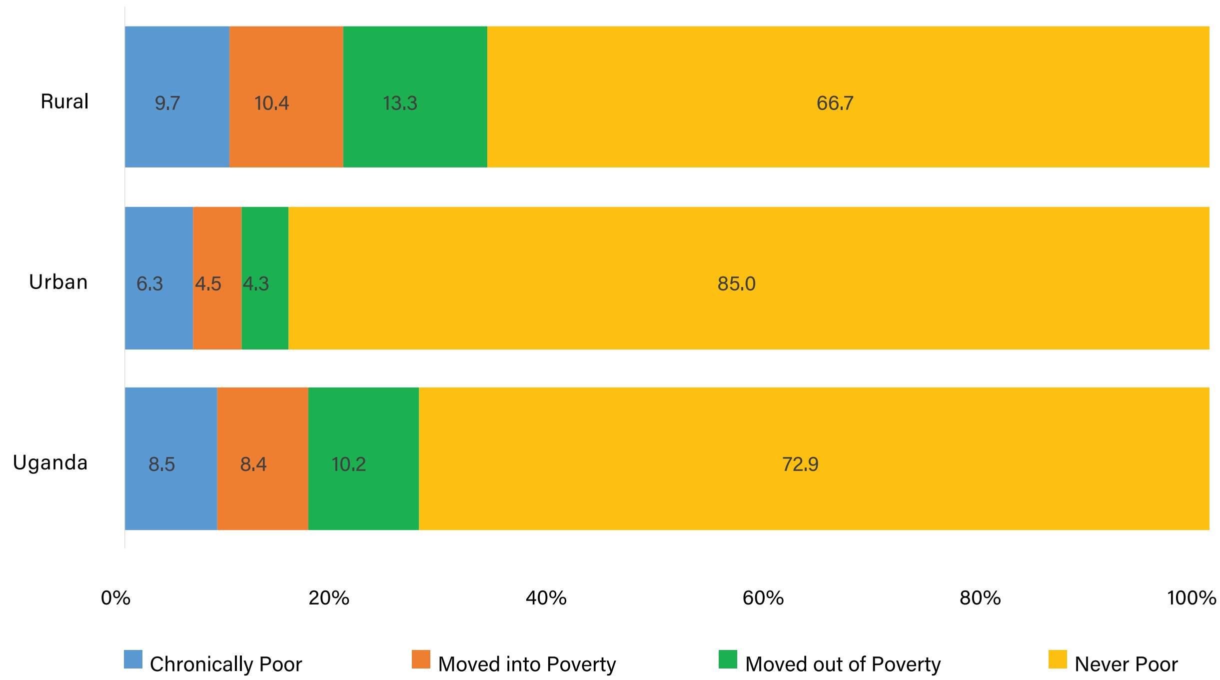
Status in 2015/16	Status in 2018/19			
	Poor (%)	Insecure non-poor (%)	Middle class (%)	Total (%)
Poor	24.87	43.04	32.09	100 per cent
Insecure non-poor	22.23	42.32	35.45	100 per cent
Middle class	22.05	40.64	37.31	100 per cent

Source: MoFPED (EDPRD) staff computations based on the UNPS 2015/16 and 2018/19 data sets.

Considering the movement of the total population in and out of poverty, 8.5 per cent of the population was chronically poor between 2015/16 and 2018/19, as illustrated in Figure 2.11. The chronic poverty rate is higher in rural areas (9.7 per cent) compared to urban areas (6.3 per cent). Nationally, 8.4 per cent of the population slid into poverty between 2015/16 and 2018/19. The proportion of the population that moved out of poverty was 10.2 per cent, which is a positive development. Overall, 73 per cent of the population remained non-poor between 2015/16 and 2018/19.

20 From the Mini Participatory Poverty Assessment, participants from rural areas defined a middle-income household as those who can lend money to another person in danger, give out food to the community in case of a party at their home, employ other community members on their farm, live in a permanent house with a cemented floor and iron sheet, can meet all health needs, participate in community activities, and own assets such as a radio, television, motor vehicle(s), land, and have minimum monthly earnings from their businesses of UGX 1,700,000. For urban areas, it emerged from the Mini Participatory Poverty Assessment that a middle class should earn enough money to build their own house and rent out other houses. They should earn a wage of more than UGX 2.5 to 4.5 million per month and can meet all the daily family needs consistently.

Figure 2.11: Chronic and transient poverty rates: 2015/16-2018/19



Source: (2019). Uganda National Panel Survey 2018/19.

Table 2.21 shows that 49.56 per cent of those who were poor in 2014/15 moved out of poverty by 2018/19. Of these, 11.54 per cent of the poor moved from poverty to the middle class, while 38.02 per cent moved to the insecure non-poor. Conversely, only 4.86 per cent of the middle class and 21.54 per cent of the vulnerable non-poor fell into poverty. This implies that, on average, more people were moving out of poverty than falling into poverty. It is unsurprising that before the COVID-19 pandemic, the national poverty rate had fallen to 18.70 per cent.

Table 2.21: Poverty dynamics over the NDP II period

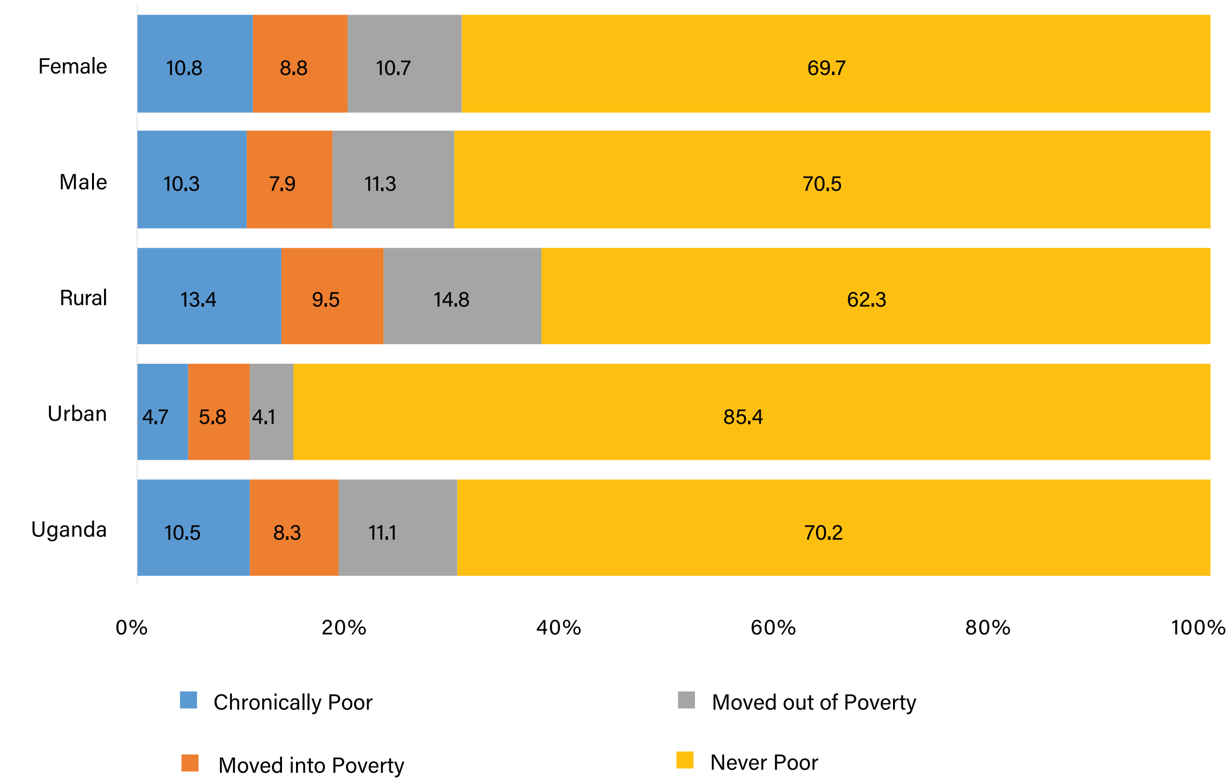
Status in 2013/14	Status in 2018/19			
	Poor (%)	Insecure non-poor (%)	Middle class (%)	Total (%)
Poor	50.44	38.02	11.54	100
Insecure non-poor	21.54	47.82	30.64	100
Middle class	4.86	27.51	67.63	100

Source: MoFPED (EDPRD) staff computations based on the UNPS 2014/13 and 2018/19 data sets.

2.8.1 Poverty dynamics in rural and urban areas

Figure 2.12 shows that over the NDP II period, 11.1 per cent of the population moved out of poverty, but 8.3 per cent fell into poverty. However, the proportion of the population that slipped into poverty is higher in rural areas than in urban areas. Furthermore, the chronic poverty rate is higher in rural areas than in urban areas. This indicates that rural livelihoods are fragile and need strategic interventions.

Figure 2.12: Poverty dynamics over the NDP II period



Source: MoFPED (EDPRD) staff computations based on the UNPS 2015/16 and 2018/19 data sets.

In terms of transition, Table 2.22 shows that 48.22 per cent of the rural population that was poor in 2013/14 remained poor in 2018/19. For the insecure non-poor and the middle class, 23.85 per cent and 7.98 per cent, respectively, fell back into poverty.

Table 2.22: Welfare changes in rural areas: 2013/14-2018/19

Status in 2013/14	Status in 2018/19			
	Poor (%)	Insecure non-poor (%)	Middle class (%)	Total (%)
Poor	48.22	40.03	11.75	100
Insecure non-poor	23.85	47.36	28.79	100
Middle class	7.98	37.20	54.82	100

Source: MoFPED (EDPRD staff) computation based on the UNPS 2013/14 and 2015/16 data sets.

Regarding urban areas, Figure 2.12 shows that 85.4 per cent of the urban population was never poor over the NDPII period. Furthermore, as shown in Table 2.23, only 13.42 per cent of the urban population that was non-poor in 2013/14 fell into poverty by 2018/19. This indicates that livelihoods in urban areas are relatively stable compared to those in rural areas.

Table 2.23: Welfare changes in urban areas: 2013/14-2018/19

	Status in 2018/19			
Status in 2013/14	**Poor (%)**	**Insecure non-poor (%)**	**Middle class (%)**	**Total (%)**
Poor	58.41	30.81	10.78	100
Insecure non-poor	13.42	49.42	37.16	100
Middle class	1.63	17.50	80.86	100

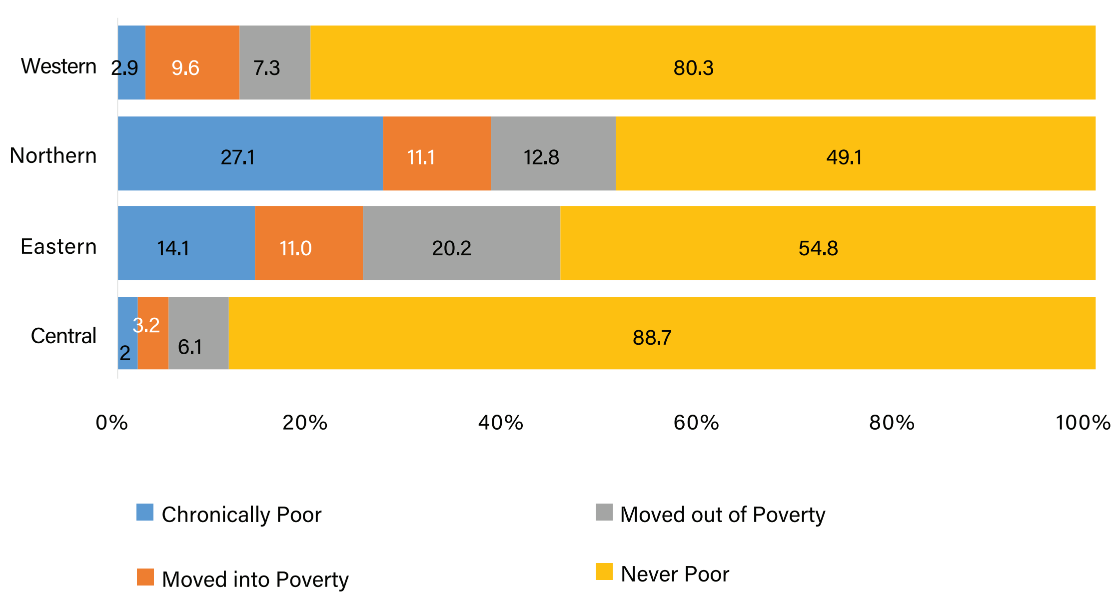
Source: MoFPED (EDPRD) staff computation based on the UNPS 2013/14 and 2018/19 data sets.

Data from the 2016/17 UNHS show that 81.72 per cent of urban households derived their livelihood from non-agricultural sources. This could explain why a small amount (1.63 per cent) of the urban middle class of 2013/14 fell into poverty in 2018/19.

2.8.2 Regional poverty dynamics

The 2016/17 UNHS revealed that poverty was highest in the eastern region. An improvement was registered in the northern region. According to the UNHS 2012/13 and 2016/17, the poverty rate in northern Uganda dropped from 42 per cent in 2012/13 to 32 per cent in 2016/17. In 2019/20, the poverty rate in the northern region increased slightly to 35.93 per cent, as observed in the UNHS 2019/20.

Figure 2.13: Regional poverty dynamics over the NDP II period



Source: MoFPED (EDPRD) staff computation based on the UNPS 2013/14 and 2018/19.

Figure 2.13 shows that between 2013/14 and 2018/19, 27.1 per cent of the population in northern Uganda remained chronically poor, and about 11.1 per cent moved into poverty over the NDP II period. These dynamics indicate that poverty reduction in northern Uganda remains shaky. Strikingly, Table 2.24 shows that in northern Uganda, between 2013/14 and 2018/19, 61.12 per cent of the poor remained poor, and 13.71 per cent of the middle class fell into poverty. Further, 36.4 per cent of the vulnerable non-poor slid into poverty; with such dynamics that were taking place before 2020, the poverty rate was bound to increase.

Table 2.24: Welfare changes in the Northern Region 2013/14-2018/19

Status in 2013/14	Status in 2018/19			
	Poor (%)	Insecure non-poor (%)	Middle class (%)	Total (%)
Poor	61.12	32.49	6.39	100
Insecure non-poor	36.40	41.94	21.66	100
Middle class	13.71	30.17	56.12	100

Source: MoFPED (EDPRD) staff computation based on the UNPS 2013/14 and 2018/19 data sets.

A reassuring improvement is the decrease in the poverty rate in the eastern region, from 35.66 per cent in the 2016/17 UNHS to 25.92 per cent in the 2019/20 UNHS. This was a reversal of the 2016/17 situation in which the eastern region was the poorest in the country. Over the NDP II period, 20.2 per cent of the population of the eastern region moved out of poverty, as shown in Figure 2.13, which also shows that the proportion of the population that remained non-poor between 2013/14 and 2018/19 in the eastern (54.8 per cent) is higher than that of the northern region (49.1 per cent). This implies that the eastern region is relatively better off than the northern region (in 2019/20, the two regions switched positions in regional poverty ranking). Table 2.25 shows that 46.33 per cent of those in the east who were poor in 2013/14 remain poor. For those in the insecure non-poor and middle-class groups, 27.48 per cent and 6.74 per cent moved back into poverty, implying a significant proportion of those who were not poor in 2013/14 remained above the poverty line.

Table 2.25: Welfare changes in the Eastern Region: 2013/14-2018/19

Status in 2013/14	Status in 2019/20			
	Poor (%)	Insecure Non-poor (%)	Middle class (%)	Total (%)
Poor	46.33	38.29	15.38	100
Insecure non-poor	27.48	50.45	22.08	100
Middle class	6.74	34.20	59.06	100

Source: MoFPED (EDPRD) staff computation based on the UNPS 2013/14 and 2015/16 data.

Generally, in the historically poor northern and eastern regions, the transition matrices displayed in Table 2.22 and Table 2.23 show that the persistence of poverty is higher in the northern than in the eastern region. For instance, 61.12 per cent of the population that was poor in northern Uganda in 2013/14 remained poor in 2018/19, while only 46.33 per cent of those who were poor in 2013/14 in eastern Uganda remained poor in 2018/19. Furthermore, the proportion of the insecure non-poor that fell into poverty between 2013/14 and 2018/19 is higher in northern Uganda (36.4 per cent) than in the eastern region (27.48 per cent). Similarly, a greater proportion (13.71 per cent) of the middle class in the northern region became poor in 2018/19, relative to 6.7 per cent in the eastern region. Therefore, for national poverty rates to fall, both regions require targeting.

Concerning the central and western regions, there was a higher rate of movement out of poverty in these two regions. Figure 2.13 shows that between 2013/14 and 2018/19, the chronic poverty rate was 2 per cent and 2.9 per cent for the central and western regions, respectively. In both regions, the proportion of the population that has never been poor between 2013/14 and 2018/19 is over 80 per cent. However, the proportion of the non-poor who slid into poverty is higher (9.2 per cent) in the western than in the central region (3.2 per cent). this indicates that the non-poor in the western region are more vulnerable than those in the central region.

Table 2.26: Welfare changes in the Central Region: 2013/14-2018/19

Status in 2013/14	Status in 2019/20			
	Poor (%)	Insecure non-poor (%)	Middle class (%)	Total (%)
Poor	15.18	49.36	35.46	100
Insecure non-poor	9.75	40.34	49.91	100
Middle class	2.75	22.68	74.57	100

Source: MoFPED (EDPRD) staff computation based on the UNPS 2013/14 and 2015/16 data sets.

Table 2.26 indicates that in the central region, only 15.18 per cent of those who were poor in 2013/14 remained poor in 2018/19. If this could be sustained, then poverty eradication in the central region could be achieved within a short time. however, this is complicated by the sliding back into poverty by non-poor households; for example, 9.75 per cent of the insecure non-poor and 2.75 per cent of the middle income fell back into poverty in the central region.

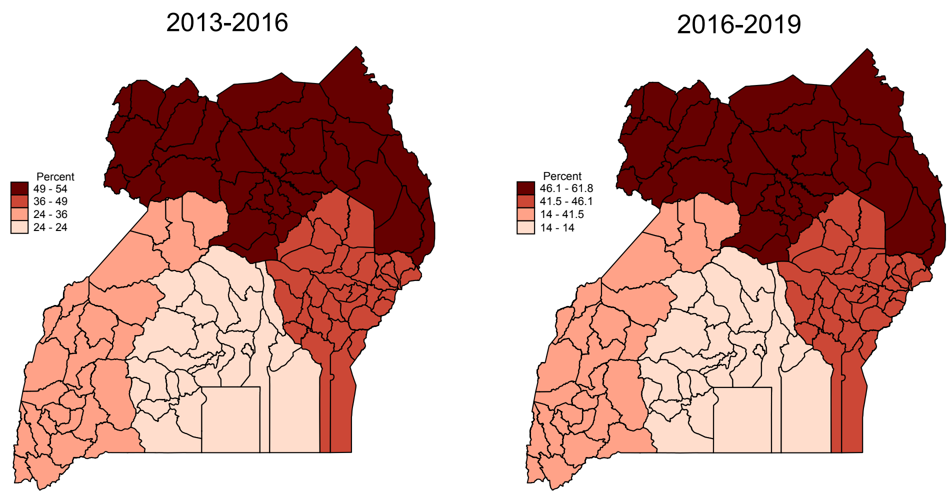
Table 2.27: Welfare changes in the Western Region: 2013/14-2018/19

Status in 2013/14	Status in 2019/20			
	Poor (%)	Insecure non-poor (%)	Middle class (%)	Total (%)
Poor	42.77	48.49	8.74	100
Insecure non-poor	16.21	57.72	26.08	100
Middle class	2.14	29.14	68.72	100

Source: MoFPED (EDPRD) staff computation based on the UNPS 2013/14 and 2015/16 data sets.

In the western region, there is also good progress in poverty reduction. However, Table 2.27 shows that 42.77 per cent of those that were poor in 2013/14 remained poor in 2018/19, and 16.21 per cent of the insecure non-poor slid back into poverty, as did 2.14 per cent of the middle class. Despite the mixed picture in transitions in the western region, it is still better than in the eastern and northern regions.

Figure 2.14: Stagnation in poverty between 2013 and 2019



Source: MoFPED (EDPRD) staff computation based on the UNPS 2013/14-2018/19.

Generally, many households are moving out of poverty in all four regions. However, a significant proportion of the poor has remained chronically poor while the transient poor keep moving above and below the poverty line, depending on circumstances. Therefore, most Ugandans are vulnerable to falling back into poverty. Figure 2.14 is a spatial illustration of the difficulty of transitioning out of poverty. The pattern has not changed over the last seven years.

2.9 Sources of livelihood and poverty

Understanding the underlying covariates of vulnerability to poverty can inform policy debates and design interventions to tackle the problem. One factor limiting the transition out of poverty or driving the non-poor population into poverty is the source of livelihood. Table 2.28 shows that in the 2016/17 and 2019/19 UNHS, poverty was highest among those who derive income from small-scale farming. Moreover, 52.8 per cent of households reported subsistence farming as their major source of income. Worth noting is that poverty among small-scale farmers decreased by 16.52 percentage points. However, among commercial farmers (18.9 per cent of households), poverty increased from 14 per cent in 2016/17 to 16.31 per cent. This could be due to unfavourable conditions affecting farm yields or revenue. Among these is the disruption caused by COVID-19 in terms of slowing the movement of inputs and outputs to markets.

Considering the percentage change in poverty rates by the primary source of household income, notwithstanding the incidence rate, there was a significant increase in poverty among those who relied on property income (50 per cent increase), remittances (49.2 per cent increase), non-agricultural enterprises (29.91 per cent increase) and commercial farming (16.5 per cent increase). The increases are plausible since COVID-19 and the lockdown affected the ability of households to pay rent to landlords. Furthermore, both international and domestic remittances were affected since the income of those who would have transferred funds was also affected by the pandemic. A point of concern is the high poverty rate (40 per cent) among households who depend on the Senior Citizens Grant. It indicates that the grant provided is insufficient or that senior citizens have many dependents.

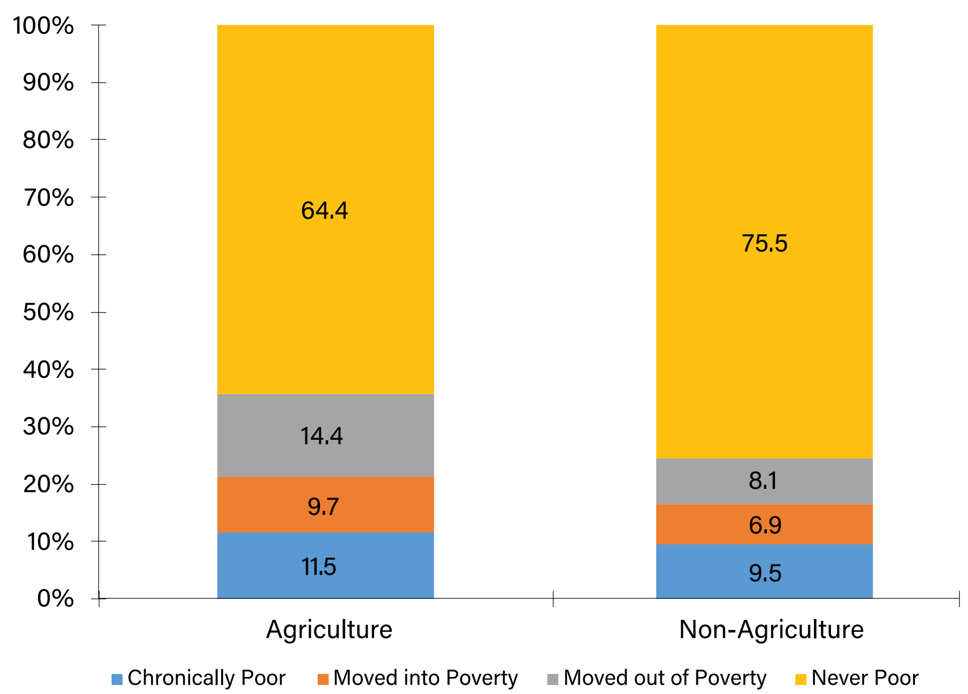
Table 2.28: Poverty status by the main source of household income

Main source of household income	2016/17 (%)	2019/20 (%)	Change (%)
Small-scale farming (crop)	30	26.52	-11.6
Small-scale farming (livestock)	16	10.09	-36.94
Commercial farming	14	16.31	16.50
Wage employment	17	16.39	-3.59
Non-agricultural enterprises	11	14.29	29.91
Property income	6	2.94	50.1
Transfers (pension, allowances etc.)	5	2.87	-42.6
Remittances (all types)	12	17.91	49.25
Senior citizens grant		40	N/A
Others	21	15.39	-27.5

Source: (2021): UNHS 2019/20 Report.

Figure 2.15 shows that between 2013/14 and 2018/19, chronic poverty was higher (11.5 per cent) among those who derive their livelihood from agriculture than those who depend on non-agricultural activities. The proportion of those who have never been poor between 2013/14 and 2018/19 is also highest among those who are engaged in non-agricultural activities. It is evident that the main economic activities of household significantly affect welfare and poverty dynamics.

