



POLICY BRIEF, DECEMBER 2020

Skills Matching, Wages and Productivity Gains: Creating a Competitive Advantage for Ugandan Youth in the Labour Market

Executive summary

An educated human capital possessing the necessary skills and knowledge needed at their work places is a major driver of inclusive growth in a country. With recent changes in the world of work in form of technological change and digitalization, jobs are becoming increasingly skills-intensive. This calls for a proper match between the demand for and the supply of skills in the labour market. It is against this background that the study analyses the level of skills that youth display in their work places vis-a-vis the nature of skills that employers demand in Uganda's labour market. A representative sample from three regions (Kampala, Central and Eastern regions) of both female and male employers and youth employees aged 18-35 years' operating either in formal or informal firms was surveyed using stratified random sampling. The study finds that indeed firms face skill gaps where employees have different skills and capabilities from those required on their workforce. The findings also show that well-matched employees in reference to organizational skills, participatory skills, generic skills and socio-emotional skills receive a higher wage as compared to their under skilled or over-skilled counterparts. Therefore, the study recommends for regular availing of updated labor market information to guide career choices among the youth and ensuring that the students are equipped with a solid foundation of organizational skills, technical skills, participative skills, generic skill and socio-emotional competencies.

Introduction and Motivation

The ministry of Finance, Planning and Economic Development's strategic plan 2016-2021 looks at harnessing the available youthful population in increasing productivity and hence economic growth. However, for this to happen, the youth should possess the right skills that are needed in the labor market. This objective aligns with the third objective of NDPII as well the Human Capital Development Programme of National Development Plan (NDP) III, which aims at enhancing human capital development through fast tracking skills development and the fourth Sustainable Development Goal (SDG) on education, which aims at ensuring inclusive and equitable quality education and learning opportunities to all. NDPII and Ministry of Labour,

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Key Messages

- A certificate is the minimum requirement for majority of formal jobs in Uganda.
- Extent of skills mismatch between skills acquired in the training institutions versus those demanded at work place.
- Well-matched employees receive a higher wage as compared to their un-matched counterparts.
- Mean wage and productivity differences between workers with different skills set.
- Ugandan youth largely lacking customer care, technical skills and entrepreneur skills.
- Equipping students with a solid foundation of organizational skills, technical skills, participative skills, generic skill and socio-emotional competencies.
- Need for regular provision of updated labor market information to guide career choices among the youth due to dynamic nature of job skills.

Gender and Social Development (MoLGSD) Sector Plan 2015/16-2019/20 recognize that, although the government has made efforts to improve the skills and capabilities of the youths through the different programs like Business, Technical, Vocational Education and training (BTVET) and the presidential initiative for skilling Ugandan youth, the economy still faces skills gaps and skills mismatch between the skills offered by training institutions and those demanded in the job market especially in the key sectors which negatively affects the country's growth potential. Yet, a human capital with the necessary skills and knowledge needed at work places is a pre-requisite for inclusive growth and development. With recent changes in the world of work in form of technological change and digitalization, jobs are becoming increasingly skills-intensive. Moreover, Uganda's labor market is

highly characterized by underutilization of labor resources particularly its dominant youthful population. The rate of youth unemployment is still high and also the proportions of the youth who are not in employment, education or training has continuously increased and remained high above 6 percent between 2006 and 2017 (Bassi & Nansamba, 2018). These figures perhaps are due to the extent of skill mismatch which has significantly inhibited youth labor demand. Most youth still lack skills required by employers or even the necessary skills to start up productive ventures. The large supply of the educated youths is not necessarily highly skilled and also there is a dismal number of youths with vocational training to fill the jobs that require such skills. If not addressed, the lack of appropriate skills among youth implies loss in productivity and persistent wage differentials. These translate into greater social and economic costs and slower economic growth. This study therefore, seeks to address this challenge by identifying the skills that Ugandan youth lack and the possible remedies and hence contribute to the overall goal of vision 2040 of driving the economy to middle income status.

The findings

1. Youth skill profiles, nature of skills demanded by employers and response to skills gaps in firms

A high percentage of youth reported having organizational skills, participatory skills, generic skills and socio-emotional competencies with proportions above 60 percent. Many are lacking the technical skills. Disaggregating by gender, there are significant differences in skills