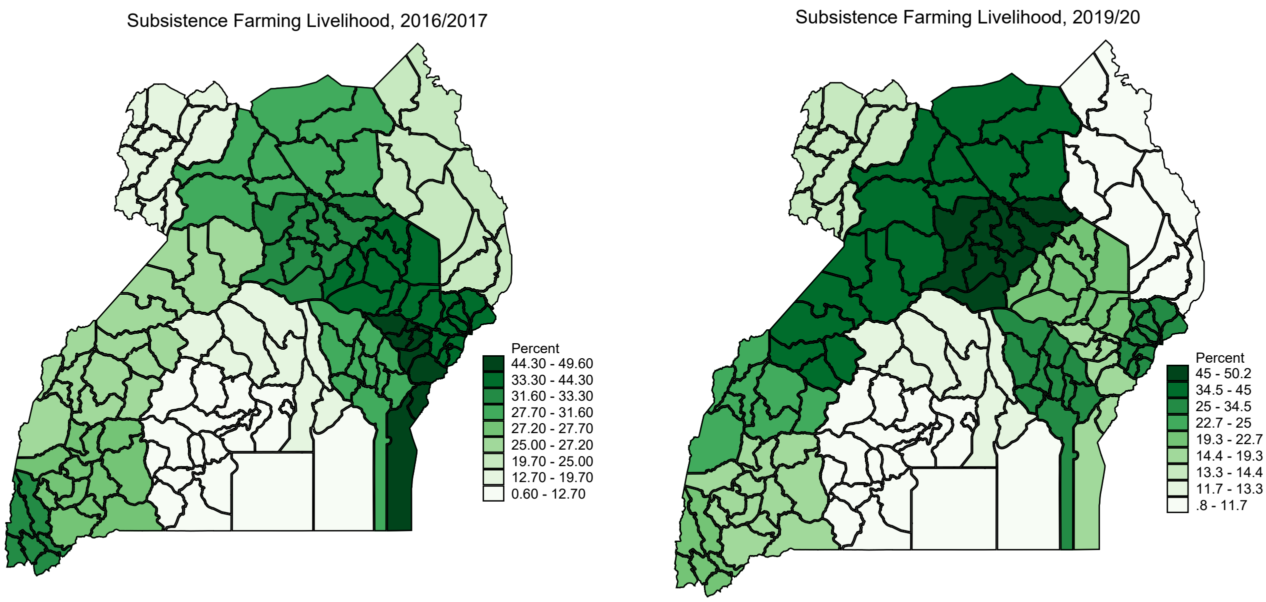
Figure 2.15: Poverty dynamics by main economic activities: 2013/13-2018/19



Source: MoFPED (EDPRD) staff computation based on the UNPS 2013/14 and 2018/19 data sets.

The spatial illustration in Figure 2.16 shows the distribution of the population that depends on subsistence farming as a major source of economic activity.

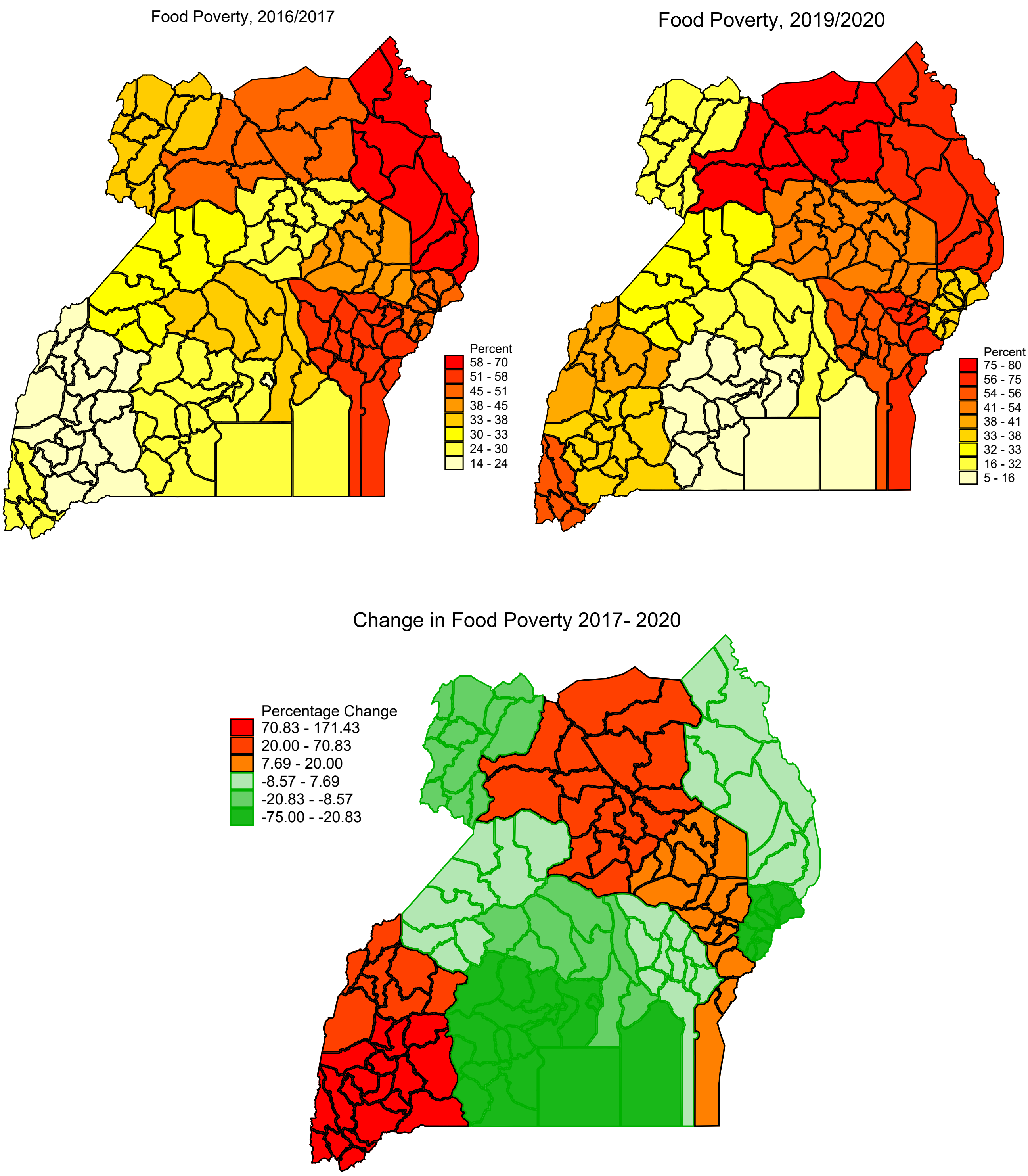
Figure 2.16: Distribution of dependence on subsistence farming



Source: MoFPED (EDPRD) staff computation based on the UNHS 2016/17 and 2019/20 data sets.

It is evident that subsistence farming is widely practised in the northern and eastern regions. Dependence on subsistence agriculture may also lead to food poverty (see Figure 2.17), food insecurity and undernutrition when farm output is lower than the minimum consumption level (poverty line). Juxtaposing Figure 2.6, Figure 2.16 and Figure 2.17 shows a poignant link between sub-regional poverty rates and the subsistence economy. A strategy that considers transformation of subsistence farming to a stable livelihood source may significantly reduce Uganda's poverty.

Figure 2.17: Spatial distribution of food poverty 2017-2020

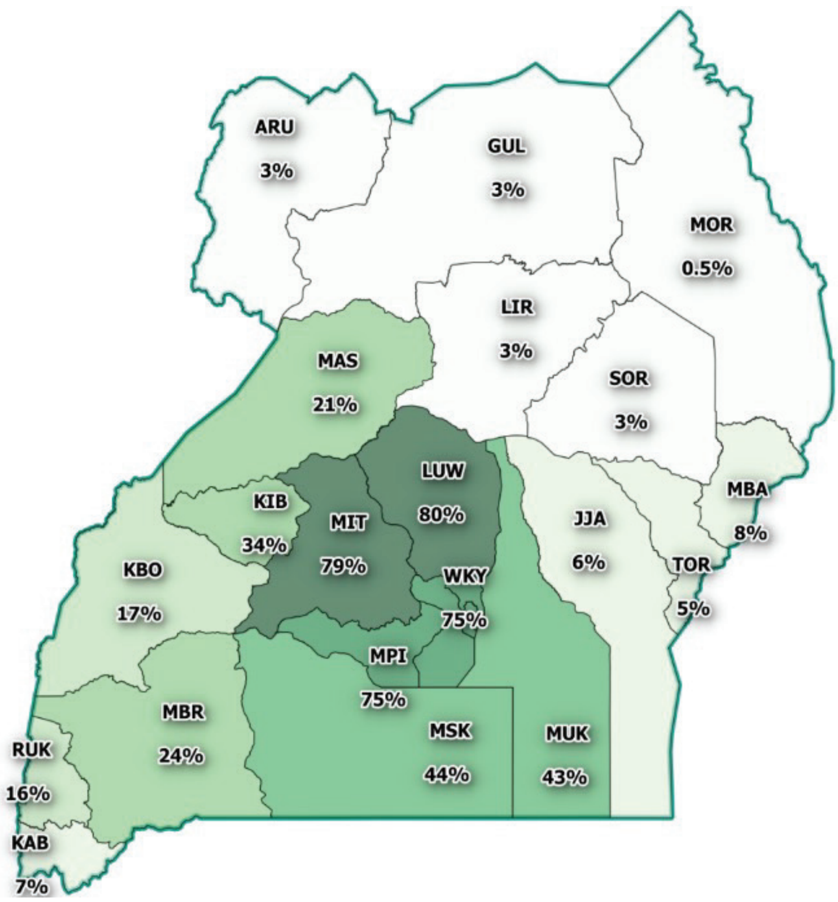


Source: MoFPED (EDPRD) staff computation based on the 2016/17 and 2019/20 UNHS data sets.

2.10 Land rights, subsistence farming and poverty

It also appears that there is an inverse relationship between land rights and subsistence livelihood, as illustrated in Figure 2.18. In Uganda, about 68.65 per cent of the land is held under customary land tenure and governed by customary rules in different regions. For instance, in northern region, land is communally owned and primarily based on hereditary principles. This may reduce personal incentives to put the land to optimal use. Generally, subsistence livelihood is highest in regions with the lowest proportion of registered land. It is plausible that customary land ownership, though not directly linked to poverty, mediates poverty through the subsistence farming system and it is a disincentive to invest in the land.

Figure 2.18: The Proportion of titled land by zonal land offices per region.



Source: The National Land Information System (UgNLIS), 2021

2.11 Gender and poverty dynamics

Figure 2.12 shows that between 2013/14 and 2018/19, 10.3 per cent of the population in male-headed households were chronically poor. But the chronic poverty rate is a little higher (10.8 per cent) among those in female-headed households. Similarly, the proportion of the non-poor population that slid into poverty is also higher for females (8.8 per cent) than males (7.9 per cent). On the other hand, the proportion of the poor in male-headed households who moved out of poverty is higher (11.3 per cent) than that in female-headed households (10.7 per cent).

Table 2.29 and Table 2.30 show that between 2013/14 and 2019/20, poverty was more persistent in female-headed households than in male-headed households. In female-headed households, 60.66 per cent of those that were poor in 2013/14 remained poor in 2018/19, but only 46.6 per cent in male-headed households remained poor.

Table 2.29: Welfare changes in male-headed households

Status in 2013/14	Status in 2018/19			
	Poor (%)	Insecure non-poor (%)	Middle class (%)	Total (%)
Poor	46.60	40.58	12.82	100
Insecure non-poor	20.53	49.71	29.76	100
Middle class	3.76	28.67	67.57	100

Source: MoFPED (EDPRD) staff computation based on the UNPS 2013/14 and 2018/19 data sets.

Table 2.30: Welfare changes in female-headed households

Status in 2013/14	Status in 2018/19			
	Poor (%)	Insecure non-poor (%)	Middle class (%)	Total (%)
Poor	60.06	31.60	8.34	100
Insecure non-poor	23.48	43.26	33.26	100
Middle class	7.28	25.42	67.29	100

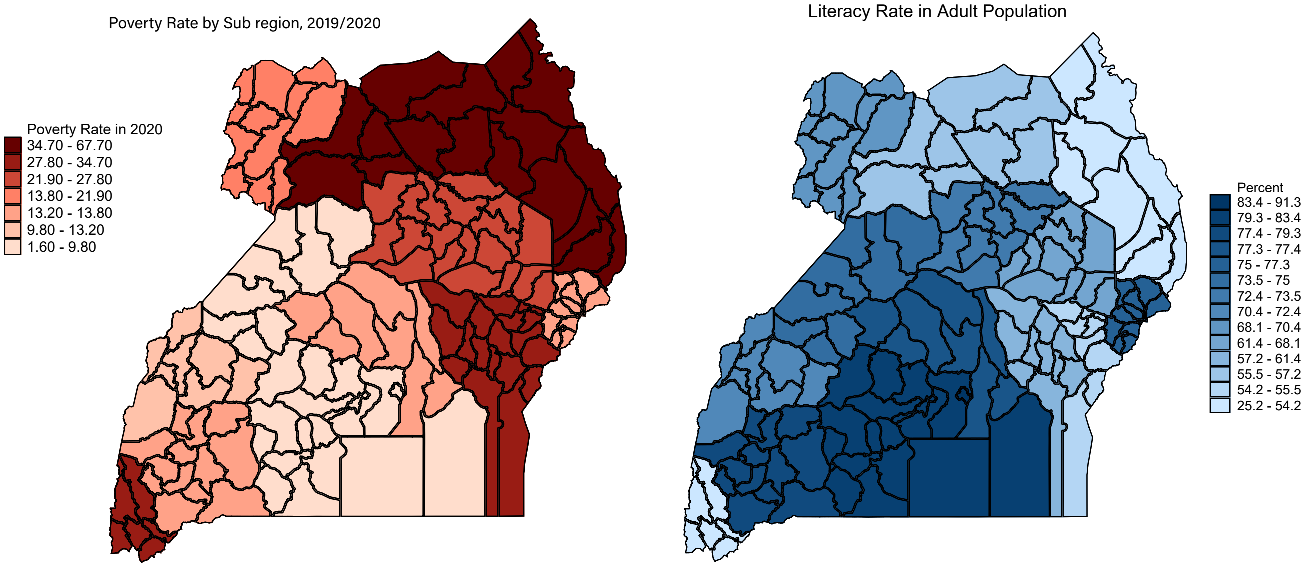
Source: MoFPED (EDPRD) staff computation based on the UNPS 2013/14 and 2018/19 data sets.

Data from UNHS 2019/20 shows that the poverty rate is higher among female-headed households (22.2 per cent) than in male-headed households (19.5 per cent). It appears that poverty is becoming more gender biased.

2.12 Education attainment and poverty dynamics

The government has invested heavily in the education sector to increase access levels, literacy and learning outcomes. Data from UNHS 2016/17 and 2019/20 shows that the proportion of the population aged 15 years and above that lacked formal education increased from 12 per cent in 2016/17 to 14 per cent in 2019/20. Lack of formal education reduces the affected persons' participation in the formal labour market and thus forces them into the informal or low-productive sectors. Education, or the lack of it, therefore, influences poverty dynamics through labour market outcomes and productivity gaps. Figure 2.19 shows an inverse relationship between poverty and adult literacy rate.

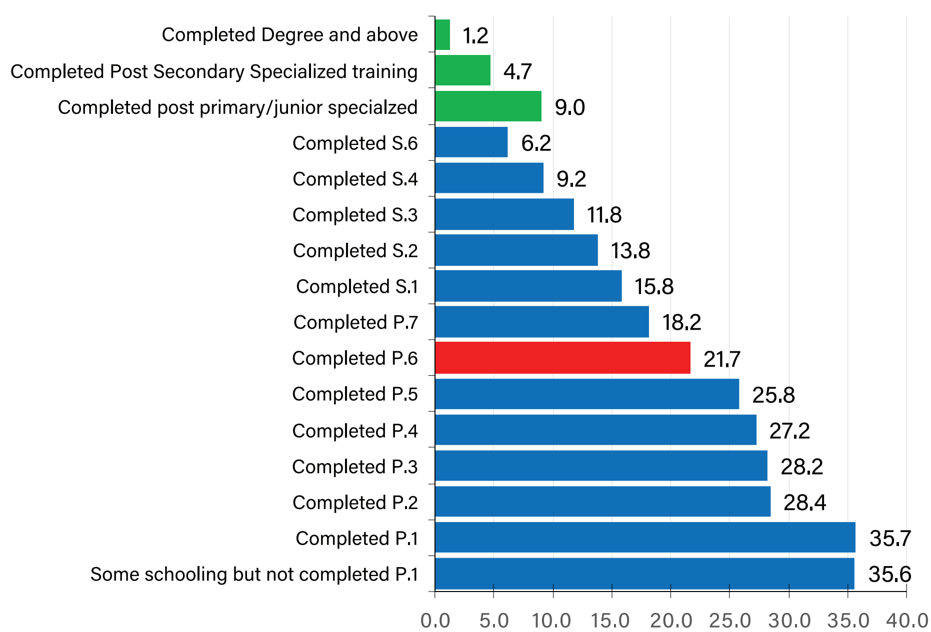
Figure 2.19: Inverse relations between poverty and literacy rate



Source: MoFPED (EDPRD) staff computation based on the UNHS 2019/20 data.

Figure 2.20 shows that in 2019/20, the poverty rate decreased with an extra level of education completed by the household head. Post-secondary education is associated with the lowest poverty, while the poverty rate is highest among those whose household head without formal education. The role of specialized training (BTVET) in poverty reduction is illustrated in Figure 2.20. Specialized training after primary school education is associated with a poverty rate of nine per cent. The poverty rate among those who completed BTVET after secondary school education is even lower (4.7 per cent). It is evident that education plays a critical role in building households' productive capacity, which is vital for poverty reduction.

Figure 2.20: Poverty rate by the education level of household head

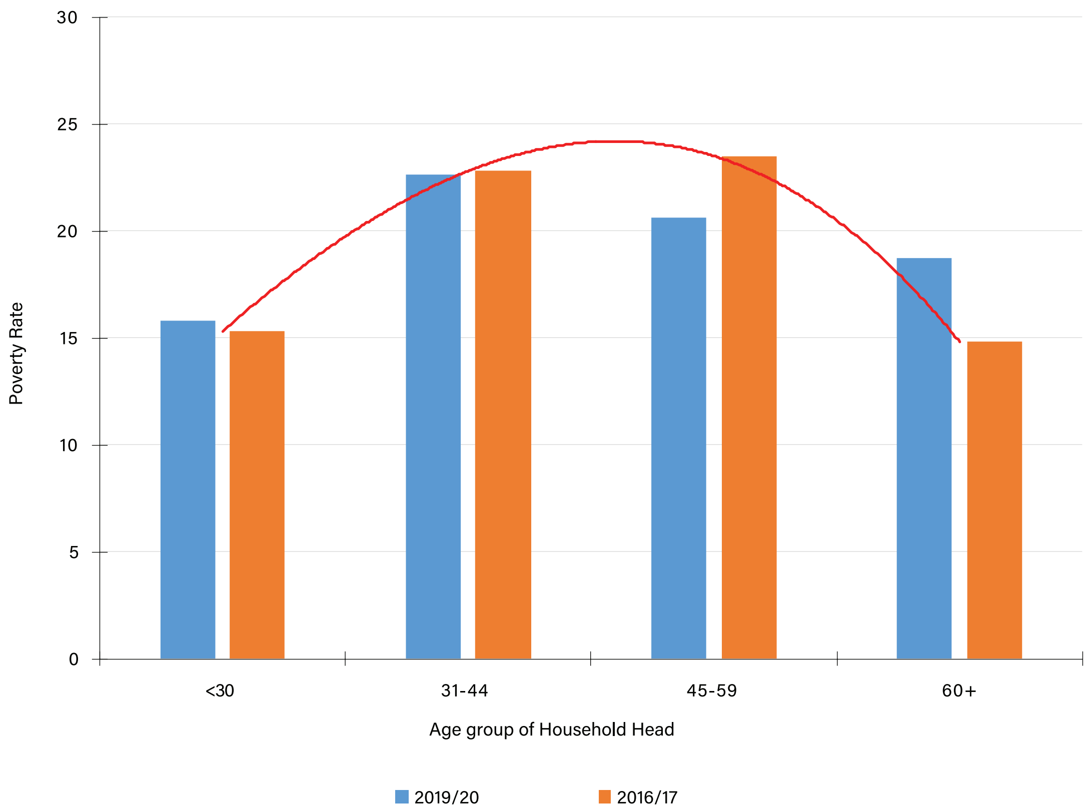


Source: MoFPED (EDPRD) staff computation based on the UNHS 2019/20 data.

2.13 Age and poverty dynamics

Over the life cycle of individuals, circumstances, earnings and welfare tend to change, influencing poverty dynamics. Schröder-Butterfil and Marianti (2006) note that over a lifetime, different forms of vulnerabilities interact and produce outcomes that require coping capabilities and specialized interventions. The UNHS 2019/20 data shows that youth constituted 19 per cent of the population, the working age group was 52 per cent, and the elderly was four per cent. Figure 2.21 shows that the poverty rate and age of the household head appear to have an inverted U-shaped curve. It is plausible since most youth and the elderly have small household sizes relative to household heads in the middle age bracket.

Figure 2.21: Poverty rate by age groups



Source: MoFPED (EDPRD) staff computation based on the UNHS 2016/17 and 2019/20 data sets.

Table 2.31 shows that 57.12 per cent of youth failed to move out of poverty between 2013/14 and 2018/19, while 43 per cent of insecure non-poor youth transited into poverty. In 2018/19, 2.97 per cent of middle-class youth in 2013/14 fell into poverty.

Table 2.31: Welfare changes among youth

Status in 2013/14	Status in 2018/19			
	Poor (%)	Insecure non-poor (%)	Middle class (%)	Total (%)
Poor	57.12	39.07	3.81	100
Insecure non-poor	14.43	61.96	23.62	100
Middle class	2.97	25.25	71.78	100

Source: MoFPED (EDPRD) staff computation based on the UNPS 2013/14 and 2018/19 data sets.

Another group of vulnerable populations is the elderly. People living in households headed by the elderly tend to face higher poverty rates in many developing countries (Kakwani and Subbarao, 2007). This is because of limited or no social protection and the inability to work and support themselves. Data from the UNHS 2016/17 shows that the poverty rate for households whose head was aged 64 years and above was 22.65 per cent, higher than the national poverty rate of 21.4 per cent. In 2019/20, the poverty rate for the 64+ decreased to 19.39 per cent.

Table 2.32: Welfare changes among the elderly

Status in 2013/14	Status in 2018/19			
	Poor (%)	Insecure non-poor (%)	Middle class (%)	Total (%)
Poor	44.56	43.49	11.95	100
Insecure non-poor	18.72	49.39	31.90	100
Middle class	7.98	26.46	65.57	100

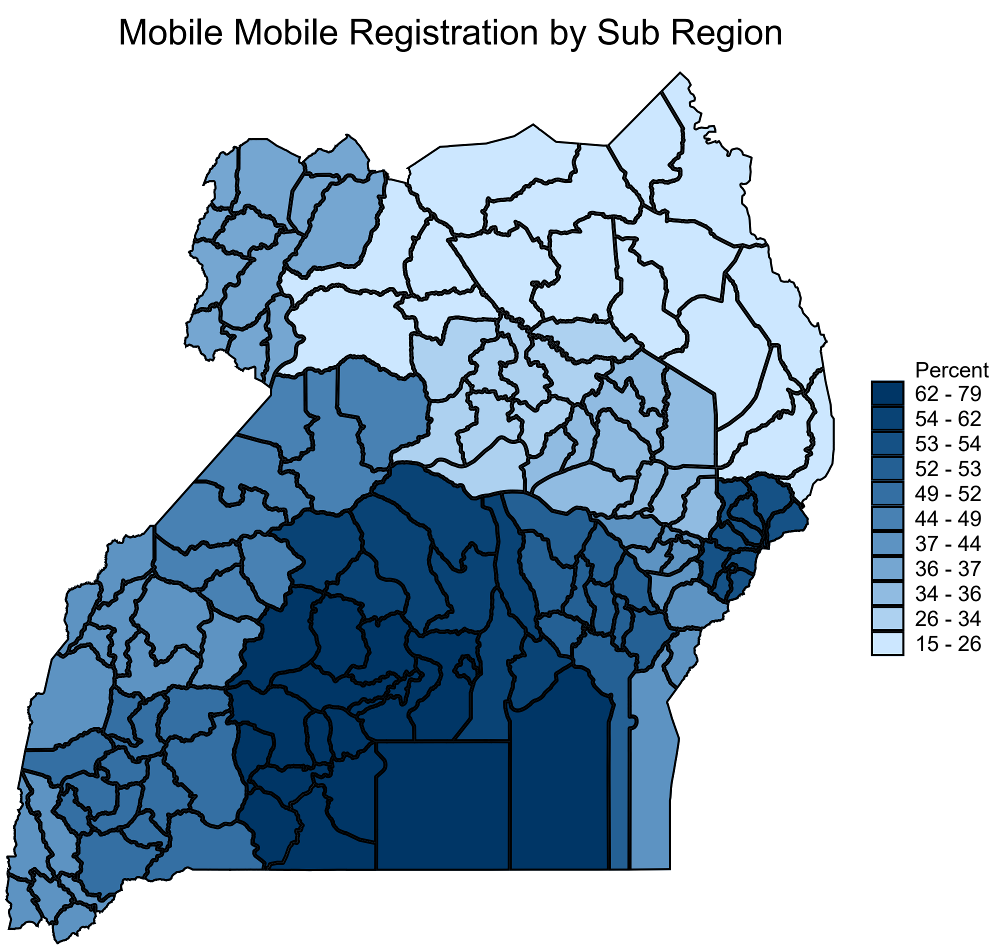
Source: MoFPED (EDPRD) staff computation based on the UNPS 2013/14 and 2015/16 data sets.

Table 2.32 indicates that 44.56 per cent of the households headed by the elderly poor remained poor between 2013/14 and 2018/19, and 18.72 per cent of those in the insecure non-poor category reverted back to poverty. The proportion of elderly households which fall into poverty is higher than that of youth, as per Table 2.31. Therefore, there is a need to support households headed by the elderly to reduce poverty. The move by government to restructure the Senior Citizens Grant to accommodate elders and other vulnerable persons will go a long way in improving the welfare in many households.

2.14 Financial inclusion and poverty reduction

Financial inclusion is the availability and equality of opportunities to access financial services. Financial inclusion is critical in poverty reduction since it broadens access to credit, savings facilities, payment systems, and insurance. People who are excluded from the financial system have limited or no access to the resources required to pay for goods and services. Access to financial services helps households to expand their productive capacity to exploit opportunities for income generation. Data from UNHS 2019/20 shows that 43 per cent of adult Ugandans were financially excluded. On the other hand, the major type of financial product/service used by the financially included adult population is mobile money (provided by telecommunications companies) which accounted for 47 per cent. Only 10 per cent of the financially included adults had access to services through banks or microfinance deposit-taking institutions. From these statistics, access to mobile money is critical for financial inclusion and poverty reduction. Figure 2.22 shows the proportion of the adult population registered for mobile money services. Whereas there could be reverse causality between registration for mobile money and poverty, areas with high poverty rates, like Acholi, Karamoja, Lango and Bukedi, have low mobile money registration.

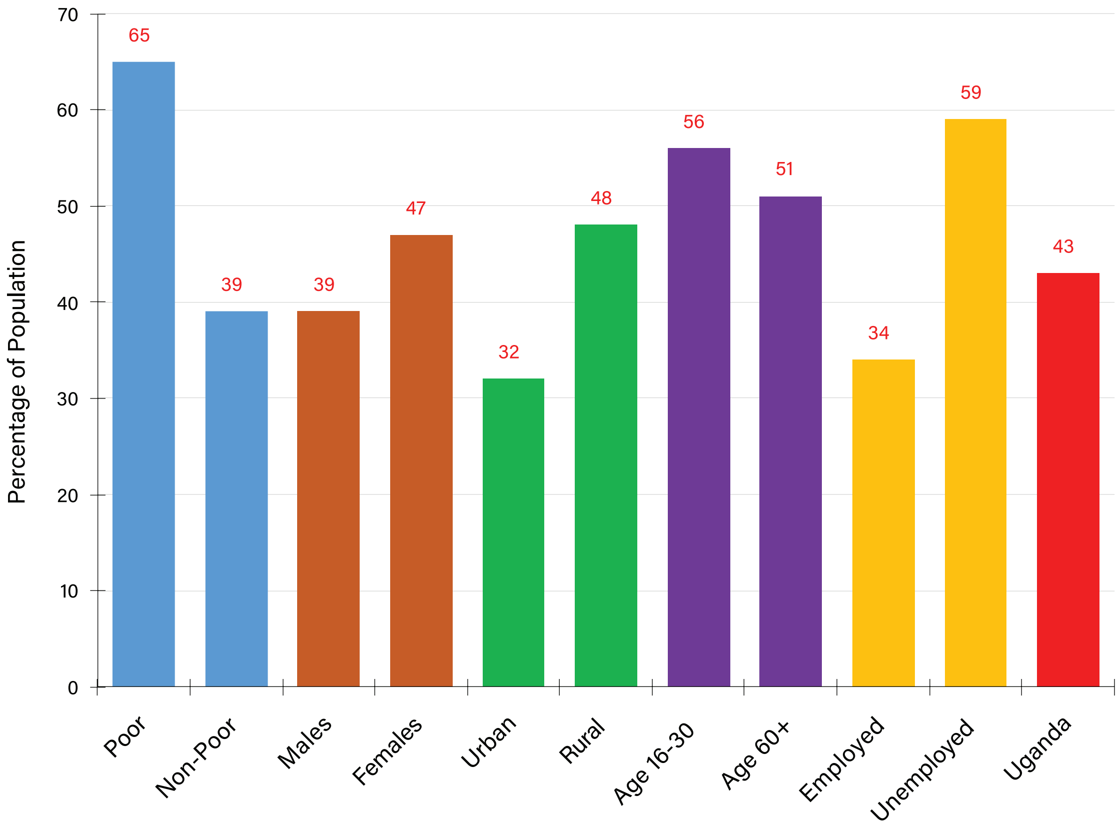
Figure 2.22: Proportion of adults registered for mobile money



Source: MoFPED (EDPRD) staff computation based on the UNHS 2019/20 data set.

Figure 2.23 also shows that financial exclusion is highest among the poor. It appears that the negative effects of poverty perpetuate financial exclusion and financial exclusion traps the poor in poverty.

Figure 2.23: Financial exclusion by socio-demographic characteristics



Source: MoFPED (EDPRD) staff computation based on the UNHS 2019/20 data set.

2.15 Growth of the middle class

In the 2016/17 UNHS, the combined proportion of the poor and insecure non-poor was 62.34 per cent of the population. This large population indicates that many households barely meet their basic needs. In 2019/20, the combined proportion of the poor and the insecure non-poor slightly decreased to 61.8 per cent. The other remarkable change between 2016/17 and 2019/20 is the growth in the middle class. Table 2.33 shows that the number of Ugandans in the middle class increased from 14.12 million in 2016/16 to 15.64 million in 2019/20. It implies that 1.52 million more Ugandans have secured better livelihoods relative to the 2016/17 level.

Table 2.33: The poor and the middle class

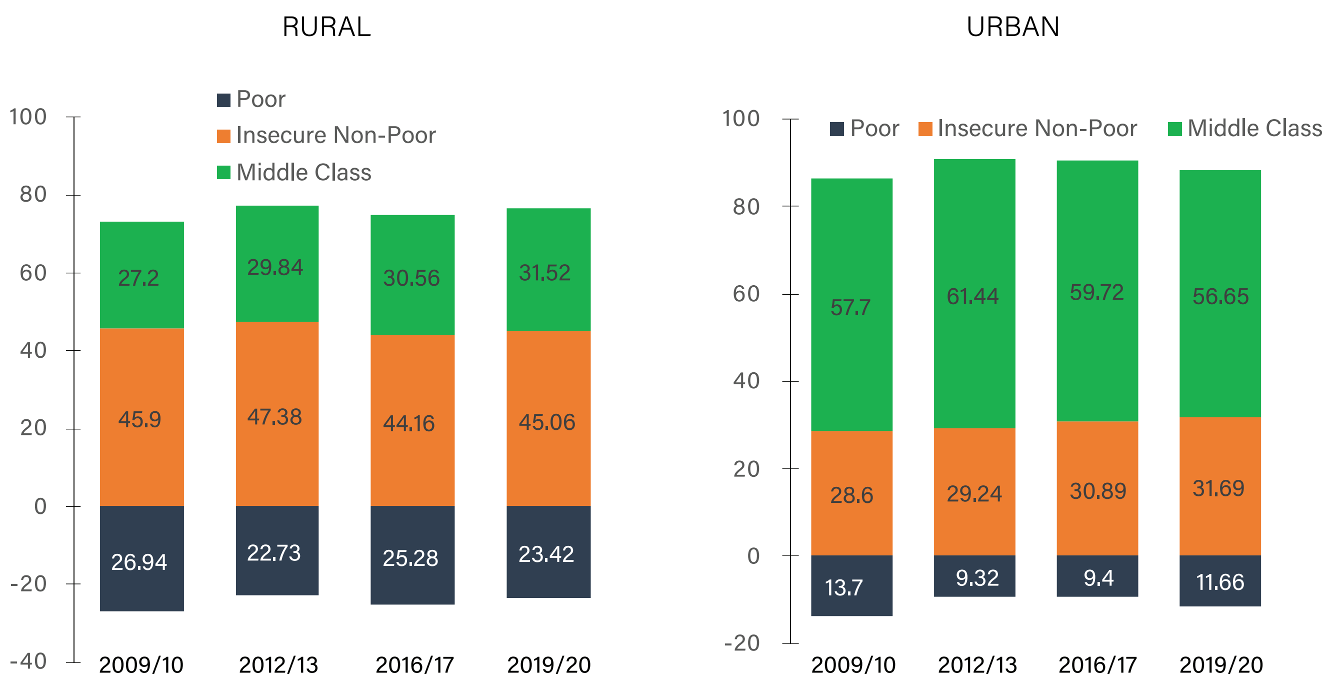
Year	Poor		Insecure non-poor		Middle class	
	Population (millions)	Share (%)	Population (millions)	Share (%)	Population (millions)	Share (%)
2019/20	8.31	20.3	16.99	41.50	15.64	38.20
2016/17	8.03	21.4	15.34	40.93	14.12	37.65
2012/13	6.72	19.74	14.74	43.28	12.6	36.98

Source: MoFPED (EDPRD) staff computation. Based on UNHS 2012/13, 2016/17 and 2019/20

The increase in the income-secure population is important for socio-economic transformation. This is because the middle class tend to have stable incomes and savings, which can be channelled towards investments. They also tend to be resilient to shocks. The increase in the number of people in the middle class is a positive development consistent with Uganda Vision 2040. Figure 2.24 illustrates the change in the proportion of the population classified as poor, insecure non-poor, and middle class over the period 2009/10 to 2019/20 for urban and rural areas. From Figure 2.24, it is noticeable that the middle class is growing at a very slow pace.

A large proportion of the population remains in the vulnerable non-poor category. The slight increase in the middle class, with a reduction in both the poverty rate and the proportion of insecure non-poor, indicates that growth shall become inclusive over time. This is demonstrated by the slight decrease in income inequality (measured using the Gini coefficient) from 0.42 in 2016/17 to 0.41 in 2019/20.

Figure 2.24: Population in poverty, insecure non-poor and middle class



Source: MoFPED (EDPRD) staff computation based on 2009/10-2016/17 UNHS data sets.

Table 2.34 summarises the dynamics of the middle class between 2016/17 and 2019/20 across the 15 sub-regions. Kampala, which has the largest proportion of the population in the middle class, experienced about a 3.8 per cent increase in the proportion of the middle class. This was accompanied by a 38 per cent reduction in poverty and an 11.9 per cent decrease in the proportion of the insecure non-poor. This was a positive development since both the poverty rate and the proportion of the insecure non-poor decreased. By implication, the standard of living in Kampala improved between 2016/17 and 2019/20.

Table 2.34: Change in the middle class and vulnerable non-poor

Sub-region	% in poverty	Proportion of insecure non-poor			Proportion of middle class		
		2016/17	2019/20	%	2016/17	2019/20	%
Kampala	-38.0	18.21	16.05	-11.9	79.22	82.4	3.95
Buganda South	-23.0	31.84	28.82	-9.5	59.2	64.3	8.61
Buganda North	25.1	44.51	46.42	4.3	44.47	39.77	-10.57
Busoga	-21.6	45.94	43.26	-5.8	16.57	27.3	64.76
Bukedi		42.05	46.09	9.6	14.26	19.2	34.64
Elgon	-62.2	47.36	44.06	-7.0	18.14	42.72	135.50
Teso	-12.6	53.5	56.54	5.7	21.42	21.54	0.56
Karamoja	9.2	32.26	26.46	-18.0	7.56	7.89	4.37
Lango	49.6	38.39	49.89	30.0	45.97	26.66	-42.01
Acholi	102.7	46.96	25.82	-45.0	19.64	6.53	-66.75
West Nile	-51.6	44.56	46.93	5.3	20.53	36.19	76.28
Bunyoro	-43.2	44.4	44.53	0.3	38.34	45.68	19.14
Tooro	15.3	43.28	48.62	12.3	45.63	38.59	-15.43
Ankole	93.8	33.56	42.71	27.3	59.64	44.05	-26.14
Kigezi	128.6	46.61	46.51	-0.2	41.23	25.74	-37.57

Source: MoFPED (EDPRD) staff computation. Based on UNHS data sets

The highest increase in the middle class was in the Elgon Sub-region, followed by West Nile and Busoga. In the Elgon and Busoga Sub-regions, the growth in the middle class is associated with a decrease in the proportion of the insecure non-poor. Since the poverty rate decreased in these two sub-regions, the increase in the middle class is indicative of inclusive improvement in the welfare of households. To put this in perspective, the decrease in the proportion of the insecure non-poor and the middle class Kigezi, Lango and Acholi Sub-regions implies that some households that were non-poor in 2016/17 slid into poverty in 2019/20, and hence a reversal of the progress that was made.

A decrease in the middle class threatens the national ambition of socio-economic transformation and reaching a middle-income economy by 2040. Overall, the growth of Uganda's middle class appears unstable.

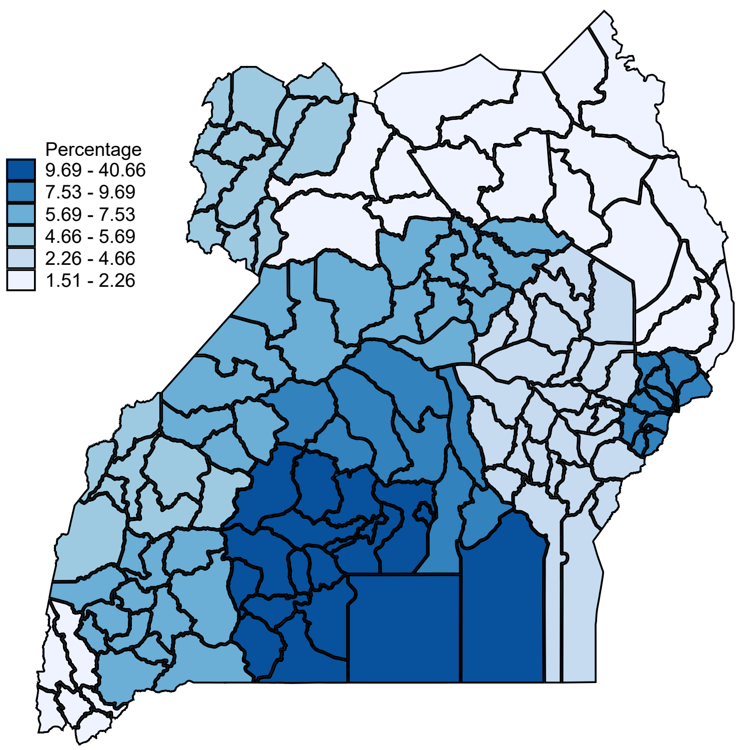
2.16 Middle-class status: An expenditure approach[21]

A middle-class society is expected to have a sustainable standard of living with a minimum likelihood of falling below the poverty line. This, in essence, should be associated with growth in real income commensurate with a middle-income economy. In Uganda, there is a strong national aspiration to reach

21 In measurement of gross domestic product (GDP), the total market value of final goods and services produced in a year should ideally be equivalent to the income received by the producers, and also equivalent to the expenditure on those goods by consumers (Gross value added ≡ expenditure ≡ income). Although this may not always hold due to errors of omission and commission, expenditure is used as an approximation of income for this analysis.

a middle-income economy with a per capita income of US$1,039. This is equivalent to a monthly CPAE of UGX 175,615.24[22] or a monthly household CPAE of UGX 878,076 for a household of five persons. An attempt to measure the likelihood of the country reaching the middle income based on expenditure shows a mixed pattern. Assuming that a household would consume what it earns in a year, we can use consumption per adult equivalent as a proxy for real income per capita. Based on these assumptions, only 9.65 per cent of the population would be moving towards the middle-income status if the movement can be sustained over time. This represents a population of 3.9 million, of which 61.6 per cent are in urban areas. Spatially, the households that meet this middle-class status are concentrated in the Kampala, Buganda (South) and Elgon Sub-regions, as illustrated in Figure 2.25. Kampala has the highest proportion (40.66 per cent) of its population in middle-class status. In the sub-regions where the poverty rate is higher than the national average, the proportion of households in the middle class in 2019/20 is minuscule. This includes Karamoja, Acholi, Lango, Kigezi, Teso and Busoga.

Figure 2.25: Middle-income population-based consumption per adult equivalent (CPAE) at US$1,039

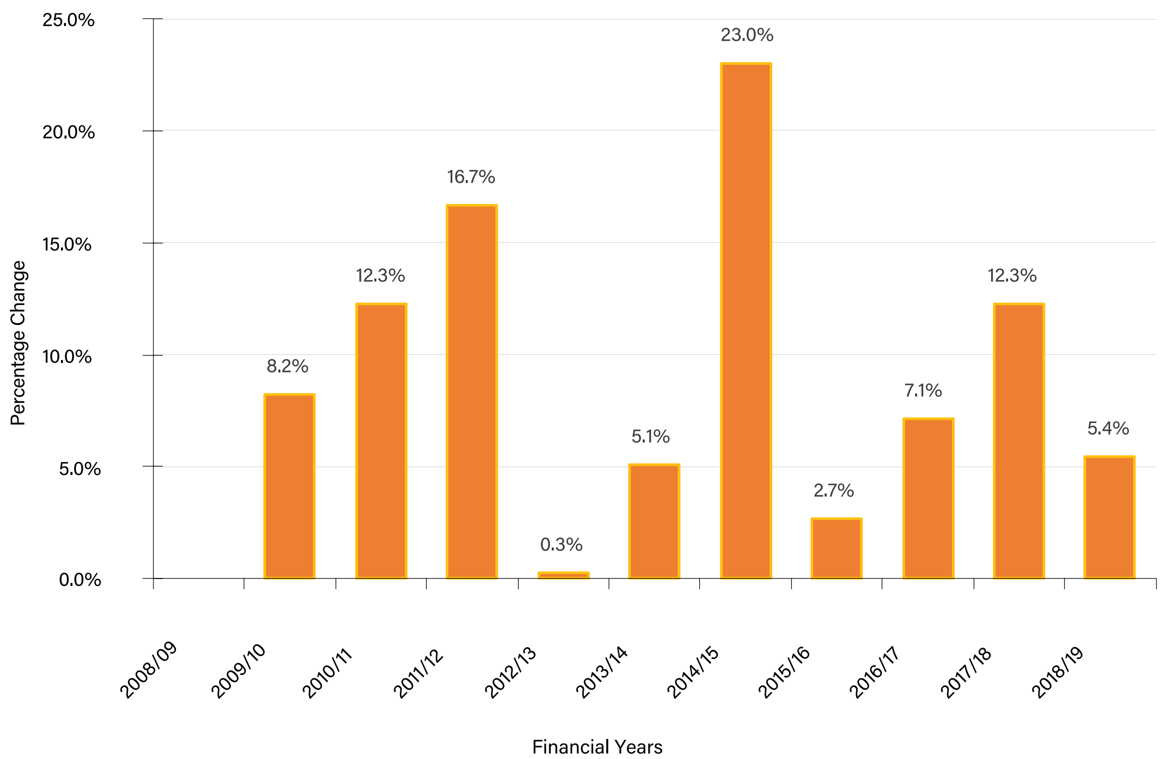


Source: MoFPED (EDPRD) staff computations based on the UNHS 2019/20 data set.

Moreover, the growth in private consumption is unstable, as illustrated in Figure 2.26. The growth in private consumption fell from 23 per cent in 2014/15 to 5.4 per cent in 2018/19. This indicates that since the 2014 Poverty Status Report, the good macroeconomic performance of the economy has not fully trickled down to households in terms of consumption growth. The Gini coefficient, which measures income inequality increased from 0.395 in 2012/13 to 0.413 in 2019/20.

22 In 2009/10 the official UGX-USD exchange rate average was 2,028.88 UGX per US$ according to Bank of Uganda Annual Report 2009/10.

Figure 2.26: Annualized percentage change in private consumption, 2009-2019



Source: (2019).

2.17 Dynamics of income inequality, poverty and the middle class

As the middle class begins to emerge, progress needs to be inclusive. However, the analysis presented in Table 2.35 indicates that there are differences in the sharing of prosperity across sub-regions. The sub-regions with the highest increase in income inequality include Tooro, Karamoja and Elgon. In the case of Karamoja and Tooro, an increase in inequality amidst an increase in the poverty rate threatens social harmony in the sub-regions and the country at large. On a promising note, there was a simultaneous reduction in income inequality and poverty in the Kampala, Bunyoro, Teso, Bukedi and Busoga Sub-regions. This kind of shared prosperity is necessary for a sustainable and cohesive middle-class economy.

Table 2.35: Changes in income inequality, 2016/17-2019/20

Sub-region	2016/17	2019/2020	Change (%)
Kampala	0.409	0.342	-16.4
Buganda South	0.41	0.428	4.4
Buganda North	0.338	0.343	1.5
Busoga	0.359	0.353	-1.7
Elgon	0.327	0.373	14.1
Lango	0.403	0.334	-17.1
Karamoja	0.341	0.386	13.2
West Nile	0.315	0.317	0.6
Bunyoro	0.386	0.347	-10.1
Ankole	0.387	0.33	-14.7
Acholi	0.354	0.345	-2.5
Bukedi	0.344	0.335	-2.6
Tooro	0.377	0.471	24.9
Kigezi	0.367	0.337	-8.2
Teso	0.307	0.288	-6.2
Rural	0.376	0.37	-1.6
Urban	0.419	0.425	1.4
Uganda	0.419	0.413	-1.4

Source: MoFPED (EDPRD) staff computations based on the UNHS 2012/13 and 2016/17 data sets.

2.18 Chapter conclusion

The discussion in this chapter showed that, on average, poverty is declining in Uganda. However, the northern and eastern regions are consistently poorer than other regions. Karamoja, Acholi and Bukedi Sub-regions are poverty hotspots, while Kigezi Sub-regions have registered an increase in poverty over the past two surveys. The systemic drivers of poverty are drought, floods, pests and diseases. Consequently, rural residents and households who depend on crop agriculture tend to be the poorest since the systemic drivers of poverty directly affect their livelihoods. In 2019/20, the poverty rate would have been lower than 20.3 per cent had it not been because of the COVID-19 pandemic and the associated lockdown, which affected livelihoods.

It was also established that government provision of public goods and services has a poverty-reducing impact. However, the proportion of households that would meet the middle-income status (based on household welfare) is still small. Therefore, there is a strong need to ensure that economic growth is inclusive with a commensurate effect on household welfare.

Table 2.36: Appendix 2A: Poverty rates and coefficients of variation by sub-region

	UNHS 2016/17			UNHS 2012/13		
	Poverty rate (%)	CV (%)	No. households	Poverty rate (%)	CV (%)	No. household
Kampala	3	36.1	809	0.7	70.4	637
Buganda South	9	15.6	1,538	3.7	25.1	679
Buganda North	11	15.9	1,417	7.3	21.7	694
Busoga	37	5.7	1,437	22.8	10.8	707
Bukedi	44	4.8	944	29.4	13.0	215
Bugishu	35	6.5	987	25.8	17.7	265
Teso	25	11.4	876	20.8	13.9	209
Karamoja	60	7.2	626	74.2	4.4	677
Lango	16	15.2	1,220	27.6	12.5	388
Acholi	33	10.2	829	45.5	9.8	306
West Nile	35	5.3	1,170	42.3	6.7	689
Bunyoro	17	12.5	1,009	8.5	23.5	338
Tooro	11	11.9	1,094	11.1	20.7	372
Ankole	7	17.9	1,099	7.4	18.1	461
Kigezi	12	18.8	668	7.8	26.7	250
Total			**15,723**			**6,887**

Source: MoFPED (EDPRD) Staff Computations based on the UNHS 2012/13 and 2016/17.

Note:CV=(standard error/mean)*100; the 2012/13 poverty rates for highlighted sub-regions are based on current (2016/17) sub-regional grouping of districts. Although the coefficient of variation increased after regrouping districts into current sub-regions, the CVs are below 20 per cent, except for Kigezi and Bunyoro. Even so, the CV for Kigezi and Bunyoro is still lower than that of Kampala. Given that the sample size for each sub-region is larger than 30, the subdivision of older regions does not affect the validity of the computed poverty rates, which is still comparable to the original sub-regional poverty rates presented in Appendix 2B.

Table 2.37: Appendix 2B: 2012/13 Poverty rate by sub-regions

Sub-regions as of 2012/13	Poverty rate	CV (%)
Kampala	0.7	70.4
Buganda South	3.7	25.1
Buganda North	7.3	21.7
East Central (Busoga)	24.3	11.9
Eastern (Bukedi, Teso and Bugisu)	24.7	10.0
Mid North (Acholi and Lango)	35.4	8.4
North East (Karamoja)	74.2	4.4
West Nile	42.3	6.7
Mid-West (Bunyoro and Tooro)	9.8	15.6
South West (Ankole and Kigezi)	7.6	15.1

The number of households = 6,887.

03

CHAPTER THREE

MULTIDIMENSIONAL POVERTY

3.1 Introduction

Discussion in the preceding chapters considered an individual or household poor if their mean monthly consumption expenditure falls below a predetermined threshold. However, monetary poverty is only one form of deprivation. A household can be above the monetary poverty line but could lack access to education, health care, clean water, financial services or participation in societal decision-making. This constitutes multidimensional poverty. Therefore, it is crucial to examine the various dimensions of deprivation so that strategies can be designed to end poverty in all its forms as defined in SDG 1. In our communities, there is a general view that poverty is multidimensional, as illustrated by the verbatim in Box 3.1.

Box 3.1: Qualitative views on multidimensional poverty

"If you are poor, you cannot be healthy. If your health is not good, you become poor."
- Male FGD participant

"Poverty is lack of basic needs, idleness, unemployment, lack of capital, lack of permanent houses."
- Female youth FGD participant

"A household that cannot provide for the basic needs of family members like food, a house, and health and school fees is poor. They don't have income or livestock."
- Male FGD participant

"A poor household is one that has nothing. No housing, household members are always sick, no proper food, no proper clothing, no soap for washing clothes, and their hygiene is poor."
- Male FGD participant

The Oxford Poverty and Human Development Initiative (OPHI) popularized the application of the Alkire and Foster (2011) measure of multidimensional poverty. The Multidimensional Poverty Index (MPI) measures the extent to which a country's population experiences overlapping deprivations in multiple dimensions of life. Each dimension of deprivation is measured using a set of indicators. Based on the level of deprivation in the indicators, the incidence of multiple deprivations is computed as the proportion of the population who are deprived in at least a predetermined proportion of the weighted indicators.[23] This is analogous to the poverty headcount ratio, except that it is based on more than one measure of deprivation. After that, the average intensity of poverty is obtained by computing the average share of deprivations people experience at the same time. The MPI is then calculated by multiplying the incidence of deprivation by the average intensity of deprivation.