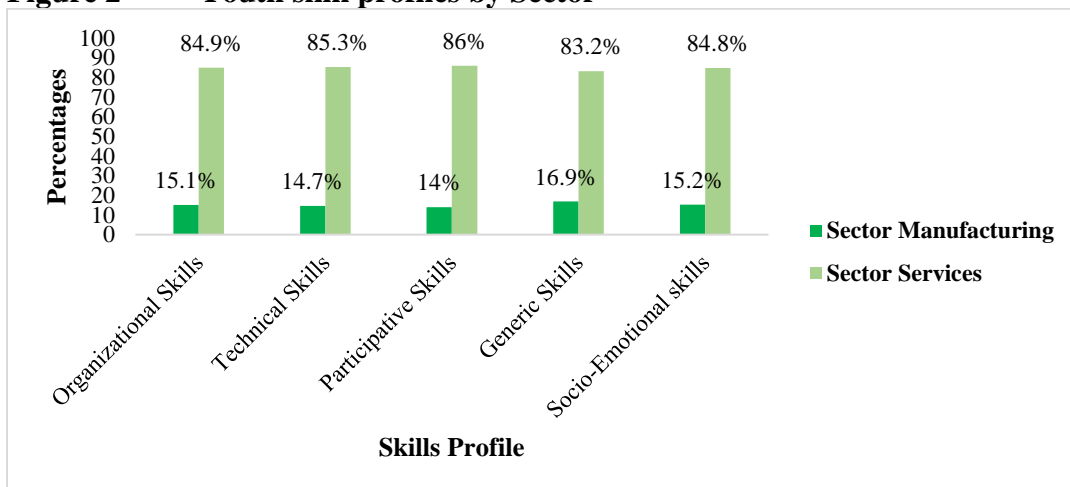
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possession, where females perform badly as compared to the male youths. Also, when we consider by sector of employment, differences are noticed in favour of services sector. Regarding employer demand for skills, we find that 61 percent of the employer’s demand for workers in possession of organizational skills and socio-emotional competencies, 58 percent demand for workers with participatory and generic skills, while 53 percent demand for workers with methodological or technical skills. Employers and workers have various response measures to bridging existing skills gaps. Among those highlighted include: undertaking training activities inform of organized on-job training, seminars or workshops, open or distance learning activities and apprenticeship or internships. Majority of the employers consider on-job training as a way of equipping workers with necessary skills. Nonetheless, challenges faced during employee training included, inadequate space, inadequate training material, lack of skilled trainers, no scheduled time for training and lack of funds to train employees.

Figure 1 Youth skill profiles by gender



Figure 2 Youth skill profiles by Sector



2. Extent of skills mismatch (or skills gaps) between skills acquired versus those demanded

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Regarding education mismatch as a measure for skills mismatch, majority of the youths reported that a certificate was sufficient as a minimum education requirement for their current jobs. However, when we categorize by sector of belonging, respective employers highlight rather different education requirements for one to secure a job. For example, within sectors including, public administration and education, financial sector, health, social work and community services as well as public utilities sector, a Bachelors' degree is reported as the minimum education requirement for one to secure such a job. This already indicates an education mismatch in the labor market.

Using mean score difference between the skills acquired and those demanded at a current job, youths reported a lower level of organizational skills, methodological/technical skills, participatory skills, generic skills and socio-emotional competencies acquired than was required in their current jobs. Significant mean score differences were noticed between male and female youth employees regarding methodological/technical skills, generic skills and participatory skills where, male youth employees reported a much lower level of such skills acquired than those required. However, female youth employees are characterized with lower levels of socio-emotional competencies acquired than those required at a work place when compared to their male counterparts. Key skills lacking yet needed at the work places included; managerial skills, technical skills, entrepreneurial skills, language skills, customer skills, innovativeness, IT skills, didactic skills and communication skills.

3. Mean wage and productivity differences between workers with different skills set

Well-matched employees in reference to organizational skills, participatory skills, generic skills and socio-emotional skills receive a higher wage as compared to their under skilled or over-skilled counterparts. However, in regard to technical skills, over-skilled employees receive a higher wage. Workers whose educational background is well matched with the minimum education requirements at their current jobs receive a higher wage as compared to their counterparts who either under qualified, over-qualified or those whose education background does not match the minimum requirement at all.

Regarding productivity mean differences, well-matched and over-skilled employees were more productive as compared to their counterparts who were under-skilled. Well-matched skilled employees in regard to methodological or technical skills; participatory skills and socio-emotional competencies, were more productive whereas the over-skilled employees in regard to organizational and generic skills were more productive. For educational mismatch, youth employees with well-matched educational requirements were more productive as compared to those who were under qualified, over qualified and those whose education backgrounds did not match all.

4. Empirical investigation of the effect of the existing skills gaps on wages and firm productivity

Over-skilled employees in regard to organizational skills were 49 percent less likely to receive higher wages compared to those who were well-matched. Under-skilled employees in regard to technical skills were 59 percent less likely to receive higher wages than the well-matched. For

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firm productivity, under-skilled employees in regard to technical and generic skills were 79 percent and 95 percent respectively, less likely to be productive as compared to their counterparts who are well-matched.

Policy Recommendations

Based on the findings, the study recommends the availing of updated labor market information to training institutions to guide career choices among the students and the youth. This information should include the dynamic and evolving occupational structure of labor demand and should also be open to education and training institutions. Labor market information may cover statistics on employment, unemployment, wages, number of job vacancies by occupation and projections of labor demand where possible. Engage employers in determining the content of the education curricula in order to ensure its relevance to the needs of the labor market.

In addition, students should be equipped with a solid foundation of organizational skills, technical skills, participative skills, generic skill and socio-emotional competencies. This kind of training ensures a system of lifelong learning critical for supporting a more productive and competitive workforce. Additionally, avail less stringent entry requirements into BTVET schools in order to accommodate even the youth without any formal education. Complementary interventions that target youth enterprise support can aid increased demand for higher skill levels through ensuring employment creation.

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