23 OPHI recommends one third of the weighted indicators but this can be adjusted to fit local scenarios. This process is called censoring, since it ignores people who experience some deprivation but are not deprived in one third of the weighted indicators. The lower the cut-off point, the higher the level of deprivation and vice versa.

3.2 Multidimensional Poverty Index for Uganda

A Multidimensional Poverty Index has been developed for Uganda by the Uganda Bureau of Statistics. The four dimensions of poverty included in the MPI are education, health, living standard and empowerment. The dimensions are deemed relevant to Uganda's development context in line with the SDGs and national aspirations. The dimensions, indicators, and weights are presented in Table 3.1.

Table 3.1: Dimensions and indicators in Uganda's Multidimensional Poverty Index

Dimension	Indicator	Deprivation cut-off	Weights
Education (1/4)	Years of schooling	Deprived if one household member above 14 years of age has not completed six years of schooling	1/8
	School-age child attendance	Deprived if any school-aged child is not attending school (between 6 and 18 years of age)	1/8
Health (1/4)	Access to health services	Deprived if at least one household member was sick in the 30 days preceding the survey and did not seek care due to a range of reasons	1/12
	Improved water	Deprived if the household has no access to an improved source of water or if the average time taken to and from the improved water source is more than 30 minutes according to SDG standards	1/12
	Improved toilet facility	Deprived if the household does not use an improved toilet facility and the toilet facility is shared	1/12
Living standards (1/4)	Overcrowding	Deprived if the household is overcrowded (three or more people per room)	1/16
	Electricity	Deprived if the household has no access to clean energy sources such as electricity, solar, generator, thermal, etc.	1/16
	Housing material	Deprived if the household has unimproved walls or roof or floor	1/16
	Asset ownership	Deprived if the household does not have at least one communication or transport asset (bicycle, motorcycle, motorboat, radio, phone or TV) and has no car	1/16
Employment and financial inclusion (1/4)	Child labour	Deprived if any household member 5 to 17 years is engaged in age-inappropriate work	1/12
	Subsistence farmer only or casual labour in agriculture	A household is deprived if the head is a subsistence farmer only or a casual labourer in agriculture	1/12
	Financial services	Deprived if no member of the household (16 years and above) has or uses financial products or does not use mobile money	1/12

Source: UBoS (2022), Multidimensional poverty measurement for Uganda.

Under the dimension of education, access to school, school attendance and completed years of education are used as indicators. Access to water and sanitation facilities are the indicators of health, while overcrowding, access to clean energy and poor building conditions are used as indicators of a poor living standard. Reliance on subsistence farming or casual labour in agriculture and child labour are used as indicators for limited empowerment. In the case of Uganda, a household is considered poor if they are deprived in 40 per cent of the weighted indicators, (2022).

3.3 Deprivation of basic needs

Since the MPI provides an aggregate measure of deprivation, the country's performance in each indicator should be analysed to provide insights into what drives poverty. The performance of each indicator can also serve as a tool to guide policy actions towards poverty reduction. Using UNHS 2016/17 and 2019/20 data and the identified indicators, the level of deprivations was computed by , as shown in Table 3.2.

Concerning education, a household is deprived of schooling if at least one household member, older than 14 years, has less than six years of formal education. The results show that in 2016/17, 21.6 per cent of the population was deprived of formal education. The level of formal education marginally decreased to 20.5 per cent in 2019/20. Deprivation of formal education negatively affects the ability of household members to participate fully in the labour market for productive gains because of their low levels of education. The individuals may also face exclusion from participation in community activities that require the completion of some level of education. This may negatively impact other indicators of deprivation.

School-age children and young adults (aged 6-24 years) are expected to attend an appropriate education level. A household is deprived if at least one school-age child (6-18) is not attending school. The analysis shows that in 2016/17, 25.8 per cent of the school-going-age population did not attend school. In 2019/20, the proportion decreased to 23.2 per cent. With universal primary education, universal secondary education; and business, technical, vocational education and training provided, efforts should be consolidated to reduce this deprivation to zero. This is because monetary poverty is inversely related to levels of completed education. Therefore, deprivation in school attendance reduces the future productive capacity of households and hence can drive up poverty in all its dimensions.

Table 3.2: Level of deprivation by indicators

Indicator	Level of deprivation 2016/17 (%)	Level of deprivation 2019/20 (%)	Change (%)
Years of schooling	21.6	20.5	-5
School-age child attendance	25.8	23.2	-10
Access to health services	18.6	14.2	-24
Improved water	33.9	31.9	-6
Improved toilet facility	77.6	76.5	-1
Overcrowding	48.7	45.2	-7
Electricity	61.3	64.7	6
Housing material	65.1	64.9	0.3
Asset ownership	41.3	46.1	12
Child labour	29.6	18.2	-39
Productive employment	17.8	37.9	113
Financial services	40.8	26.3	-36

Source: UBoS (2022), Multidimensional poverty measurement for Uganda.

Utilization of healthcare facilities by those who suffer from ill health is still a challenge, albeit the improvements registered in the indicator. Table 3.2 shows that the proportion of the population without access to healthcare facilities within a five-kilometre radius fell from 18.6 per cent in 2016/17 to 14.2 per cent in 2019/20. This indicates that long distances to access healthcare services are reducing over time. On the other hand, access to clean water is still a challenge for many households. Table 3.2 also shows that 31.9 per cent of Ugandans were deprived of clean water, although it is a slight improvement from 33.9 per cent recorded in 2016/17. Limited access to clean water can have high opportunity costs since households need to spend valuable time searching for clean water, or they may contract waterborne diseases if water is from a contaminated water source. This, in turn, reduces their productive capacities. Moreover, 76.5 per cent of the population is deprived of improved toilet facilities. This can lead to infections and the spread of water-borne diseases, loss of vital working hours, catastrophic healthcare expenditure and monetary poverty.

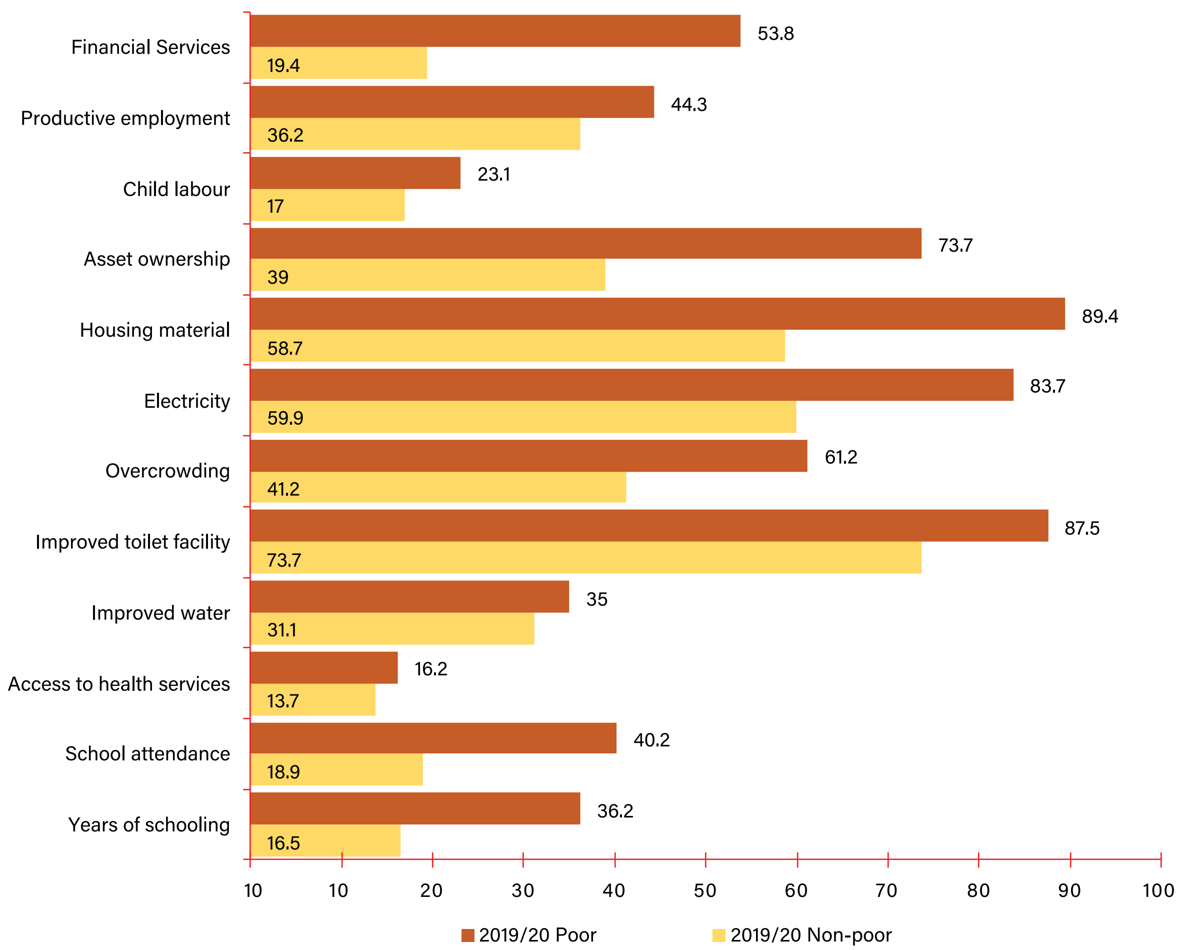
Concerning housing conditions, a household is overcrowded if three or more persons share a room. The data shows that in 2016/17, 48.7 per cent of the population lived in overcrowded tenements, although it reduced to 45.2 per cent in 2019/20. In addition to housing conditions, 65 per cent of the population lived in houses with either earth floors, wood/mud walls, or thatched/tin roofs. Furthermore, in 2019/20, 64.7 per cent of Ugandans were deprived of clean energy, which was an increment from 61.3 per cent recorded in 2016/17.

In terms of living conditions necessary for a middle-class society, Table 3.2 shows that 46.1 per cent of the population is deprived of basic assets such as fridges, cookers, television sets, bicycles, radios and phones. The deprivation worsened from the 2016/17 level (41.3 per cent). Underperformance in living conditions is antithetical to the national ambition of improving the quality of life for Ugandans, as articulated in NDP III.

Furthermore, child labour or employment of a household member as a casual labourer in agriculture, or dependence on subsistence farming are indicators of limited empowerment of an individual and households. The data set shows that 18.2 per cent of the population have children in employment. Although it is an improvement from the 2016/17 level (28.6 per cent), child labour violates national and international labour laws. The proportion of the labour force deprived of productive employment increased from 17.8 per cent in 2016/17 to 37.9 per cent in 2019/20. It is plausible that the disruption of the economy due to COVID-19 and its respective control measures impacted the labour market and reduced decent job opportunities during the data collection period.

Household empowerment is worsened by limited access to financial services. The proportion of the population with no access to financial services fell from 40.8 per cent in 2016/17 to 26.3 per cent in 2019/20. This indicates that there is an improvement in financial inclusion in the country. Overall, children's participation in employment, financial exclusion, and subsistence farming/casual labour in agriculture disempowers households and makes them vulnerable and poor. Figure 3.1 shows that among the poor (based on CPAE), 89.4 per cent of the population live in houses made of poor housing materials, 83.7 per cent are deprived of improved toilet facilities, and 87.5 per cent do not have clean energy. On the other hand, the deprivation rate on all indicators is lower among the non-poor (based on income/ expenditures).

Figure 3.1: Deprivation rates by monetary poverty status



Source: UBoS (2022), Multidimensional poverty measurement for Uganda.

It is evident that even households that are non-poor in terms of income face other forms of deprivation. Analysis of the indicators of the four dimensions of poverty showed that a substantial proportion of the population is deprived of many dimensions of well-being.

3.4 Incidence of multidimensional poverty

As discussed in the introduction of this chapter, the incidence of multiple deprivations is computed as the proportion of the population who are deprived in at least a predetermined proportion of the weighted indicators. The MPI is calculated by multiplying the incidence of deprivation by the average intensity of deprivation. Table 3.3 provides a summary of the incidence (H), Intensity (A) of deprivations and the overall multidimensional poverty index (MPI). Between 2016/17 and 2019/20, the MPI decreased from 25 per cent to 23 per cent in 2019/20. For an informative analysis and targeting of intervention, there is a need to examine the multidimensional headcount ratio (H), which is analogous to the monetary poverty headcount ratio.

Table 3.3: Multidimensional Poverty Index

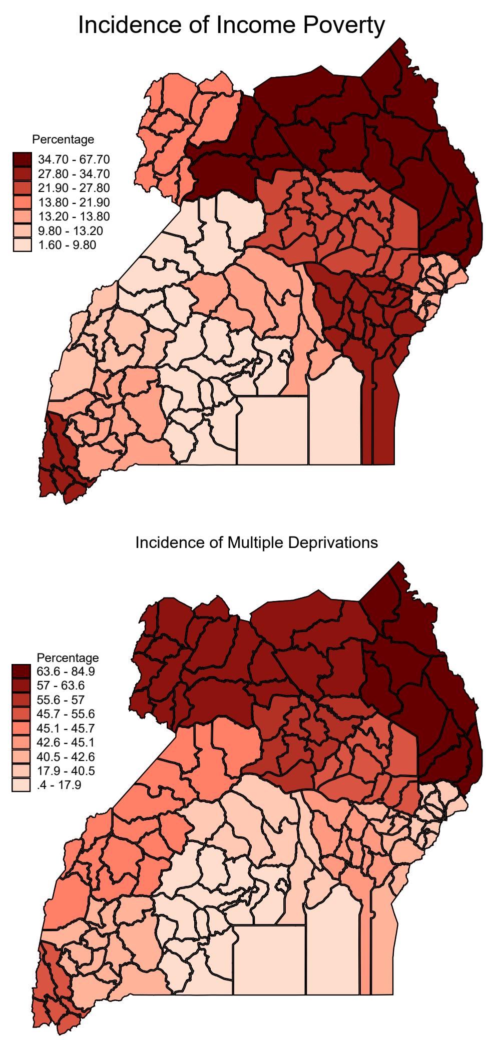
Geographical Area	Multidimensional headcount ratio (H)			Intensity of deprivation (A)			Multidimensional Poverty Index (PO)		
	2016/ 17	2019/20	% change	2016/ 17	2019/20	% change	2016/ 17	2019/20	% change
Residence									
Rural	0.540	0.502	-3.8	0.566	0.549	-1.7	0.306	0.276	-3.0
Urban	0.141	0.197	5.6	0.534	0.531	-0.3	0.075	0.105	3.0
Region									
Central	0.201	0.205	0.4	0.537	0.528	-0.9	0.108	0.108	0.0
Eastern	0.548	0.457	-9.1	0.55	0.535	-1.5	0.301	0.245	-5.6
Northern	0.657	0.629	-2.8	0.599	0.575	-2.4	0.394	0.362	-3.2
Western	0.421	0.451	3.0	0.55	0.537	-1.3	0.231	0.242	1.1
Sub-region									
Kampala	0.027	0.004	-2.3	0.474	0.429	-4.5	0.013	0.002	-1.1
Buganda South	0.183	0.179	-0.4	0.548	0.529	-1.9	0.1	0.095	-0.5
Buganda North	0.29	0.315	2.5	0.531	0.528	-0.3	0.154	0.166	1.2
Busoga	0.499	0.451	-4.8	0.548	0.541	-0.7	0.274	0.244	-3.0
Bukedi	0.654	0.422	-23.2	0.554	0.53	-2.4	0.362	0.224	-13.8
Elgon	0.556	0.405	-15.1	0.551	0.507	-4.4	0.306	0.205	-10.1
Teso	0.527	0.556	2.9	0.547	0.551	0.4	0.288	0.306	1.8
Karamoja	0.867	0.849	-1.8	0.684	0.648	-3.6	0.593	0.55	-4.3
Lango	0.563	0.57	0.7	0.563	0.552	-1.1	0.317	0.315	-0.2
Acholi	0.703	0.636	-6.7	0.599	0.554	-4.5	0.421	0.352	-6.9
West Nile	0.628	0.591	-3.7	0.582	0.566	-1.6	0.365	0.334	-3.1
Bunyoro	0.42	0.457	3.7	0.56	0.54	-2.0	0.235	0.247	1.2
Toro	0.49	0.455	-3.5	0.556	0.542	-1.4	0.272	0.246	-2.6
Ankole	0.373	0.426	5.3	0.541	0.537	-0.4	0.202	0.229	2.7
Kigezi	0.388	0.484	9.6	0.54	0.524	-1.6	0.209	0.254	4.5
Total	**0.443**	**0.421**	**-2.2**	**0.564**	**0.547**	**-1.7**	**0.25**	**0.23**	**-2.0**

Source: UBoS (2022), Multidimensional poverty measurement for Uganda.

Based on the multidimensional headcount ratio (H), 44.3 per cent of Ugandans were multi-dimensionally deprived in 2016/17, but the rate slightly decreased to 42.1 per cent in 2019/20. Noticeably, the multidimensional headcount ratio was more than twice the reference monetary poverty rate over the two surveys. This indicates that many more Ugandans are deprived of basic needs than what the monetary measure of poverty indicates.

Just as the monetary poverty headcount ratio showed, there was a decline in the incidence of multiple deprivations; however, it is higher in rural areas (50.2 per cent) than in urban areas (19.7 per cent). Regionally, the north had the highest multidimensional poverty headcount ratio in both 2016/17(65.7 per cent) and 2019/20 (62.9 per cent), followed by the eastern region (54.8 per cent and 45.7 per cent). The central region had the lowest incidence of multidimensional poverty. The consistent position of the regions in terms of monetary and multidimensional poverty indicates a vicious and self-reinforcing relationship between deprivations. Breaking the intricate links between deprivation will require effective and efficient implementation of multipronged transformative interventions such as the Parish Development Model.

Figure 3.2: Spatial distribution of income and multidimensional poverty



Source: MoFPED (EDPRD) staff computations based on the UNHS 2019/20 data set.

Multidimensional deprivation is highest in the Karamoja Sub-region, followed by the Acholi, West Nile and Bukedi Sub-regions. On the other hand, Kampala and Buganda (South) had the lowest multidimensional deprivation level, as with monetary poverty. This indicates that poverty is intertwined and positively correlated in all its forms. Figure 3.2 provides a comparative spatial distribution of the monetary/income poverty rate and multidimensional deprivation (H) based on the UNHS 2019/20 data set.

Table 3.4: Incidence of multidimensional poverty and household characteristics

Characteristic	2016/17 Multidimensional Poverty rate (%)	2019/20 Multidimensional Poverty rate (%)
Sex of household head		
Female	49.8	48.9
Male	42.3	39.4
Consumption expenditure quintile		
Quintile 1	79.9	73.4
Quintile 2	58.3	56.8
Quintile 3	42.5	42.8
Quintile 4	29.1	27.3
Quintile 5	11.6	10.3
Education level		
No formal education	68.1	69.4
Some primary	61.3	53.9
Completed primary	35.6	36.9
Some secondary	23.6	24.0
Completed secondary	14.4	18.7
Post-secondary	3.3	7.5
Household size		
1 – 3	36.4	37.1
4 – 6	41.9	40.3
7+	51.1	46.6
Uganda	44.3	42.1

Source: UBoS (2022), Multidimensional Poverty Index for Uganda

Table 3.4 provides further evidence that the incidence of multidimensional poverty is strongly related to the monetary measure of poverty. For instance, in 2019/20, the incidence of multidimensional poverty was highest (73.4 per cent) in the lowest consumption expenditure quintile. The incidence of multiple deprivations decreases progressively along the quintile. In 2016/17 and 2019/20, the incidence of multidimensional poverty was 11.6 per cent and 10.3 per cent in the top consumption expenditure quintile. Improving households' ability to increase consumption expenditure/income can go a long way in reducing poverty in all its forms.

Education attainment also influences the incidence of multidimensional poverty. Table 3.4 shows that those who lived in households headed by a person without formal education were the poorest in both 2016/17 and 2019/20, with a multidimensional poverty rate of 68.1 per cent and 69.4 per cent, respectively. On the other hand, in 2019/20, those who lived in households headed by a person with post-secondary education had the lowest multidimensional poverty rate of 7.5 per cent. The influence of educational attainment on multidimensional poverty is compounded by the fact that if a household member (aged 14 years and above) lacks six years of education, it will contribute to deprivation, as shown in Table 3.1. Furthermore, a lack of formal education increases the likelihood of subsistence livelihood and financial exclusion. Therefore, improving access to quality education and reducing school dropout rates can help to reduce multidimensional poverty in Uganda.

Other factors which appear to influence the incidence of multidimensional poverty are the gender of household heads and household size. Table 3.4 shows that the incidence of multidimensional poverty was consistently higher in male-headed households than in female-headed households. This is possibly due to the patrilineal nature of Ugandan society, in which males head most households. That skews the distribution towards male-headed households. Regarding household size, Table 3.4 shows that the incidence of multidimensional poverty increases with household size. Households with seven or more members have the highest incidence of deprivation. It is practically difficult to sufficiently provide basic needs for many people amidst resource constraints. There is a need to sensitize Ugandans on family planning and manageable family sizes.

Generally, the incidence of multidimensional poverty is higher than the monetary poverty headcount ratio. This is because some non-poor individuals, per consumption, are deprived of basic needs such as access to health care, education, water and sanitation, decent employment and financial services. Some of these deprivations are beyond households' choice. For instance, in the case of public utilities such as clean water and electricity supply, a household is deprived if the utilities are not provided in their location. The provision of these services is fully reliant on the government. This calls for improvement in the provision of public goods and social services to reduce both income poverty and multidimensional poverty.

In terms of intensity of deprivation (average share of deprivations people experience simultaneously), Table 3.3 shows that in 2019/20, 54.7 per cent of deprivations were experienced by all Ugandans. This was a slight improvement from 56.4 per cent in 2016/17. In 2019/20, the intensity of deprivation was highest in rural areas (54.9 per cent) than in urban areas (53.1 per cent). Amongst regions, the northern region had the highest intensity of deprivation (57.5 per cent). Across sub-regions, the intensity of multiple deprivations is relatively uniform (about 54 per cent) but is highest in the Karamoja Sub-region (64.8 per cent). The high incidence (H) and intensity (A) of multiple deprivations in Karamoja show that there is a need to prioritize interventions in the sub-region to ensure that they are not left behind.

3.5 Chapter conclusion

The key takeaway from this chapter is that poverty is multidimensional and multidimensional poverty rate (42.1 per cent) is higher than monetary poverty rate (20 per cent. This is because households often lack other basic needs such as decent accommodation, sanitation, employment, education and health. It was also noted that areas with high-income poverty also experience high multidimensional poverty, although multidimensional poverty is almost twice the income poverty rate at both national and sub-national levels.

04 CHAPTER FOUR: VULNERABILITY IN UGANDA

4.1 Vulnerability to poverty

Whereas poverty rate and dynamics can be measured based on the static poverty line, there is a need to understand the risks of becoming poor. Gallardo (2018) defines vulnerability to poverty as the risk of becoming poor. In Uganda, many households frequently face shocks that make them vulnerable to poverty. Understanding vulnerability to poverty can inform policy debates and the design of effective poverty prevention interventions rather than struggling to reverse poverty after it has risen. Forward-looking structural transformation interventions should also aim at preventing poverty rather than alleviating it. Chambers (1989) observed that instead of examining factors that expose individuals, households and communities to the risk of poverty, most policies tend to focus on monetary poverty. To this end, tackling vulnerability would reduce the ex-ante (before the event) risk that a non-poor household will become poor.

Additionally, many households who were not poor when a survey was conducted can, in the event of shocks such as a bad harvest, illness, business collapse, unexpected expenses and job separation, slip back into poverty (Kanbur & Squire, 2001). Therefore, vulnerability creates a severe obstacle to structural transformation and poverty eradication. The group of people who are often vulnerable to poverty include informal sector workers, women, child labourers, the disabled, the elderly, unemployed persons and persons whose livelihoods are more likely to be affected by natural shocks.

4.2 Measurement of vulnerability to poverty

Measurement of vulnerability is not as straightforward as measuring poverty. This is because of its ex-ante nature and the fact that it is not limited to monetary poverty. In the 2014 Poverty Status Report, a household was considered to be vulnerable if its welfare was lower than twice the poverty line. However, it does not provide a complete prediction of the likelihood of future welfare falling below the poverty line. In empirical literature such as Pritchett et al. (2000), Chaudhuri et al. (2002), Dutta et al. (2011) and Bérgolo et al. (2012), various methods for estimation of vulnerability to poverty are discussed. The most widely applied approach is the Chaudhuri et al. (2002) variance approach,[24] which has been adopted for this report. In this approach, expected future per capita consumption is estimated given observable characteristics. The variance of the estimated per capita consumption is then used to compute vulnerability to poverty as the probability that future consumption would be less than the poverty line. Based on the threshold of the probabilities and the headcount poverty rate, the population is classified as not vulnerable, relatively vulnerable or highly vulnerable. United Nations Development Programme and Economic Policy Research Centre (EPRC) (2019) applied this methodology in a background paper behind this report.

Alternatively, vulnerability may also be reflected in the inability to cope when a household is affected by negative shocks (EPRC and UNDP, 2019). The risk that households face could be related to individual characteristics and the environment in which they live or the sectors from which they derive their livelihood. The EPRC and UNDP (2019) used this definition and computed the proportion of the population that did not cope after they were affected by unexpected negative events such as drought or poor farm harvests.

24 Vulnerability is defined as the probability that future consumption expenditure will fall below poverty line: $v_{(h,t)}=Pr(c_{(h,t+1)}\leq z)$

4.3 Spatial distribution of vulnerability to poverty

Based on the variance approach described in the preceding section and UNPS 2015/16 and 2018/19 data, the population proportions in three vulnerability categories were computed. If the probability of becoming poor is higher than 50 per cent, then a household is classified as highly vulnerable. But if the probability lies between 21.4 per cent and 50 per cent, the population was classified as relatively vulnerable. The non-vulnerable population are those whose likelihood of being poor is less than 21.4 per cent (the national headcount poverty rate, based on the UNHS 2016/17). Table 4.1 provides a summary of the categories of vulnerability computed on the basis of this approach.

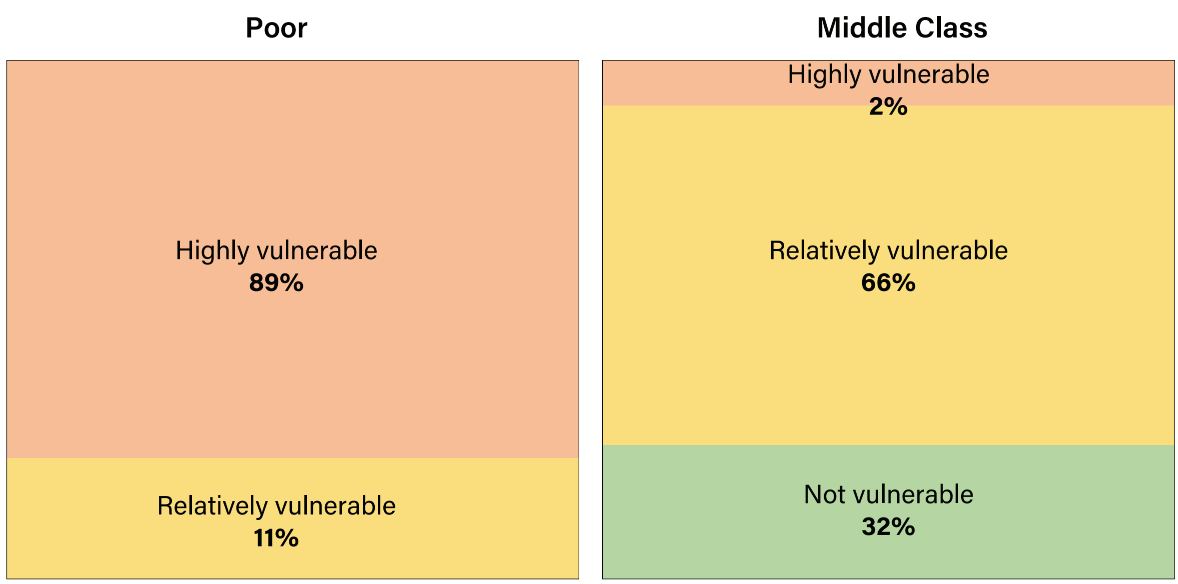
Table 4.1 shows that 54.66 per cent of the population was vulnerable to poverty in 2020, representing about 22.7 million people. If this same vulnerability rate persists, the proportion of people living below the poverty line will increase. This is because the poor are more vulnerable to remaining in poverty than those that are in the middle class, as illustrated in Figure 4.1.

Table 4.1: Categories of vulnerabilities

Category	2020 prediction based on (UNPS 2018/19) (%)	2017 prediction based on (UNPS 2015/16) (%)	2015 prediction based on (UNPS 2013/14) (%)
HIGHLY vulnerable	54.66	65.72	63.28
Relatively vulnerable	34.07	27.25	30.43
Not vulnerable	11.27	7.03	6.29
Total	100	100	100

Source: EPRC & UNDP (2019), Dynamics of Vulnerability to Poverty in Uganda.

Figure 4.1: Vulnerability to poverty among the poor and non-poor



Source: EPRC & UNDP (2019). Dynamics of Vulnerability to Poverty in Uganda.

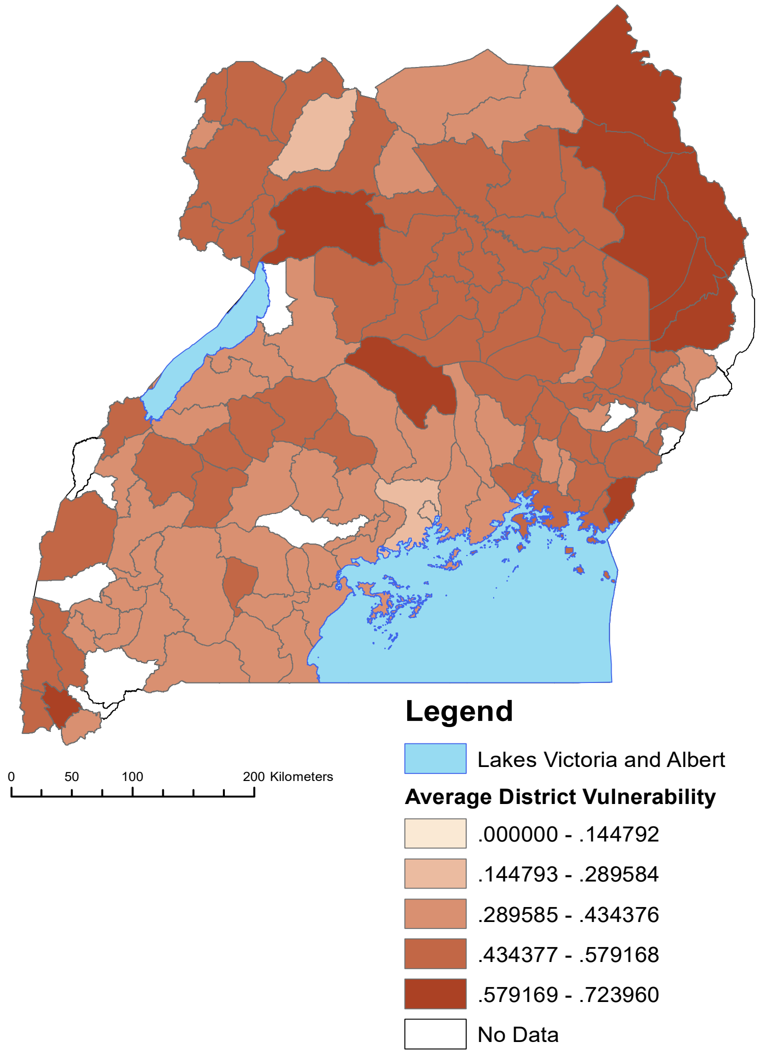
Geographically, the populations that are vulnerable to poverty are mostly located in rural areas, as shown in Table 4.2. The central region has the lowest proportion of vulnerable people for both urban and rural residents. This could be because it is both the commercial and industrial hub of the country. Table 4.2 also shows that rural residents of the eastern region have the most significant proportion of those vulnerable to poverty, followed by northern and western rural areas. In urban areas, vulnerability to poverty is lowest in the central region but highest in the north. Generally, residents of the central region were less likely to become poor in 2020 compared to other regions. This can be explained by the relatively vibrant economic activities in the region and favourable rainfall patterns that support both commercial and subsistence farming. On the other hand, the northern and eastern regions tend to rely on rain-fed agriculture. This makes them vulnerable when there are unfavourable weather conditions. The spatial distribution of vulnerability to poverty shows that Karamoja, parts of Acholi, Lango, Teso, Bukedi and West Nile are highly vulnerable. The top 10 districts in their ranking of vulnerability to poverty in 2020 were Nabilatuk, Napak, Kotido, Kaabong, Moroto, Nwoya, Nakapiripirit, Rubanda, Busia and Pakwach. Figure 4.2 illustrates vulnerability to poverty by district.

Table 4.2: Regional distribution of vulnerability to poverty

Region	Highly vulnerable (%)
Central rural	14.85
Central urban	2.99
East rural	25.28
East urban	5.43
North rural	20.38
North urban	6.11
West rural	19.85
West urban	5.11
Total	100

Source: EPRC & UNDP (2019). Dynamics of Vulnerability to Poverty in Uganda.

Figure 4.2: Spatial distribution of vulnerability to poverty



Source: EPRC & UNDP (2019). Dynamics of Vulnerability to Poverty in Uganda.

4.4 Agriculture and vulnerability to poverty

Agricultural households are often vulnerable to weather vagaries. However, the extent to which climatic shocks affect the welfare of agricultural households depends on various factors, including the type of crops or livestock produced, scale and purpose of production, skills of the farmers and how they respond to shocks, and a host of other idiosyncratic characteristics. In Uganda, a significant proportion of the population depends on subsistence rain-fed farming with little or no application of modern agronomic practices. Such households face a high risk of becoming poor if their farm yield falls below the total household consumption for that period.

Table 4.3 shows that 70.95 per cent of the population that was highly vulnerable to poverty were employed in the agricultural sector. This indicates the high risk and uncertainties associated with the agricultural sector.

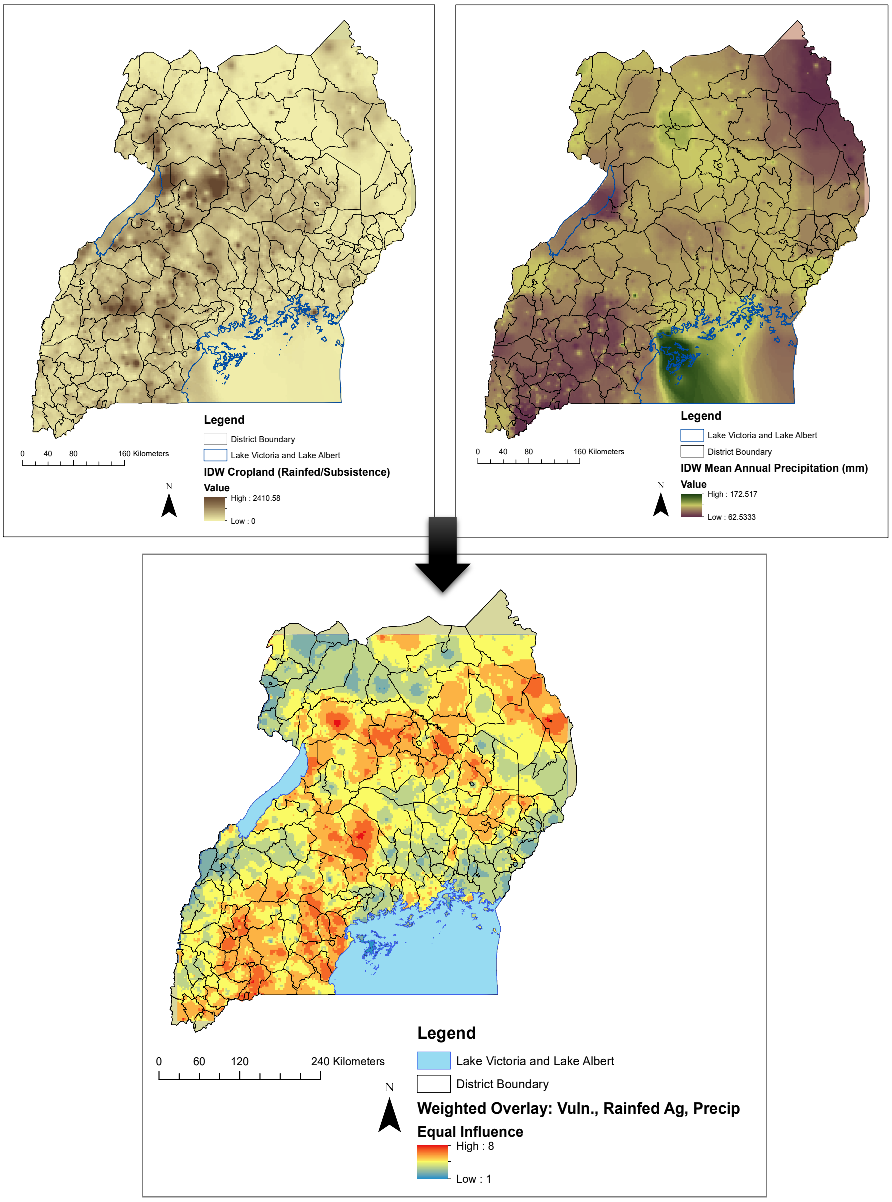
Table 4.3: Occupation/Industry and vulnerability to poverty

Occupation/ Industry	Not vulnerable (%)	Relatively vulnerable (%)	Highly vulnerable (%)	Total (%)
Agriculture	33.61	56.88	70.95	62.05
Manufacturing	6.22	6.57	4.45	5.37
Construction	2.12	2.53	3.22	2.86
Trade	25.02	16.65	9.18	13.47
Transportation	6.35	5.81	4.18	4.98
Services	26.69	11.55	8.01	11.27
Total	100	100	100	100

Source: EPRC & UNDP (2019). Dynamics of Vulnerability to Poverty in Uganda.

Within the agricultural sector, households that depend on small-scale farming as their major source of livelihood are vulnerable to poverty. Summary statistics from the UNHS 2016/17 show that 48.76 per cent of the population derived their income from small-scale crop and livestock farming. On the other hand, wage employment was the source of income for 22 per cent and non-agricultural enterprises for 19 per cent of the population. The high dependence on small-scale agriculture exposes households to poverty, given the high risk of low farm output due to adverse weather and attacks by pests and diseases. Moreover, adverse weather conditions that affect farm output are also linked to an increase in malaria infection, which is a leading cause of morbidity and mortality. For instance, Boyce et al. (2018) found that malaria transmission in Western Uganda increases after floods, especially in riverine villages.

Figure 4.3: Relationship between dependence on rain-fed agriculture, rainfall patterns and vulnerability to poverty



Source: EPRC & UNDP (2019). Dynamics of Vulnerability to Poverty in Uganda.

Ssempiira et al. (2018) indicate that climatic changes in Uganda during the last five years contributed to a favourable environment for malaria transmission. Since most households do not have health insurance, vulnerability to malaria increases out-of-pocket health expenditure. Malaria infection also reduces the productivity and earning capacity of households. If a smallholder farmer was to be affected by malaria for a long time, the household would be highly vulnerable to poverty. Figure 4.3 shows the intertwined relationship between dependence on rain-fed agriculture, rainfall patterns and vulnerability to poverty. Qualitative evidence obtained from the Mini Participatory Poverty Assessment also shows that weather-related shocks drive up the vulnerability of households.

Box 4.1: Weather shocks and vulnerability to poverty

"Natural disasters like droughts and floods negatively affect farm output and consequently drive households into poverty."
- Farmers' Association leader

"Farmers who grow only one type of crop are likely to fall into poverty. This is common with changing climate."
- Male FGD participant

4.5 Gender and vulnerability to poverty

A household's likelihood of being poor depends on several factors, including the gender of the household head. Although the ex-post poverty rate is similar for both male- and female-headed households (21.34 per cent and 21.63 per cent), the likelihood of falling into poverty varies significantly, as shown in Table 4.4. Male-headed households are more likely to be highly vulnerable to poverty (55.03 per cent) than female-headed households (53.76 per cent). On the other hand, more females (35.21 per cent) are moderately vulnerable to poverty than males (33.6 per cent). The differences in the degree of vulnerability could be due to the patrilineal nature of Ugandan society, which influences employment opportunities or owning productive assets such as land.

Table 4.4: Gender and vulnerability to poverty

Vulnerability category	Male-headed (%)	Female-headed (%)	Total
Not vulnerable	11.37	11.04	11.27
Relatively vulnerable	33.60	35.21	34.07
Highly vulnerable	55.03	53.76	54.66
Total	100	100	100

Source: EPRC & UNDP (2019). Dynamics of Vulnerability to Poverty in Uganda.

The proportion of males and females is almost the same at the highest level of vulnerability. However, according to the 2014 National Population and Housing Census, there are females than males in the total population. This indicates that, in absolute numbers, more females are vulnerable to poverty than males. Thus, there is a need for targeted interventions to reduce vulnerability in female-headed households.

4.6 Education and vulnerability to poverty

The education of the household head is one of the socio-economic characteristics that influence vulnerability to poverty. This is plausible since education provides skills and experience that enhance productive capacity and the ability to cope in times of negative shocks. Table 4.5 shows that vulnerability to poverty in lowest for households headed by a person with at least secondary school education level.

Table 4.5: Vulnerability categories by the education level of household head

Household head education level	Not vulnerable (%)	Relatively vulnerable (%)	Highly vulnerable (%)	Total (%)
No formal education	6.72	9.38	15.79	12.59
Some primary	17.21	34.44	48.55	40.23
Completed primary	12.47	16.36	16.20	15.84
Some secondary	39.52	27.70	15.69	22.45
Completed secondary	13.08	8.05	2.52	5.59
Post-secondary	9.89	3.45	0.16	2.37
Not stated	1.11	0.63	1.08	0.93
Total	100	100	100	100

Source: EPRC & UNDP (2019). Dynamics of Vulnerability to Poverty in Uganda.

In terms of occupation, small-scale agriculture is dominated by households with low levels of formal education. This could interact with systemic shocks and expose such households to a high likelihood of becoming poor. The results in Table 4.5 show that 48.55 per cent of highly vulnerable households had a head who had not completed primary education. On the other hand, only 0.16 per cent of the highly vulnerable population were those from households whose head completed post-secondary education. Conversely, among the populations that are not vulnerable, only 6.72 per cent had no formal education. Education clearly influences poverty status and the likelihood of poverty, and the provision of quality and relevant education can go a long way in preventing the population from falling into poverty.

4.7 Age and vulnerability to poverty

The age of a household head influences household welfare and vulnerability to poverty. This is because of life-cycle events and responsibilities that change with age. Table 4.6 shows that high vulnerability to poverty is concentrated in the 40-50-year age group.

Table 4.6: Age and vulnerability

Household head age	Not vulnerable (%)	Relatively vulnerable (%)	Highly vulnerable (%)	Total (%)
Under 20	0.00	0.01	0.01	0.01
20-30	6.77	6.87	6.93	6.89
30-40	22.90	27.72	22.86	24.52
40-50	24.64	27.88	36.34	32.13
50-60	25.28	19.61	15.69	18.11
Over 60	20.41	17.91	18.16	18.33
Total	100	100	100	100

Source: EPRC & UNDP (2019). Dynamics of Vulnerability to Poverty in Uganda.

The 40-50 age group should be highly productive with a steady flow of income and resources to finance consumption. But the distribution of the population that is not vulnerable and moderately vulnerable is also concentrated around the 40-50 age bracket. The EPRC and UNDP (2019) note that the UNPS 2015/16 covered fewer households in the under-30 age group, yet 28.6 per cent of the population is headed by persons aged 18-30 years. Therefore, there is a need to collect data which reflects the population structure.

4.8 Coping mechanisms and vulnerability

Many households face shocks that can adversely affect their welfare. The shocks include drought, flood, earthquakes, storms, landslides, crop pests and diseases, livestock epidemics, political marginalization, and human diseases and epidemics (EPRC & UNDP, 2019). Based on the Uganda National Panel Surveys (2009-2019), EPRC and UNDP noted that almost 90 per cent of Ugandans experienced at least one shock over the three survey periods. In absolute terms, EPRC (2019) observed that in 2015/16, more than 10 million Ugandans experienced at least one shock. This was a decrease from the 15 million people that were exposed to at least one calamity in 2013/14. In 2018/19, the number of people who experienced shocks increased to 15.5 million people. Table 4.7 shows that natural disasters such as drought, floods and landslides are the most reported shocks in the country. Loss of income, crop pests and livestock diseases, and the death of a household member also affected a sizeable proportion of households. The EPRC (2019) noted that households that face at least a spell of drought in five years are likely to have a 10 per cent drop in consumption.

Table 4.7: Trend in the proportion of the population affected by shocks

Category of shock	2009/10 (%)	2010/11 (%)	2011/12 (%)	2013/14 (%)	2015/16 (%)	2018/19 (%)
Natural calamities	76.4	69.5	70.5	76.0	69.4	57.6
Crop pests and livestock epidemics	11.6	4.9	7.4	6.6	5.4	9.8
Prices	6.3	4.4	4.8	4.1	1.3	7.2
Income-related	21.9	26.9	17.4	12.0	14.1	18.5
Death	5.6	7.0	6.1	7.7	8.1	7.0
Other shocks	27.5	13.8	13.8	13.3	11.6	13.9

Source: EPRC & UNDP (2019), Dynamics of Vulnerability to Poverty in Uganda.

The dynamics of exposure to shocks interact with idiosyncratic household characteristics and public interventions to influence coping mechanisms such as using past savings, finding new employment, and seeking institutional assistance. This influences vulnerability to poverty, which is defined as the inability to cope with shocks and thus leading to a fall in consumption below the poverty line. Table 4.8 shows that in 2015/16, there were 2.4 million people who were not able to cope with shocks, representing 28.6 per cent of those exposed to at least one calamity.

Table 4.8: Economically vulnerable population 2012/13-2018/19

	2013/14			2015/16			2018/19		
	Exposed	Vulnerable		Exposed	Vulnerable		Exposed	Vulnerable	
	pop. (million)	Million	%	pop. (million)	Million	%	pop. (million)	Million	%
Panel A: At least one shock									
Uganda	15.2	4.3	28.6	10.2	2.4	23.3	15.5	3.1	19.9
Central	4.1	0.7	17.8	2.8	0.2	6.2	2.7	0.1	4.0
Eastern	3.6	1.2	33.5	2.1	0.4	20.6	3.7	0.8	22.3
Northern	3.5	1.7	48.4	3.6	1.5	40.4	4.5	1.7	38.4
Western	4.0	0.7	17.4	1.7	0.3	18.0	4.7	0.4	9.4
Panel B: To drought									
Uganda	10.0	3.1	31.6	6.2	1.6	26.1	7.2	1.6	22.0
Central	2.5	0.5	20.9	1.5	0.0	2.8	0.5	0.1	12.9
Eastern	1.7	0.7	39.7	0.9	0.2	20.8	1.2	0.3	25.7
Northern	2.7	1.4	51.4	3.0	1.3	42.6	2.6	0.9	34.3
Western	3.0	0.6	18.3	0.8	0.1	14.4	3.0	0.3	11.1

Source: EPRC & UNDP (2019), Dynamics of Vulnerability to Poverty in Uganda.

In 2018/19, 3.1 million of the 15.5 million people who faced shocks did not use any coping mechanism and were poor. Although the number of the economically vulnerable population is large in 2018/19, in comparison with 2015/16, the proportion is smaller (19.9 per cent). This is possibly due to better coping mechanisms than what was available in 2015/16 and also due to population growth.

The economically vulnerable population is geographically concentrated in the northern region, followed by the eastern region (EPRC, 2019). In 2018/19, 60.7 per cent of the population that did not use any coping mechanism after exposure to a disaster were in the northern and eastern regions, as illustrated in Table 4.8.

As shown in Table 4.8, drought is the shock reported by a significant proportion of households and can potentially make agricultural households poor. Panel B of Table 4.8 shows that the number of people exposed to drought decreased from 10 million in 2013/14 to 6.2 million in 2015/16 and increased slightly to 7.2 million in 2018/19. The proportion of the population that was exposed to drought and became economically vulnerable decreased from 31.6 per cent in 2013/14 to 22 per cent in 2018/19. Covid-19 and the lockdown period exacerbated the vulnerability of households, especially those who depend on informal sector jobs and small-scale businesses.

4.9 Shocks and resilience

Households that are not resilient to shocks can fall from middle class to poverty, from middle class to insecure non-poor, or from being insecure non-poor to poverty. Resilient individuals are those who can stay out of poverty even when they are affected by negative shocks. Such households have coping mechanisms such as using savings, selling assets, and social protection. The existence of coping mechanisms and resilience can influence future poverty rates and poverty dynamics. The UNDP (2019) noted that households that experienced disasters in 2015 but remained economically resilient used savings, credit and the sale of durable assets as adaptation strategies. Using the 2013/14 and 2015/16 UNPS to trace the poverty status of individuals who faced shocks, UNDP (2019) established that 5.2 million Ugandans who faced shocks in 2013/14 were resilient. However, 4.8 million were economically vulnerable (fell into poverty and were unable to move out of poverty). Between 2015/16 and 2018/19, 3.7 million people who faced shocks were resilient, but 4.1 million people were economically vulnerable. Notwithstanding the coping mechanisms adopted, in absolute terms, the number of people who were resilient to shocks decreased between 2013 and 2018. This implies that a significant proportion of the population that faces shocks is more likely to fall into poverty and stay in poverty unless they are helped to become more resilient.

Table 4.9 shows regional variation in resilience and economic vulnerability (the inability to move out of poverty occasioned by shocks). Economic resilience is higher in the central and western regions, while the economic vulnerability is higher in the northern and eastern regions. It is plausible that the weak resilience in the northern and eastern regions contributes to the high poverty rates in the two regions. The northern region had the highest proportion of the economically vulnerable population over the 2013-2019 period. This could be due to bad weather conditions and high dependence on rain-fed agriculture.

Table 4.9: Dynamics of resilience to shocks

Region	Shock 2013 Poverty movement 2013-15				Shock 2015 Poverty movement 2015-18			
	Resilient to shock (number and %)	Vulnerable to shock (number and %)	Upward mobility (number and %)	Total (number and %)	Resilient to shock (number and %)	Vulnerable to shock (number and %)	Upward mobility (number and %)	Total (number and %)
Central	2 million 49.83	968,000 23.92	1.1 million 26.25	4.0 million 100	1.3 million 54.37	674,000 27.82	432,000 17.81	2.4 million 100
Eastern	778,000 21.37	1.3 million 37.08	1.5 million 41.55	3.6 million 100	801,000 31.80	1.1 million 43.54	622,000 24.66	2.5 million 100
Northern	743,000 21.12	1.6 million 45.08	1.2 million 33.8	3.5 million 100	891,000 23.93	2.1 million 55.49	766,000 20.58	3.7 million 100
Western	1.7 million 42.87	912,000 22.92	1.4 million 34.21	4.0 million 100	754,000 49.37	343,000 22.45	431,000 28.18	1.5 million 100
Total	5.2 million 34.53	4.8 million 31.72	5.1 million 33.75	15.2 million 100	3.8 million 36.93	4.1 million 41.00	2.3 million 22.07	10.2 million 100

Source: EPRC & UNDP (2019). Dynamics of Vulnerability to Poverty in Uganda.

4.10 Government intervention and vulnerability reduction

The Ugandan Government is cognizant of the vulnerabilities households face. A number of policy interventions have been formed to reduce vulnerability and build the resilience of households. Investments in health, education and community services have been increasing over the years. For instance, access to health care and education has been improving, with every sub county having at least a health centre and a secondary school. Community polytechnics, business, and vocational schools are being built to increase practical skills. However, the quality of health care and education provided by government institutions remains challenging. The lack of national health insurance also limits the poor's access to specialized health services. Employers are also questioning the relevance of education curricula. Hence, the government needs to address both issues of access and quality and the relevance of the services it provides to tackle vulnerability and poverty.

Regionally, northern Uganda is the most vulnerable region to poverty. The government has been implementing several interventions to supplement NGOs' efforts in conflict resolution and economic and social development. For example, the Peace Recovery and Development Plan, the Northern Uganda Social Action Plan (NUSAF) and other nationally initiated schemes such as Operation Wealth Creation (OWC) and Social Assistance Grant for Empowerment (SAGE), among others. Operation Wealth Creation is meant to increase access to farm inputs and raise agricultural production and value. However, these programmes have faced implementation challenges. Cases of uncoordinated delivery of farm inputs remain a bottleneck. The uncertain performance of OWC, relative to the NAADS programme, could be due to the limited participation of farmers in enterprise and input selection. Disadvantaged groups such as the poor, slum dwellers, elderly and youth complain of limited participation in decision-making. Evidence from the Mini Participatory Poverty Assessment shows NAADs was a more organized programme than OWC, with a strong institutional and structural set-up that valued farmers' participation in determining agro-inputs to be supplied. Former NAADS group members in Wakiso district highlighted an advantage of NAADs over OWC: "During the NAADS era, the farmers could always determine what they intended to grow; however, under OWC, the officers simply deliver inputs without consulting the farmers."

The government has also invested in programmes to address the specific vulnerabilities of youth, women, persons with disabilities (PWDs), children and older persons. Programmes such as the Disability Grant provide seed capital to organized PWDs in urban and rural locations. Due to the difficulties that PWDs face in accessing formal financial services, financial inclusion through mobile money systems has improved. But the National Council for Persons with Disabilities (NCD) (2018) notes that access to the grant and the total amount of the grant was insufficient to improve the livelihood of persons with disabilities. The total annual grant of UGX 3 billion, to be shared among all districts, is too small to create the intended impact. Moreover, the implementation of the programme is plagued with many challenges. These include lack of clear guidelines, corruption and misappropriation of the grant at the district level, misuse of the grant by the beneficiaries, merging the grant into the social development fund, no clear monitoring and evaluation system, limited knowledge and skills in proposal writing which is a requirement, poor selection of enterprises; and poor record-keeping by the beneficiaries, among other issues (NCD, 2018).

The Youth Livelihoods Programme and the Uganda Women Entrepreneurship Programme are intended to support vulnerable youth and women to kick-start enterprises of their own choice in identified locations. Although some youths have accessed working capital from the government through the programme, they still face several hurdles. These include limited skills; and a limited market for their businesses. This has affected the repayment of the loans.

Besides these targeted programmes, there is a need for the government and the communities to invest in intersectional approaches to vulnerability reduction. An intersectional approach considers situations' historical, social and political context and recognizes the individual's unique experience based on the intersection of all relevant grounds. Chaplin et al. (2019) observed that intersectional approaches provide a way of analysing how different factors, such as gender, age, disability and ethnicity, intersect to shape individual identities, thereby enhancing awareness of people's needs, interests, capacities and experiences. This implies that policies and programmes should be designed to respond to the unique needs of diverse vulnerable groups. The pillars of the Parish Development Model should empower the most vulnerable and marginalized in society. This will ensure that prosperity is shared and no one is left behind in the spirit of the 2030 Agenda. The Government should invest in the creation of safer and decent jobs that address the issues of labour rights. Compliance and labour administration through improved labour inspection can improve working conditions in both the formal and informal sectors. Industrial and agricultural development should be pursued to reduce vulnerability to climate change. This can go a long way in reducing the vulnerability of the rural population that depends on rain-fed agricultural production.

4.11 Chapter conclusion

Vulnerability to poverty hinders poverty reduction since the non-poor are likely to fall into poverty, and the poor could remain in poverty forever. In this chapter, a forward-looking measure of vulnerability to poverty was introduced, and when applied to data, it showed that over 50 per cent of Ugandans are susceptible to poverty. Vulnerability to poverty is driven by shocks such as drought, floods, pests and diseases. Characteristics such as gender, education level, industry, type of employment and age of household head influence vulnerability to poverty. Households use informal social protection to cope with shocks. Since most households depend on agriculture, the government needs to scale up interventions to mitigate climate change which have negatively affected farm yields and household income. Vulnerable groups such as orphans, the elderly, persons with disabilities and lagging regions require special interventions for the reduction of poverty and vulnerability to poverty.

05

CHAPTER FIVE:

COVID-19, INFORMALITY AND POVERTY

5.1 Introduction

In Uganda, many households start businesses to diversify income sources. Household enterprises boost job creation and income generation and contribute toward poverty reduction. Box 5.1 provides qualitative information on what drives households to the informal sector. According to UNHS 2019/20 Report, 2.8 million households operate non-crop farming businesses that engage about 4.9 million people (52 per cent males and 48 per cent females). Regarding location, 60 per cent of the enterprises were in rural areas, and the majority (95 per cent) were sole proprietorships, with only 19 per cent of the people working as paid employees. The major source of finance for starting businesses was own savings (81 per cent). The major enterprises were in trade (47 per cent) and manufacturing (21 per cent). The COVID-19 pandemic affected business operations to the extent that during the pandemic, the proportion of households with non-crop farming businesses fell from 35 per cent to 28 per cent. Notwithstanding the challenges occasioned by COVID-19, informality remains a major feature of Uganda's private sector in general and household enterprises in particular.

Box 5.1: Conditions pushing women to the informal sector

"In the past, men would take care of their families and women would concentrate on nurturing children. The trend has changed lately. In many households, women provide for their families from income earned from the informal sector."

- Female participant in community dialogue, Wakiso District

"Women are now the breadwinners in many families. Men have abandoned their responsibility. As a result, women do all sorts of work to feed their children."

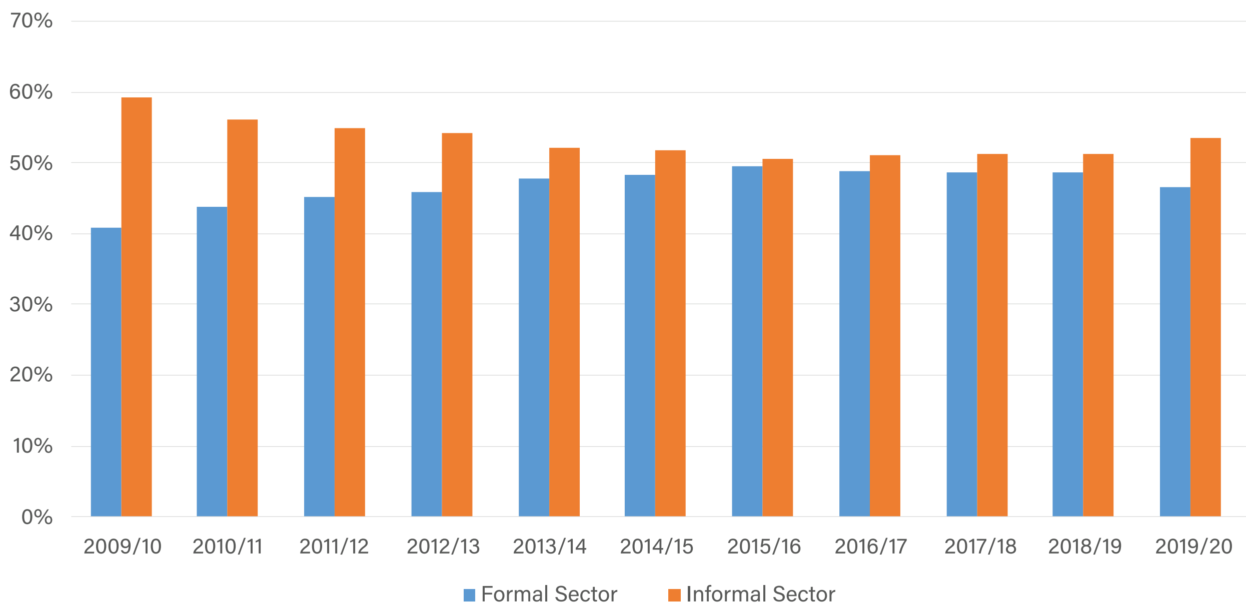
- Female participant, FGD, Arua

5.2 Informal sector in Uganda

Informality denotes a situation in which firms and workers operate outside legal and regulatory frameworks. The Uganda Bureau od Statistics (2018b) defined informal enterprises as those that employ less than five people and are not legally registered with Uganda Registration Services Bureau (URSB) or with Uganda Revenue Authority (URA) for tax purposes. This does not necessarily mean that informal businesses are illegal. However, informal enterprises are less likely to comply with government regulations such as registration with authorities, payment of taxes, social security contributions and labour laws. The informal economy includes own-account workers (self-employed with no employees), employers (self-employed with employees) in their own informal sector enterprises, and contributing family members. Other informal sector workers include itinerant traders, roadside sellers, luggage transporters and boda-boda riders.

Informal sector enterprises require little capital for start-ups and operate on a small scale with little or no division of labour. The sectors in which informality thrives are also characterized by ease of entry into markets, family ownership, use of local resources and informally acquired skills. Consequently, the informal sector is labour-intensive and tends to apply improvised or adopted technologies. In terms of GDP, the informal sector dominates the formal sector, as illustrated in Figure 5.1. NDP III observes that the informal sector contributes to over 51 per cent of the GDP and it is an impediment to private sector development, enterprise growth and creation of decent jobs.

Figure 5.1: The dominance of the informal sector in Uganda's gross domestic product (GDP)



Source: MoFPED (EDPRD) staff computations

5.3 Urbanization and informality

The proportion of Uganda's urban population has been rising over the years. Data from 2019/20 UNHS show that the proportion of the urban population increased from 24.5 per cent in 2016/17 to 26.6 per cent in 2019/20. The Kampala Metropolitan Area and new cities such as Jinja, Mbarara, Arua, Mbale, Gulu and Lira are business hubs with many informal businesses. The plethora of informal sector enterprises and lack of a regulatory framework imposes governance challenges in building orderly and sustainable urbanization. Consequently, congestion, crime, poor working conditions and the demand for social services are increasingly becoming urban governance issues.

Challenges in urban governance and labour market outcomes influence the welfare of informal sector workers. Those who work in the informal sector are more likely to be adversely affected by low wages and poor working conditions. This is because the informal sector often operates without adherence to labour laws. The magnitude of informal employment is reflected in the findings of the Urban Labour Force Survey 2015. The report shows that 87.2 per cent of total employment in the Kampala Metropolitan Area was informal. More females (89.5 per cent) were employed in the informal sector compared to 85.3 per cent of men. Informal employment as a percentage of non-agricultural employment was 86.2 per cent.

5.4 Precarious employment and informality

According to the International Labour Organization[25], informal employment comprises own-account workers and employers employed in their own informal sector enterprises, contributing family workers, members of informal producers' cooperatives and domestic workers. In the 2017 National Labour Force Survey, (2018) considered employees to be informally employed if there was no provision for pension or national social security contribution, paid annual or sick leave. Enterprises were considered informal if they were not registered by Uganda Registration Services Bureau (URSB) as a business or were not registered by the Uganda Revenue Authority (URA) for value-added or income tax.

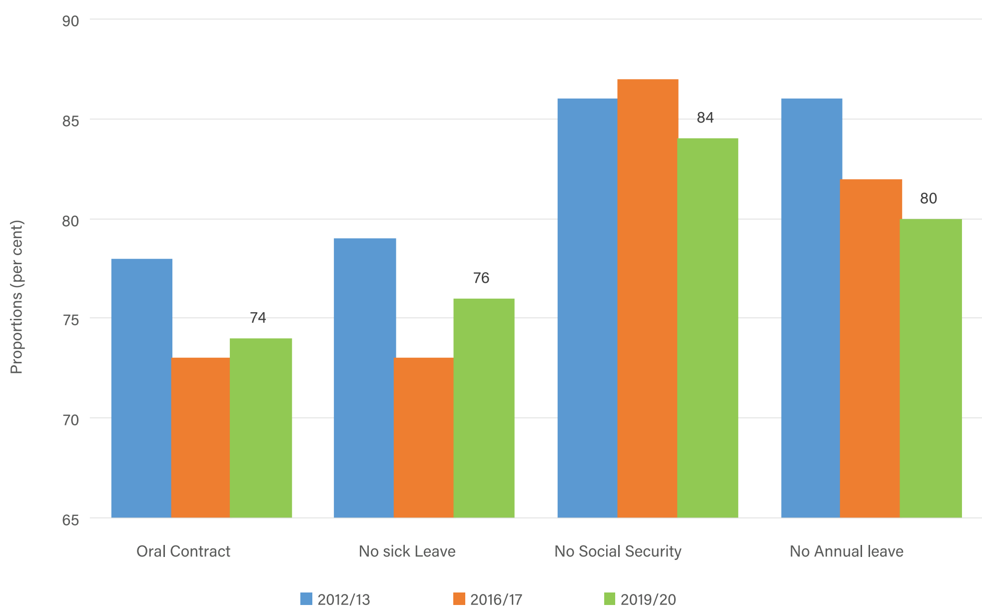
Box 5.2: Informality and poverty: Qualitative perspectives

"Working in the informal sector is no job at all. It is just better than doing nothing."
- Informal sector employee, Kawempe Division

"The fact that local authorities do not recognize our activities on the streets makes us vulnerable. Sometimes law enforcement officers confiscate our items, and in just seconds, you are back to poverty, having lost all your capital."
- Street vendor in FGD

Figure 5.1 shows the dominance of the informal sector in its contribution to GDP but whose labour force is not reflected in decent employment. Figure 5.2 shows that 84 per cent of workers did not have social security contributions, 76 per cent did not have sick leave, and 74 per cent worked on the basis of oral contracts. These precarious working conditions expose workers to poverty.

Figure 5.2: Persistence of labour market informality



Source: MoFPED (EDPRD) staff computations based on UNHS data sets.

25 Hussmanns, R. (2004). Defining and measuring informal employment. Geneva: International Labour Office.

5.5 Informal employment and poverty

The working conditions in the informal sector are often precarious; most employees do not have paid annual or sick leave, and wages tend to be lower than that of the formal sector. At the macro level, informal enterprises tend to narrow the tax base while at the same time benefiting from public goods and services without a commensurate contribution to national and municipal coffers. This suggests that in countries where the formal economy is relatively larger than the informal economy, the levels of GDP per capita will also be higher (La Porta and Shleifer, 2008). In South Africa, Theodore et al. (2015) found that informal jobs are a survival strategy with low pay that offers few pathways into the formal sector and out of poverty. In this perspective, it is informative to examine the relationship between informality and poverty in the context of the COVID-19 pandemic that negatively affected the operation of the informal sector. Table 5.1 shows significant differences in CPAE between households with a member working based on written and oral contracts.

Table 5.1: Nature of job contract and welfare

Characteristic	Mean CPAE for household heads With Written employment contracts	Mean CPAE for household heads with Oral employment contracts	T-Statistic for differences in the mean CPAE
Male	187,551	110,991	7.89
Female	212,957	102,252	7.55
Central Region	260,777	147,523	6.74
Eastern Region	127,919	74,571	7.27
Northern Region	159,912	80,841	5.59
Western Region	151,231	87,414	2.93
Rural	158,481	82,765	4.63
Urban	225,194	147,253	7.36
Uganda	195,379	105,204	9.29

Source: MoFPED (EDPRD) staff computations based on UNHS 2019/20 data set.

Notes: The T statistics are all greater than 1.96 and indicates that the differences in means are significant.

The difference in CPAE based on the type of contract is plausibly a result of differences in wages. Oral contracts are commonly given to low-paid workers, over whom employers often have undue power. The wages of such employees can be arbitrarily reduced, and the workers often lack legal recourse. Consequently, the precarious working conditions under informal employment can lead to low wages, low CPAE and poverty. As illustrated in Table 5.2 poverty rate is significantly higher among those with at least one member working based on oral contracts.

Table 5.2: Oral contracts and poverty

Characteristic	Oral employment contracts (%)	Written employment contracts (%)	T-Statistic for differences in poverty rate
Male	14.85	4.48	9.4
Female	19.51	1.63	11.6
Central Region	6.12	1.18	3.33
Eastern Region	29.72	6.94	9.22
Northern Region	24.8	6.29	6.17
Western Region	13.67	2.22	6.57
Rural	21.0	5.37	10.39
Urban	7.75	2.17	4.8
Uganda	16.43	3.61	12.57

Source: MoFPED(EDPRD) staff computations based on UNHS 2019/20 data set.
Notes: The T statistics are all greater than 1.96 and indicates that the differences in poverty rates are significant

5.5.1 COVID-19, informal employment and poverty

The lockdown measures instituted during the outbreak of COVID-19 were meant to control the spread of COVID-19. However, these measures disrupted business operations from the onset in March 2020. Informal employment in trade, tourism, transport, hotel and hospitality was significantly affected as many people lost jobs due to the shutdown of businesses or scaling down operations to meet the public health control measures known as standard operating procedures (SOPs). Loss of jobs without income replacement or social protection exposes households to poverty. Data from UNHS 2019/20 shows a statistically significant difference in the poverty rate due to the COVID-19 pandemic. Households with at least one member working on the basis of an oral contract experienced an increase in poverty from 14.01 per cent to 18.53 per cent during the COVID-19 outbreak. On the other hand, the poverty rate in households with at least one member employed on the basis of a written contract decreased from 4.2 per cent (pre-COVID-19 period) to 3.1 per cent during the COVID-19 period, as shown in Table 5.3. The significant differences in poverty rate due to the type of employment contract show that informality in the labour market influences poverty. Therefore, addressing informality in the labour market can play a significant role in improving household welfare.

Table 5.3: Poverty rate by employment contract type and the COVID-19 pandemic

	Written employment contract (%)	Oral employment contract (%)	T-Statistic for differences in means
Pre-COVID-19	4.20	14.01	6.25
During COVID-19	3.10	18.53	11.74

Source: MoFPED(EDPRD) staff computations based on UNHS 2019/20 data set.

With regard to residence, poverty is generally higher in rural areas than in urban areas. This has been attributed to subsistence farming. It is also plausible that high poverty in rural areas is associated with informal employment amidst the COVID-19 pandemic. Table 5.4 shows that before the pandemic, the poverty rate among rural employees with oral contracts was 16.1 per cent. During the pandemic, the poverty rate increased to 26.59 per cent. The over 10 percentage point increase in the poverty rate indicates that the informal workers experienced a significant loss of employment opportunities and a reduction in earnings during the pandemic. For casual agricultural workers who work on a piece rate basis and without formal employment, earnings and welfare directly fall with reduced work opportunities. Therefore, the negative impact of labour market informality is more pronounced in rural areas where agriculture offers the highest employment opportunities.

Table 5.4: Poverty rate by employment contract type and the COVID-19 pandemic in rural areas

	Written employment contract (%)	Oral employment contract (%)	T-Statistic for differences in means
Pre-COVID-19	4.7	16.1	6.09
During COVID-19	6.3	26.59	8.29

Source: MoFPED (EDPRD) staff computations based on UNHS 2019/20 data set.
Notes: The T statistics are all greater than 1.96 and indicates that the differences in poverty rates are significant

The economy and informal labour market are more diversified in urban areas than in rural areas. During the COVID-19 lockdowns, many businesses in urban areas remained opened, albeit with reduced activity. The manufacturing, trade, healthcare and construction sectors were operational throughout the pandemic. This indicates that some informally employed persons in urban areas continued to work and support their households. Even people who were temporarily laid off from their casual jobs could start their own account businesses during the pandemic. Table 5.5 shows that even if poverty increased among the informally employed persons in urban areas, the difference in the poverty rate between the formally and informally employed was statistically insignificant during the COVID-19 period. The diversified urban informal economy can help households cope during shocks and maintain a reasonable level of household consumption.

Table 5.5: Poverty rate by employment contract type and the COVID-19 pandemic in urban areas

	Written employment contract (%)	Oral employment contract (%)	T-Statistic for differences in means
Pre-COVID-19	1.39	7.54	5.2
During COVID-19	3.54	8.13	1.87

Source: MoFPED(EDPRD) staff computations based on UNHS 2019/20 data set.

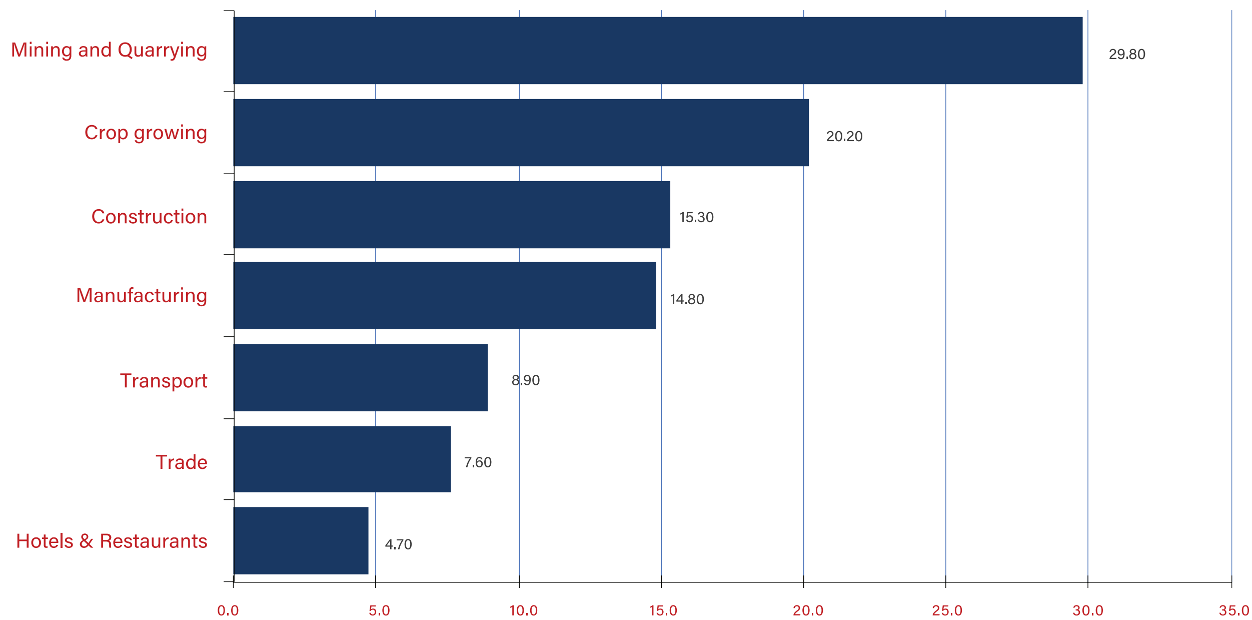
Notes: The T statistics for COVID period is less than 1.96 and indicates that the differences in poverty rate is not significant in urban informal and formal employment

5.5.2 Sectoral differences, informality and poverty

Poverty tends to vary by sector of employment. Data from UNHS 2019/20 shows that informal employment in the mining and quarrying industry is associated with a poverty rate of 29.8 per cent, followed by crop farming (20.2 per cent). Many artisanal miners are paid very low wages, and these wages are based on the number of precious metals extracted. In the Karamoja Sub-region, Mubende and parts of Busia, artisanal gold mining has become a major occupation, employing women and children. This exposes them to dangerous working conditions with low pay. As the mining and quarrying industry grows, there is a need to ensure that miners are paid a decent wage which can support their households.

Regarding the agricultural sector, the observed higher poverty among informal employees is attributable to the factors that inhibit growth in productivity and wages in the sector. Other sectors that appear to propagate poverty through informal employment include construction, trade, manufacturing, transportation, and storage, as illustrated in Figure 5.3. Whereas informality is high in Uganda's trade, hospitality and transport sectors, the poverty rate for the informally employed persons in these sectors is lower than the national average. With the aforementioned evidence, it is then arguable that informality in employment is not a cause of poverty but rather the factors that influence sector performance that make the workers poor.

Figure 5.3: Informality and poverty by industry of employment



Source: MoFPED (EDPRD) staff computations based on the UNHS 2019/20 data set.

5.5.3 Other forms of informality in the labour market and welfare

The foregoing discussion about the relationship between oral contracts and poverty indicates that informality negatively affects household welfare and impedes inclusive growth and structural transformation. Besides oral employment contracts, informality in the labour market could be manifested by a lack of pension (social security contributions) and lack of paid annual and sick leave. The regression results in Table 5.6 show that informal employment, manifested in verbal contracts, no paid leave days, and no social security contribution is associated with lower welfare (CPAE). Relative to those employed through written contracts, the welfare of workers with oral contracts was 30 per cent lower.[26] Conversely, for those employed on written contracts, their welfare was 40 per cent higher than those employed through oral contracts. This corroborates the results found through cross-tabulations.

26 The interpretation for a coefficient of a dummy variable requires transformation using the formula 100[(exp (parameter estimate)-1/2 var(parameter estismate)-1]. The method is well explained in Kennedy, P. E. (1981). Estimation with correctly interpreted dummy variables in semi logarithmic equations. American Economic Review, 71, 801.

Table 5.6: Informality and household welfare

Dependent variable = log of welfare	Model 1	Model 2	Model 3	Model 4
Job with an oral contract	-0.343**			
	(0.167)			
Job with paid sick leave		0.391*		
		(0.200)		
Job with paid annual leave			0.462*	
			(0.258)	
Job with social security contribution				0.842***
				(0.208)
Log of wage	0.096***	0.096***	0.098***	0.100***
	(0.026)	(0.026)	(0.025)	(0.025)
Household size	-0.060***	-0.06***	-0.062***	-0.063***
	(0.009)	(0.009)	(0.010)	(0.009)
COVID-19 period	-0.102*	-0.106*	-0.101*	-0.097*
	(0.055)	(0.055)	(0.055)	(0.055)
Observations	535	531	531	531
R-squared	0.520	0.516	0.523	0.531
F-Stat	61.86	54.39	51.62	60.30
Prob > F	0.000	0.000	0.000	0.000

Notes: Standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0;
The dependent variable is the natural logarithms of welfare (CPAE), and Ordinary Least Squares is method of estimation used . Other control variables include age, household size, gender, employment industry, education level, and regional fixed effects. The sample consisted of persons who reported working for a wage, salary, commission or any payment in the week preceding the survey. Data used in the analysis are from UNHS 2019/20. In column one, the type of contracts is controlled, while other indicators of formality are excluded. This is to avoid collinearity. This applies to columns (2), (3), and (4). Since the dependent variable is natural, the interpretation for coefficients of the dummy variable is computed using the formula 100[(exp (parameter estimate)-1/2 var(parameter estismate))-1]. This gives the percentage difference based on the minimum variance estimator.[27]

Table 5.6 also indicates that employment with the provision of sick leave and annual leave is associated with higher CPAE. Although the differences are not statistically significant, the magnitude (45 per cent and 54 per cent, respectively) is considerable. It implies that the welfare of those employed without sick leave and annual leave is lower by 34 per cent and 39 per cent, respectively. It is plausible that informally employed workers lose earnings when they fall sick or have family emergencies. This can expose households to poverty.

Lack of social security/pension is a common feature of informal employment with antecedent implications on household welfare. Table 5.6 indicates that the CPAE of employees whose employers pay social security contributions is 127 per cent higher than those without social security benefits. Conversely, the CPAE of workers without social security is 58 per cent lower than those with social security, all else constant. Generally, informal employment characterized by oral contracts, lack of paid sick leave/ annual leave and social security is associated with low earnings and households that depend on informal employment tend to be poorer than those with formal employment.

27 Kennedy, P. E. (1981). Estimation with correctly interpreted dummy variables in semi logarithmic equations. American Economic Review, 71, 801.

5.6 Informality and vulnerability to poverty

Chapter four showed that non-poor households might become poor in the future depending on a number of factors, including the source of livelihood. Table 5.2 shows that informal employment influences poverty dynamics. The variance approach to vulnerability measurement also shows that informal employment is associated with a high probability that a household could become poor in a subsequent period, as shown in Table 5.7.

Table 5.7: Informality and vulnerability to poverty

Job informality	Not vulnerable (%)	Relatively vulnerable (%)	Highly vulnerable (%)
Formal	11.76	3.83	1.60
Informal	88.24	96.17	98.40
Total	100	100	100

Source: EPRC & UNDP (2019). Dynamics of Vulnerability in Uganda.

High mortality rates of businesses also characterize the informal sector in Uganda. The Census of Business Establishments (COBE) 2010 indicates there is a high likelihood of enterprises failing to outlive their first birthday, and those that do may not exceed five years. Uncertain situations such as the COVID-19 pandemic often force businesses to lay off workers. This increases vulnerability to poverty, and informal sector workers without social protection are often affected most. The dynamic relationship between informality and vulnerability to poverty calls for proactive policy interventions to address poverty.

5.7 Chapter conclusion

Informality is pervasive in Uganda, especially in rural areas and the agricultural sector. There is a complex link between informality in the labour market and poverty. It is plausible that being poor increases the probability of working informally, and informal employment increases the likelihood of being poor. Inherently, the structure and terms of employment of informal employment reduces the quality of jobs and resultant welfare. Therefore, the factors that drive workers to informal jobs need to be addressed to reduce both informality and poverty. Moreover, the poor who are engaged in the informal sector are less likely to transition out of the informal sector, as illustrated in Table 5.8.

Table 5.8: Transition in employment status for selected characteristics by poverty status (per cent)

	Poor			Non-poor			
Characteristics	**Formal** (%)	**In-Out** (%)	**Informal** (%)	**Formal** (%)	**In-Out** (%)	**Informal** (%)	**Total** (%)
Area of residence							
Rural	4.2	11.2	84.6	7.2	9.6	83.2	100
Urban	9.1	8.0	82.9	28.2	18.1	53.7	100
Region							
Central	6.5	13.7	79.8	19.1	13.0	67.9	100
Eastern	5.9	8.9	85.2	8.1	11.8	80.1	100
Northern	1.5	10.9	87.6	6.4	5.2	88.4	100
Western	8.3	12.8	78.8	8.4	13.0	78.6	100
Life cycle							
<17 yrs	0.0	6.4	93.6	2.0	1.6	96.4	100
18–30 yrs	5.5	12.0	82.5	12.3	16.0	71.7	100
31–64 yrs	6.4	12.3	81.3	14.9	12.2	72.9	100
65 yrs and over	6.5	8.2	85.3	6.6	8.1	85.3	100
Education level							
No formal	4.6	15.8	79.6	4.7	9.8	85.4	100
Some primary	3.5	8.4	88.2	5.3	8.5	86.2	100
Completed primary	2.8	11.2	86.0	7.7	10.6	81.7	100
Some secondary	12.5	13.9	73.6	16.7	13.8	69.5	100
Completed secondary	14.3	18.2	67.4	19.2	22.8	58.0	100
Post-secondary	44.8	27.2	27.9	51.2	17.8	31.0	100
Not stated	5.0	24.9	70.2	20.7	10.7	68.6	100
Sector of employment							
Agriculture	2.0	8.1	89.9	2.5	7.8	89.7	100
Manufacturing	12.7	22.2	65.1	24.4	8.4	67.2	100
Construction	37.5	53.1	9.4	59.3	37.0	3.8	100
Trade	3.5	11.9	84.6	6.9	15.9	77.2	100
Transport	13.7	43.3	42.9	36.2	27.1	36.7	100
Services	40.4	26.5	33.2	57.2	23.5	19.3	100
Total	4.6	10.4	85.0	11.8	11.4	76.8	100

Source: EPRC (2019). Dynamics of vulnerability in Uganda: Computations based on the UNPS 2013/14 and 2015/16 data sets.

06 CHAPTER SIX: FORMALIZATION AND STRUCTURAL CHANGE

6.1 The need for formalization

The persistence and dominance of the informal sector are some of the salient features of the Ugandan economy. In Chapter Five, it was shown that informal employment is, to some extent, associated with poverty. Furthermore, vulnerability to poverty increases with informal employment. This is because informal employment is often associated with a lack of social protection, poor working conditions and low wages (Manila, 2015). Although informal employment can be in both the formal and informal sectors, a greater proportion of it occurs in the informal sector, which consists of informal enterprises operating wholly or partially outside government regulation.

Due to these concerns and the need to modernize the economy and achieve structural transformation, governments worldwide are endeavouring to reduce the size of the informal sector. De Soto (1989) argues that informality is costly for firms, and informal firms would like to formalize but are hampered by bureaucratic delays and complicated regulations that they must go through. This implies a need to ease the formalization process right from the registration of business start-ups.

Kenyon (2005) notes that formalization involves the integration of previously non-compliant enterprises into formal or state-sanctioned institutions such as property registries and tax rolls. On the other hand, Nelson and De Bruijn (2005) define formalization as the process of orientation where enterprises change form through institutional regulation and become established within a different framework of norms and rules of behaviour that raise transaction costs. The reduction of the size of the informal economy can probably lead to structural transformation, economic growth, higher labour productivity, higher wages, better working conditions, and an increase in tax revenue. Therefore, there is a need to promote the transition of enterprises from informal to formal status. Policy interventions that can incentivize informal enterprises may include lowering the costs of formalization, such as registration fees, taxes, and social security contribution and compliance costs. Enhancing the benefits of formalization may also increase the formalization of informal firms. This may include improving the general business environment, reducing the risk of closure, enhanced access to government contracts, access to business development services and affordable financial services. Once cost-reduction strategies and benefit-enhancement instruments are effective, then strengthening law enforcement may ensure the sustainability of formalization.

6.2 Formalization practices from a global perspective

The transition from informality takes time since it requires the buy-in of the economic agents involved in the sector. Formalization can be a voluntary process or a legal and administrative requirement by the government. Voluntary formalization occurs when enterprises expect the benefits of formalization to be higher than the benefits of remaining informal. If formalization costs far exceed the perceived benefits, then informal enterprises will be less willing to undergo formalization. If bureaucratic delays and the costs of entry into the formal sector could be reduced, then more informal firms may opt to formalize. This could widen the formal sector, increase productivity and improve the working conditions of workers who hitherto were in the informal sector. For instance, in 1998, Argentina introduced a simple tax system, Social Monotax, to facilitate the formalization of vulnerable self-employed workers. Participating employers were not obligated to submit monthly statements and payments provided they could show proof of registration for the simplified tax. This led to an increase in the number of registered taxpayers (ILO, 2014). In Colombia, the reduction of costs related to the formal status of business was established in a new law passed in 2010. The legislation decreased trade registration costs, income tax, withholding tax, payroll taxes, and contributions to the health and social security system.

Anton (2014) showed that the reform significantly reduced labour informality and increased wages in Colombia. Mullainathan and Schnabl (2010) studied the impact of reforms in licensing procedures on entrepreneurial activity in Lima, Peru. The reforms reduced the cost and time to register for a business licence. It also led to a large increase in newly registered businesses. Therefore, simplifying business registration processes may lead to an increase in the number of formal firms, which can help increase formal employment and improve the working conditions of employees.

However, many informal enterprises, especially those owned by self-employed persons, exist due to a lack of jobs in the formal economy. Most start small and informally to support themselves but do not necessarily grow into entrepreneurs. This implies that the expected benefits of formalization are very low for informal enterprises established as stop-gap survival ventures. The formalization of such businesses will largely depend on a good business environment that encourages such businesses to voluntarily transition into formal enterprises and spur growth in formal employment. This implies that a government intervention that improves the business environment can reduce informal employment and increase the number of formal enterprises. Klapper and Love (2010) found that the ease of starting a business significantly impacts business registrations and the formalization process. However, La Porta and Shleifer (2008) suggest that many informal enterprises begin without any intention of being formal. It is probable that a formalization process that begins when businesses are just starting up could reduce the degree of informality in an economy.

De Andrade et al. (2011) show that there was an increase in business registrations in Brazil because of the opening of one-stop centres in major cities. This was mainly due to previous wage earners opening new enterprises. De Mel et al. (2013) used an experimental design to test whether the provision of information and subsidy can incentivize informal firms in Sri Lanka to register their businesses. They found that information and reimbursement for the modest direct costs did not result in an increase in the registration of informal firms. An increase in formalization was observed when additional payment of incentives equivalent to two months of reported profit was made to the firms. From the review of attempts at formalization from a few countries, it is noted that for formalization to succeed, the following need to be put in place:

i) **A participatory approach should be used to make informal firms appreciate the benefits of the formalization of enterprises.** This requires effective communication of the benefits firms should expect when they are formalized and the costs involved during and after the formalization process. This can guide informal entrepreneurs to gauge the net benefit of formalization.

ii) **Informal sector entrepreneurs should be properly informed on the necessary steps to formalize their businesses.** This can help to reduce the perception of bureaucratic delays and the cost of compliance.

iii) **In situations where the formalization rate is low, incentives and enforcement can be used to speed up the process.** For example, firms that become formal can be given tax incentives and easy access to social protection for their employees.

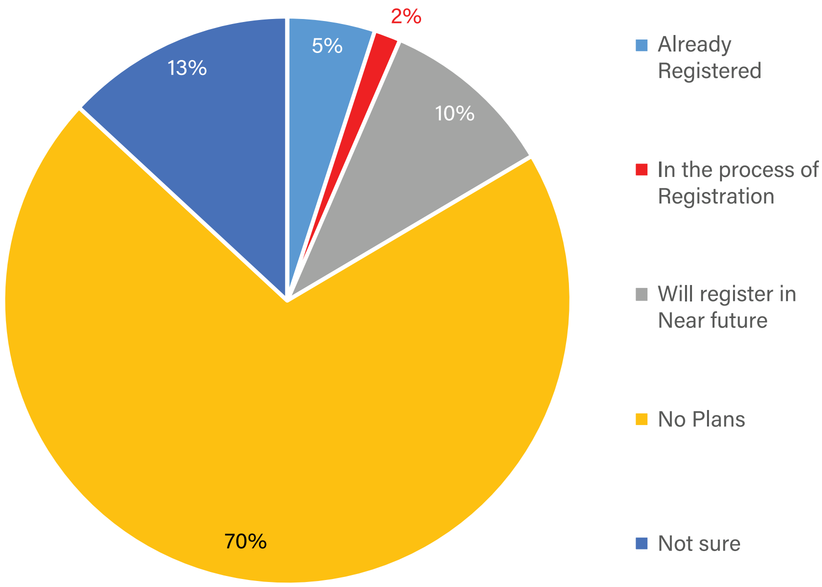
iv) **The process of formalization requires efficient institutions with competent staff who help informal firms navigate the formalization process smoothly.** However, it should also be noted that some firms are established to support household subsistence and may not benefit much from formalization. Incentives and enforcement should be directed to sectors and firms that have a high potential for generating growth and decent employment.

6.3 Mechanism for formalization in Uganda

In Uganda, the formalization of enterprises requires registration and compliance with agencies such as the URSB for legal registration of business, URA for tax purposes, National Social Security Fund (NSSF) for social security, local government agencies for trading licences and sector-specific agencies for professional and quality regulations, among others. The URSB Act mandates the Bureau to register companies, business names, partnerships, documents, debentures, chattels, copyrights, patents and trademarks. Registration of businesses with URSB provides legal recognition and protection of firms and can spur innovations and firm growth. The Bureau head office is in Kampala and has regional offices in Arua, Gulu, Mbale and Mbarara. It also partners with other agencies such as Kampala Capital City Authority (KCCA) and Posta Uganda. In all One Stop Centres, URSB officers collaborate with other government agencies to make the formalization of businesses efficient. The agencies include the Uganda Investment Authority, URA, NSSF, National Environment Management Authority (NEMA), KCCA and the Ministry of Lands, Housing and Urban Development, among others.

Registration of a business with URSB requires many forms to be filled out and fees to be paid. For instance, applicants need to pay for a company name search, name reservation, and other statutory fees based on the share capital to register a company limited by shares. The applicants should also submit copies of articles, memorandum of association and passports or national identity cards. Applicants who meet all the requirements are then issued with a certificate of registration of business name or company, as specified by the law. Figure 6.1 shows that in 2019/20, two per cent of household enterprises were in the process of registering, and 15.6 per cent had plans of registering in the short term. However, this left 70 per cent of informal sector firms with no intention of registration.

Figure 6.1: Household enterprise registration with the Uganda Registration Services Bureau



Source: MoFPED (EDPRD) staff computation based on UNHS 2019/20 data.

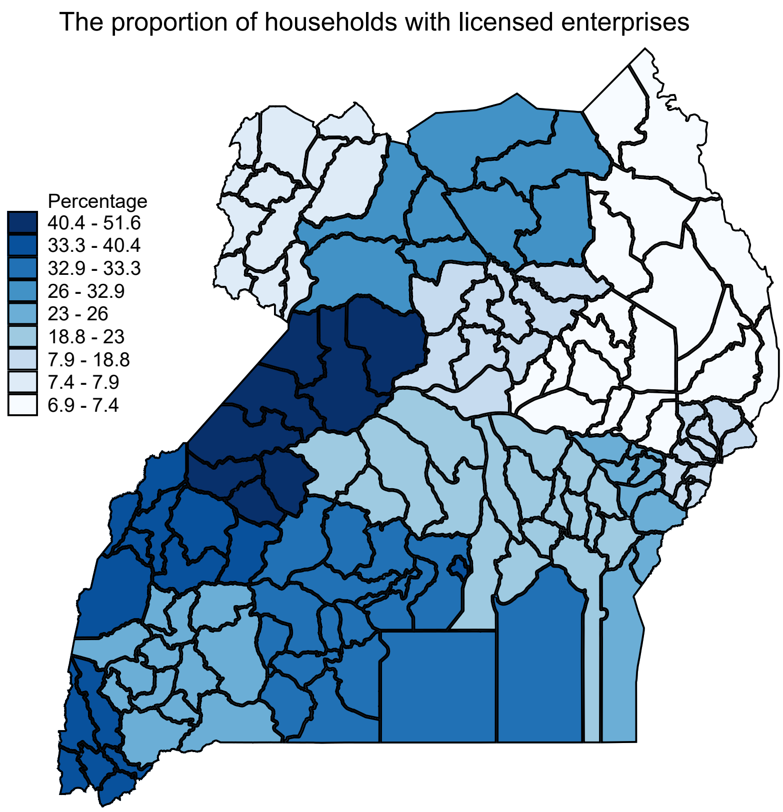
It is probable that the voluntary formalization of the economy through the registration of firms can take place through the natural growth process of the firms which would wish to take advantage of formal offers such as access to formal credit, access to international markets, and bidding for government contracts. The concentration of URSB in largely urban areas limits accessibility to registration services by the informal businesses that are widespread in rural areas. The distance between registration centres and rural informal sectors increases the monetary and opportunity cost of formalization. Furthermore, informal firms operating for subsistence purposes or self-employment may not benefit much from registration with URSB. This implies that informality may persist as long as persons engaged in the informal sector do not expect the process to yield tangible benefits in terms of welfare improvement.

Once firms are registered with URSB, local entrepreneurs can acquire an investment licence if they meet the share capital threshold, though it is not mandatory. Companies that obtain a certificate of incorporation are expected to register with URA and obtain a tax identification number. This is usually free of charge and is done mostly online but if applicants decide to use a tax agent, then the tax agent will charge a fee for their service. Enterprises in regulated services or commodities require additional operation licences from sector regulatory agencies; for example, in the case of pharmacies, this would be the National Drug Authority. Depending on the location of the business, the registered firms are expected to pay a specific amount of money for a trading licence from the local authorities to commence operation.

Under the NSSF 1985 Act, as amended, all employers with five or more employees are obliged to pay a retirement contribution of 10 per cent of the gross salary of their employees as a provident fund. Private sector employees are required to contribute five per cent of their gross salary to the same provident fund. This implies that private sector firms with five or more employees must register the company and the employees with NSSF once they commence operation. This ensures that social security contributions are remitted regularly. Data from UNHS 2019/20 shows that only 13.3 per cent of persons who work for household enterprises had social security contributions. This indicates that a large proportion of workers in household enterprises are at risk of living in poverty during their retirement years.

Figure 6.2 shows the spatial pattern of household enterprises with some form of operational licence. Bunyoro and Kigezi Sub-regions have the highest proportion of household enterprises that are licensed, while Karamoja and Teso Sub-regions have the least.

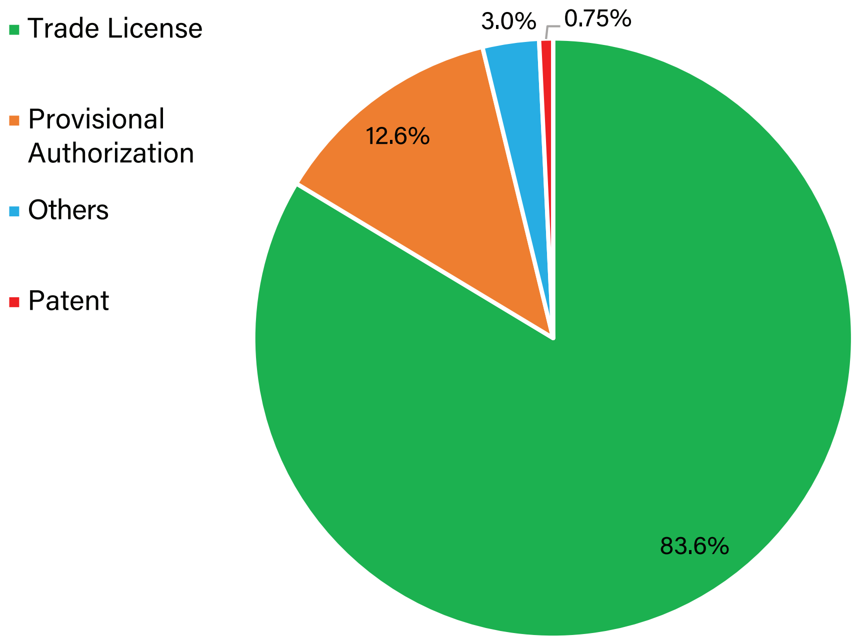
Figure 6.2: Proportion of licensed household enterprises



Source: MoFPED (EDPRD) staff computation based on UHNS 2019/20 data.

Overall, the preceding discussion shows that the formalization of businesses in Uganda entails several steps, with each step requiring elaborate documentation. Data from UNHS 2019/20 shows that only 24 per cent of household enterprises have some form of operating license. It is noted that most household enterprises operate on the basis of a trading licence issued by local government agencies such as the district commercial office or town councils. Figure 6.3 indicates that 83.6 per cent of household enterprises operate with only a trading licence, revealing that most household enterprises are engaged in trade, with little or no value addition.

Figure 6.3: Household enterprises by type of operational licences



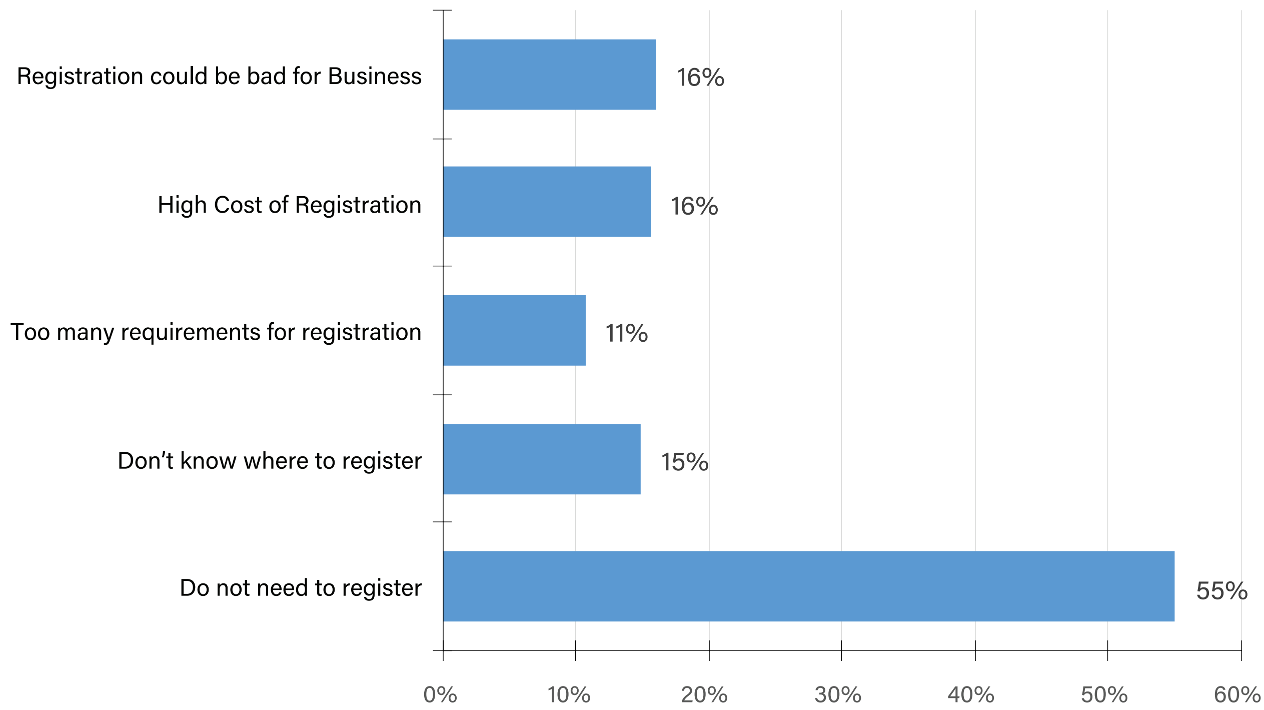
Source: MoFPED (EDPRD) staff computation based on UNHS 2019/20 data.

Other forms of formalization, such as registration with URA for value added tax (VAT) and income tax, are also very low among household enterprises. For instance, data from UNHS 2019/20 shows that only 6.9 per cent of household enterprises paid VAT, 3.2 per cent paid income tax, and a paltry 0.5 per cent remitted pay as you earn (PAYE). It is evident that the dominance of the informal sector in GDP is not reflected in its contribution to tax revenue.

6.4 Factors that influence formalization of enterprises in Uganda

Figure 6.3 indicates that many informal firms are less likely to formalize their business with government agencies. Furthermore, improving working conditions for employees and providing social security largely depends on the formality of employment. Therefore, it is imperative to examine the underlying factors that impede the formalization of enterprises in Uganda. Data from the informal sector module of the UNHS 2019/20 indicate that 15 per cent of informal sector entrepreneurs do not know if they have to register their businesses. Similarly, 55 per cent of informal sector business operators contend that there is no need to register their enterprises.

Figure 6.4: Factors that influence the registration of firms with the Uganda Registration Services Bureau



Source: MoFPED (EDPRD) staff computation based on UNHS 2019/20.

Notwithstanding the efforts of URSB in providing information about the benefits of registration, many enterprises in the informal sector appear to have not appreciated the process thus far. This probably emanates from the costly registration process. Figure 6.4 shows that 16 per cent of informal sector firms are not registered with URSB due to high registration fees.

Another factor that hinders the formalization of enterprises is registration requirements. In the case of companies limited by shares, promoters need to present articles of association, memorandum of association, fixed business locations and postal addresses, among others. These increase the monetary and opportunity cost of business registration. Figure 6.4 shows that 11 per cent of informal firms attribute their unregistered status to the many requirements for registration. Whereas informal firms can start by registering business names which has a shorter process, the proprietors could be unaware of the cost of registering different types of businesses. Thus, there is a need to sensitize the public about the procedures involved in the formalization of small businesses. This can increase the rate of formalization of business operations and stimulate business growth as well as the formalization of employment for poverty reduction. However, voluntary registration may not increase the formalization rate necessary for structural transformation. Figure 6.4 shows that 17 per cent of informal sector enterprises are unwilling to register their businesses because they fear that registration is bad for them. Firms which are unwilling to register could probably be involved in illegal activities, including tax evasion. Strategic policy interventions need to be put in place to enforce formalization. These can include tax incentives, training and preferential treatment in public procurements.

6.5 Formalization, urbanization, and business development services

The self-reinforcing association between informality, poverty and vulnerability to poverty requires proactive policy interventions to address them. In the context of the increasing rural-urban migration and the country's drive towards commercial agriculture and industrialization, the formalization of enterprise and employment needs to be strengthened. As many people move to urban areas in search of a better livelihood outside agriculture, the urban areas get overwhelmed with increasing demand for public goods and social services. Urban governance thus needs to be linked with the formalization of enterprises and decent jobs.

A simplified bureaucracy can speed up the formalization process within the urban governance structure. The Taxpayer Register Expansion Programme, which is collaboratively implemented by URA, URSB, Posta Uganda and local governments, is expected to bring business registration services nearer to clients and reduce the time and cost of doing business. However, during the Mini Participatory Poverty Assessment Survey, several stakeholders were ambivalent about the need and cost for the formalization of businesses, as per Box 6.1.

Box 6.1: Negative perceptions on formalization

"The registration process has stringent processes, and many middlemen take advantage of businessmen. There are also many organizations that one has to register with, such as URA and URSB, which complicates the whole process."
- A division mayor, Kampala

"The whole process of formalizing my business enterprise is something that is unnecessary and has never crossed my mind at all. Let those who are interested in such things go for them. I am fine with what I have and how things are moving."
- Female trader, Central Division, Kampala

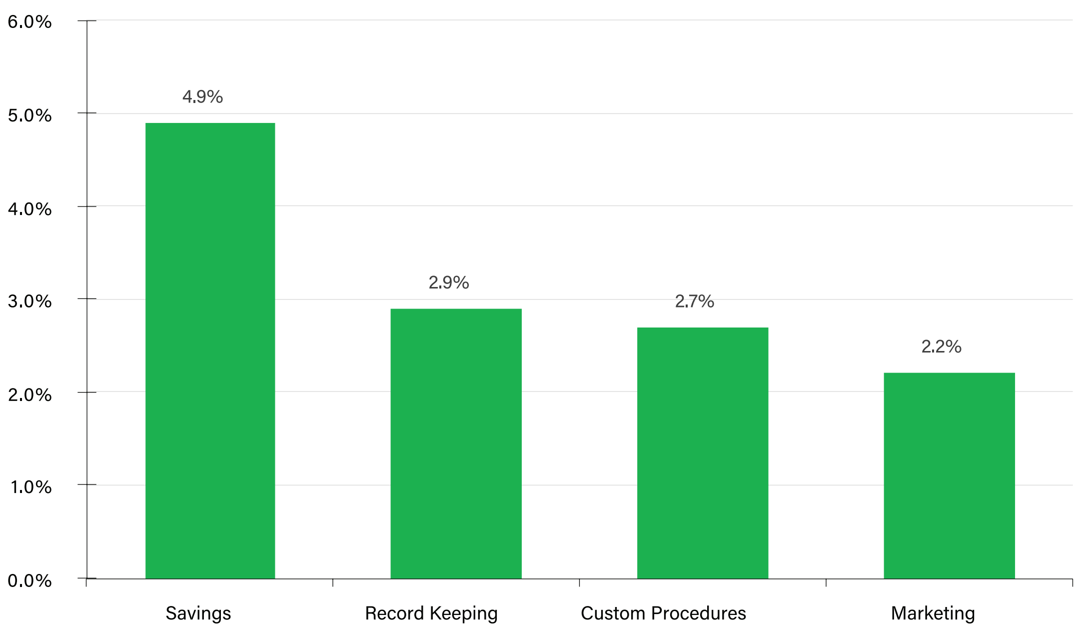
"I would rather bribe KCCA personnel whenever they come to me for various issues than spend time and money on central government processes."
- Roadside vendor, New Taxi Park, Kampala

"Without making my business formal, I can, for instance, relocate anywhere without the need to inform the authorities at URA or any city/urban authority. I also don't face processes of being sued in case of a trade conflict since my business is not a legal entity."
- Trader, Makindye Division, Kampala

The Mini Participatory Poverty Assessment exercise revealed there are several reasons why some individuals prefer to operate their businesses without plans of formalization. Some of the reasons why many small and medium-sized enterprises have chosen to remain informal include the benefits of tax evasion and the costs of formalization, such as registration fees, trading licences, and social security contributions, among others. Other firms cited bureaucracy, lack of information on formalization and fear of government regulatory agencies.

Considering the obstacles to the formalization of household enterprises, access to business development services must be expanded through the Parish Development Model and the Private Sector Development Programme under NDP III. Data from UNHS 2019/20 shows that only 15.9 per cent of household enterprises keep records, and only 4.8 per cent have bank accounts. Access to business development services is still limited. The UNHS 2019/20 data shows that the proportion of household businesses that had training in savings, record keeping, custom procedures or marketing was very low, as per Figure 6.5.

Figure 6.5: Access to business development services



Source: MoFPED (EDPRD) staff computation based on UNHS 2019/20 data.

Limited access to business development services negatively affects value chain development, enterprise growth and household welfare. Evidence from Benin, Ghana, Guinea, Kenya, Madagascar, Niger, Rwanda, Senegal and Togo show that the young and lowly-educated are more likely to work in the informal sector without adequate pay (Tijdens et al.2015). Therefore, it is crucial that informality is addressed to improve enterprise performance and labour market returns.

6.6 Chapter conclusion

The dominance of the informal sector in the economy is a hindrance to enterprise growth and the creation of decent jobs for poverty reduction. Several household enterprises are hesitant to formalize their businesses for various reasons especially the administrative burden involved. Consequently, a very small proportion of household enterprises have access to business development services and alternative financing. Therefore, there is a need to make the formalization of businesses easier and less costly. This can encourage enterprise growth, income growth and poverty reduction. Experience from other countries shows that incentives and effective enforcement of business-related laws can increase formalization. Law enforcement agencies should ensure that business owners adhere to licencing and labour laws.

07

CHAPTER SEVEN:

CONCLUSION AND POLICY RECOMMENDATIONS

This chapter provides conclusions on the dynamics of poverty in Uganda since 2014 and also offers recommendations that can inform policy interventions for the promotion of decent jobs, structural transformation for sustainable poverty reduction, and the prevention of vulnerability to poverty. This is in tandem with the national aspirations for inclusive economic growth in the context of Vision 2040 and the 2030 Agenda. The conclusions and policy recommendations can also inform strategic interventions in NDP III and the Parish Development Model.

7.1 Summary of major findings

Although the poverty rate increased between 2012/13 and 2016/17, poverty is on a long-run decline. Between 2016/17 and 2019/20, the headcount poverty rate decreased from 21.4 per cent to 20.3 per cent. Had it not been because of COVID-19, the poverty rate would likely have fallen below 20.3 per cent. This is because, before the COVID-19 lockdown, the poverty rate had fallen to 18.7 per cent, but then increased to 21.91 per cent during the lockdown period.

In terms of regions, the northern region experienced the highest poverty rate in the country. This is partly explained by natural calamities, subsistence livelihood and the COVID-19 pandemic.

The Acholi Sub-region is the poorest among all sub-regions in the country, followed by Karamoja Sub-region. In both sub-regions, the poverty rate increased from their 2016/17 levels, but the highest increase was in the Acholi Sub-region (from 33 per cent in 2016/17 to 67.7 per cent in 2019/20). The more than 100 per cent increase in poverty in the Acholi Sub-region is a reversal of the improvements made between 2012/13 and 2016/17. In the western region, the Kigezi Sub-region experienced the highest increase in the poverty rate, from 12 per cent in 2016/17 to 27.8 per cent in 2019/20.

Over the 2016/17-2019/20 period, there was a remarkable decrease in poverty in Elgon, West Nile, Teso and Busoga Sub-regions. Elgon Sub-region registered the largest drop in the poverty rate, while the West Nile Sub-region showed a consistent fall in poverty since 2012/13. Although Busoga Sub-region contributes the largest share to the national poverty rate, the fall in poverty in the sub-region is a positive development which needs to be harnessed for inclusive national poverty reduction.

Poverty is higher in female-headed households. The 2019/20 UNHS data showed that the poverty rate in female-headed households was 22.2 per cent, while the poverty rate in male-headed households was 19.54 per cent. The statistically significant difference in the poverty rate shows that gender of the head of household influences the availability of basic needs.

Multidimensional poverty is higher than monetary poverty. Besides headcount poverty, households face multidimensional poverty. The multidimensional poverty analysis showed that in 2016/17, 44.3 per cent of Ugandans faced deprivations in various forms. This was higher than the monetary poverty headcount ratio of 21.4 per cent. Similarly, in 2019/2020, the multidimensional poverty headcount ratio was 42.1 per cent, while the monetary poverty ratio was 20.3 per cent. Therefore, the measurement of poverty only based on income does not provide a complete picture of the multiplicity of deprivations the population faces. A significant proportion of the population deemed to be non-poor through the monetary poverty headcount ratio faces other dimensions of poverty, such as deprivation in terms of access to education, health care, clean water, improved toilets and financial services. The spatial distribution of multidimensional deprivation mirrors monetary poverty rates across most sub-regions. It thus follows that Karamoja and Acholi Sub-regions have the highest multidimensional poverty in the entire country.

All forms of poverty may not end soon as envisioned in SDG 1. The high multidimensional poverty rate of 42.1 per cent shows that Uganda is less likely to achieve SDG 1, which advocates for ending poverty in all its forms and everywhere. The persistence of poverty in Karamoja, Acholi and Kigezi Sub-regions, rural areas, and informal sectors is largely attributable to the source of livelihood, socio-economic factors, and population demographic characteristics.

Natural disasters such as drought, floods, crop/animal pests and diseases are some of the drivers of the observed increase in poverty. Households which rely on agriculture are more likely to be poor because their source of livelihood is susceptible to natural disasters.

Labour market informality is one of the major drivers of poverty in Uganda. The poverty rate is also higher among households that earn their livelihood from informal employment compared to those that are formally employed. COVID-19 exacerbated the negative effect of informal employment on household welfare. Consequently, SDG 8, which aims at promoting decent work and inclusive economic growth, may not be achieved in the short term.

The non-poor population is highly vulnerable to becoming poor in the future. Vulnerability to poverty is the risk of becoming poor. Whereas 79.7 per cent of the population was non-poor in 2019/20, most of them are vulnerable to poverty. This is due to negative shocks that can reduce income or agricultural output or may require significant reallocation of resources as a coping mechanism. Households close to the poverty line are often more vulnerable to falling below the poverty line because poverty status tends to be dynamic over time. Based on the UNPS 2018/19 data set, it is predicted that 54.66 per cent of the population is prone (highly vulnerable) to poverty. Rural residents and residents in the northern and eastern regions are more likely to transition from non-poor to poor. Individuals that are engaged in subsistence farming and informal work are more vulnerable to poverty. Data from UNPS 2018/19 show that 71 per cent of highly vulnerable households are engaged in agriculture. In terms of resilience, 19.9 per cent of households that faced at least one disaster in 2018/19 did not have a robust coping mechanism. This indicates that those who are likely to become poor may remain poor unless they receive social protection.

Informality in the labour market also increases vulnerability to poverty. The results show that household heads who were employed without written contracts, paid leave, income deductions or social security benefits were more likely to become poor than their counterparts in the formal sector. This shows that informality drives both poverty and the likelihood of becoming poor.

Special funds and economic infrastructures positively influence welfare. Households in communities that benefitted from government programmes such as OWC, YLP, UWEP, new roads, schools, and health facilities had higher welfare (CPAE) and lower poverty than those that did not receive such public goods/services. This is in tandem with vision 2040 and the goal of NDP III.

Formalization may improve labour market outcomes but is not a panacea. Through several channels, there are deliberate government efforts to reduce informality in the economy. Arrangements through one-stop centres and expansion of URSB to upcountry regional centres and the Taxpayer Register Expansion Project are envisaged to increase the formalization of businesses. However, the formalization of businesses is affected by several factors, including the cost of registration, bureaucratic procedures and requirements and a lack of information about the registration process and likely benefits. This has made over 80 per cent of informal sector enterprises avoid registration. There is also a section of informal sector firms unwilling to register because they fear formalization will hurt their businesses. Amidst the attempts to increase the formalization of firms, the formalization of employment is lagging. Most informal sector employees do not have written contracts and social security. They work in uncertain environments that make them vulnerable to poverty. Data from the UNPS 2018/19 show that 98.4 per cent of those vulnerable to being poor are engaged in the informal sector. Unless the formalization of firms is followed by increased employment and payment of decent wages, income and multidimensional poverty will remain high among employees.

7.2 Emerging policy and planning issues

From the findings, the following are some salient issues that require strategic policy directions and may need to be fed into national development planning frameworks and the country's budgeting process. Identifying these issues is informed by the need to align progress and challenges in poverty reduction with the national strategic direction for development.

i) **Over the historical and planning periods that the country has undergone, poverty reduction and structural transformation have been pivotal in informing policy directions and interventions.** Due to the economy's interventions and performance, the poverty trajectory is generally downwards. However, poverty is still high in households and regions with significant dependence on agriculture as a major source of livelihood.

ii) **Poverty is multidimensional in nature, and within regions, there are marked differences in sub-regional performance.** Multidimensional poverty is associated with low completion of primary education, limited access to proper sanitation, poor housing conditions, child labour and lack of assets. High multidimensional poverty adversely affects the prospect of growing a large middle class in the country.

iii) **Engagement in low-productive activities such as subsistence farming and supply of casual labour in agriculture is associated with higher poverty rates.** Thus, there is a need for structural transformation as part of the poverty reduction agenda.

iv) **Access to and the quality of public goods such as roads, electricity, schools and health care influence welfare and poverty status.** Investments in infrastructure have a poverty-reducing impact. In the case of education, completion of higher education levels progressively reduces poverty. Access to quality public healthcare can reduce the use of private healthcare facilities. This would lead to a reduction in catastrophic out-of-pocket healthcare expenditures. This implies that government investments in economic and social infrastructures play a vital role in poverty reduction.

v) **Weather vagaries are one of the major drivers of poverty.** Accordingly, climate change remains a significant threat to poverty reduction.

vi) **Although the informal sector (which is different from the subsistence agricultural sector) contributes to a larger proportion of the GDP compared to the formal sector, it does not**

offer decent jobs essential for poverty reduction. The pace of formalization is too slow for the attainment of a society with a large middle class.

vii) **Vulnerability to poverty (the likelihood of becoming poor or low resilience in the event of shocks) is one of the biggest hurdles to sustainable poverty reduction in Uganda.** Vulnerability is linked to weather vagaries, pests, diseases, and dependence on subsistence farming.

7.3 Recommendations

Whereas poverty reduction remains a pivotal goal in national policies and plans, there is a need to tackle vulnerability for poverty reduction to be sustainable. Based on the findings and the issues identified in the preceding sections, recommendations are provided to guide the next generation of poverty reduction strategies and the national transformation process. Policy and service delivery recommendations are grouped separately to enable easy integration of the recommendations into national development planning and administration.

7.4 Policy recommendations

i) Agricultural insurance and de-risking livelihoods

Due to shocks such as drought, floods, pests and diseases, agricultural households are prone to low farm yields and poverty. One of the directly relevant responses of the Government of Uganda to this challenge is the establishment of the Uganda Agricultural Insurance Scheme under NDP II. Under this pilot scheme, selected farmers are being insured. The government provides a 50 per cent insurance subsidy to small-scale farmers, 30 per cent to large-scale farmers and 80 per cent to farmers in disaster-prone areas. As of September 2021, the scheme had reached close to 150,000 farmers.[28] The scheme should be evaluated and scaled up with priority accorded to farmers from areas that are highly vulnerable to climatic shocks. This can cushion farmers from the negative impact of natural disasters and help stabilise their welfare during climatic shocks. The range of policies under the scheme also needs to be expanded to cover more natural disasters.

ii) Area Based Commodity Development

Under the PDM and other intervention in agriculture, there is need to prioritize commodity development based on agroecological regions, market potentials and value addition inorder to boost local economic development for sustainable poverty reduction and sub-regional convergence to the national poverty trajectory.

iii) Adaptation to climate change and strengthening the early warning system

The findings in the report show that many households were affected by adverse weather conditions. To mitigate the effects of these conditions, there is need for the government to invest more in early warning and mitigation systems. The move to implement the National Climate Change Policy and Climate Change Operationalization Strategy (2014) provides a good foundation to expand investments in support of

28 <www.preventionweb.net/news/increased-resilience-against-drought-and-extreme-rainfall-smallholder-farmers-uganda>last accessed on 9/11/2022 at 9:25 PM

adaptation to climate change. The capacity of the National Meteorological Authority accordingly needs to be strengthened so that it can provide reliable weather forecasts. Although automatic weather stations are being installed, there is a need to ensure countrywide coverage. This can help in mapping vulnerability hotspots and designing mitigation before disasters occur. It will also improve the resilience of households to shocks such as drought and outbreaks of crops and animal pests and diseases. Enforcement of environmental laws and the Green Growth Strategy should be prioritized to protect wetlands and forests.

iv) Community sensitization on manageable family sizes

Whereas people are rightly recognized as a country's most valuable assets, large household sizes are associated with higher poverty rates. The country has already registered significant progress in reducing fertility rates from seven births per woman in 2002 to 5.4 births per the latest Uganda Demographic Health Survey data. Despite this progress, the current population growth rate remains too high for sustainable poverty reduction, given that young people dominate the demographic structure. This calls for the increasing access to family planning services. Family planning should be a cross-cutting issue in all development programmes.

v) Formalization of businesses and employment

Whereas the formalization of enterprises is being promoted through URSB and Tax Payer Register Expansion Programme, the pace is too slow. Concomitantly, the working conditions of persons engaged in the informal sector remain poor because there is no explicit government policy to encourage the formalization of employment. This slows down structural transformation since the informal sector is associated with low productivity. The role of business development services needs to be revived, and the lead institutions should be strengthened and streamlined within the national framework. The Uganda National Chamber of Commerce and Industry and District Commercial Departments, in particular, need to be revitalized and coordinated with agencies such as URSB, Uganda Small Scale Industries Association and NSSF.

vi) Improve working conditions in the informal sector

Labour inspection and enforcement of labour rights should be strengthened and cover both the formal and informal sectors. Informal sector enterprises with five or more employees should ensure that their employees are registered with relevant umbrella bodies as a first step towards formalizing their operations and contributing to the social protection of their workers. Lessons learnt from umbrella associations in transport and trade businesses can improve labour inspections and ameliorate working conditions in the informal sector.

vii) Area development programmes and strengthening local leadership

Due to the differentiated nature of sub-regional patterns of poverty rates and drivers of poverty, the government has adopted development planning based on identified needs in specific areas. Areas lagging in poverty reduction need special programmes identified through a participatory assessment of the poor. The efficacy of the programmes should be tested through pilot projects based on rigorous experimental economic methods, such as randomized control trials. Evidence from many countries showed that tested interventions could effectively reduce poverty.[29] The estimated poverty-reducing effects of government interventions indicate that poverty can be reduced when effective leadership and governance are in place. Very poor sub-regions such as Karamoja and Acholi may require scaling up of tested interventions which meet local development needs. Local area leadership should be strengthened to ensure effective service delivery and implementation of poverty reduction programmes. The Parish Development Model should prioritize the promotion of agriculture as a business to ensure sustainable poverty reduction.

7.5 Recommendations for improvements in social service delivery

i) Health care

Through public healthcare facilities, the population has access to free or subsidized healthcare services. The challenges the healthcare sector faced during the COVID-19 pandemic showed that there is a need to improve access to and effectiveness of emergency responses (ambulatory services) and referral systems. A well-functioning healthcare system would ensure quicker control of a pandemic and shorter lockdown periods. In that way, the negative impact of pandemics on the economy and poverty could be minimized. There is also a need to speed up the establishment of a national health insurance scheme to increase access to quality healthcare. This will help to reduce out-of-pocket healthcare expenditures.

ii) Education

Whereas the government funds education in government-aided schools, completion rates remain low. The COVID-19 pandemic disrupted schooling, and there is a high likelihood that school completion will be lower for the current cohort of the school-age population. In secondary education, the transition to higher secondary level (Senior Five) remains low (25 per cent). This indicates that many lower secondary school learners fall out of the education system and possibly join the informal sector. Thus, it is important to impart practical and employable skills to those who go through higher secondary and tertiary education. In line with the Technical and Vocational Education and Training Policy (2019), BTVET institutions need to be strengthened and expanded to absorb primary and secondary school graduates and dropouts. The Directorate of Industrial Training should expand its certification programme to empower skilled youths engaged in productive ventures and those who wish to benefit from government interventions. The quality and relevance of education need to be improved through comprehensive curriculum reviews, stronger supervision regimes and teacher development schemes.

iii) Social protection and resilience

Considering the large incidence and increasing frequency of climatic shocks, natural disasters and growing informality, the increase in the eligibility age for SAGE to 80 years will expose many elderly persons to extreme deprivations. Therefore, a life cycle approach to social protection services for the wider population is needed. The implementation of a countrywide social protection programme should be preceded by a national social development policy that stipulates triggers for social protection eligibility. In addition to social protection for vulnerable groups such as orphans and persons with disabilities, there is a need to provide practical skills and on-the-job training for self-reliance and resilience.

29 The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel 2019 was awarded jointly to Abhijit Banerjee, Esther Duflo and Michael Kremer 'for their experimental approach to alleviating global poverty,' www.nobelprize.org/prizes/economic-sciences/2019/summary/ last accessed on 9/11/2022 at 9:30 pm

iv) National labour market information system

The current labour market is fragmented in terms of information on supply and demand for labour. Whereas there is a steady movement of labour from agriculture to the services sector, the movement is not accompanied by growth in decent jobs. This has led to an increase in the size of the informal sector. Establishing a National Labour Market Information System will help coordinate, collect, process, store, retrieve and disseminate labour market information. The system will guide workforce planning: identification of skill gaps, labour demand and supply trends. Job centres should be created at local government levels to help coordinate labour market information, match vacancies with relevant skills, and provide skills to unemployed persons who wish to acquire employable skills. This will, however, require conducting annual labour force surveys that comprehensively cover all vulnerable groups, including persons with disabilities.

v) Water and sanitation

Poor sanitation is one of the major deprivations that drive both monetary poverty and multidimensional poverty. While the Ugandan Government's efforts in the water sector have enhanced access to water in rural areas, this progress is set back by a lack of improved toilet facilities, which increases the risk of waterborne diseases. There is a need to enforce public health regulations so that all households have improved toilet facilities. This will reduce sanitation-related diseases which have strained the healthcare system. The newly created urban authorities (especially cities) need to plan for sewerage grids and treatment plans as part of their physical infrastructure master plans. Increased access to clean water and sanitation facilities will help reduce the opportunity costs of searching for water among the poor.

vi) Governance

The effectiveness of public goods provision depends on several factors, including institutional capability and leadership. Through various ministries, departments and agencies, the government has been promoting the efficiency, effectiveness, and accountability of public institutions. However, many local governments are weak in the implementation of development programmes and service delivery. There are many cases of limited absorptive capacity as well as misuse of resources. These negatively impact service delivery and impose a cost on households that resort to private service providers. The search for better services from profit-oriented private firms increases household expenditures and exposes them to poverty. The link between programme-based budgeting and the performance of facility managers as front-line service providers needs to be strengthened to improve the quality of public administration. The star rating of service delivery facilities is one of the common practices that has worked in many parts of the world and should be adopted for this purpose in Uganda to motivate institutional effectiveness.

vii) Financial inclusion

Evidence showed that households with access to financial services are less likely to be poor. The emergence of digital financial services has helped to accelerate financial inclusion. Expansion of the requisite infrastructure for digital financial services should continue to receive priority attention within public investment planning. There is a need to increase funding under the Financial Inclusion Pillar of the Parish Development Model. A mechanism for the recovery of loans under revolving funds should be put in place to ensure the scheme's sustainability.

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