

Influence Of High Rate of Unemployment on Economic Development in Uganda; A Case Study Wakiso District**Nakabira Angella¹, Kamugisha Nelson²****1,2 Metropolitan International University****Abstract**

The study was carried out to investigate the effect of unemployment on economic development in Uganda. The major objective of the study was to examine the effect of unemployment on economic development in Uganda period from 1994-2021. The specific objectives were to examine the trend of unemployment in Uganda, to examine the level of economic development and to establish the relationship between economic development and unemployment in Uganda. The study used secondary data from international labour organization for the unemployment, Uganda bureau of statistics for the economic development data. The data used is yearly data covering the period from 1994-2021 the data was then analyzed and presented using OLS, Augmented Dickey Fuller to test for the presence of unit root, the Johansen co-integration test was employed to test the existence of the long run relationship between economic development and the independent variable. The study revealed that unemployment negatively affected economic development in Uganda for the period under study. Hence, the need by the government and relevant agencies to formulate policies to encourage self-employment and reduce cost of doing business in the country so as to achieve a high, rapid and sustainable economic development.

Key Words: Unemployment and Economic development.**Background of the study**

In Uganda, most people are tenants and there are a few landlords who own most of the land. Low economic development refers to a situation where there are no meaningful economic activities in the area, most Ugandans have more than two (Madinah PhD, 2020), occupations simply because they want to increase monetary gain to be able to meet their basic needs. They also want to ensure their standard of living because most people live below the poverty line (Cabrera & García-Pérez, 2023). Most jobs are often in the informal sector, which draws taxes (Osuman & Julius, 2023). Youth unemployment in Uganda is caused by a number of factors and some of them include low levels of education where a greater percentage of young people are illiterate (Ogarkova & Mishchenko, 2019), low levels of investment as there is a greater marginal propensity to consume than to save. Limited employment, where a larger number of young people are unemployed due to insufficient qualifications and poor economic planning, is accompanied by limited activities that cannot bring profit (Jackline & Shamilah, 2023). However, as a result of unemployment, many situations have been created that in one way or another have affected the youth in many ways, such as poor living standards resulting from low income that has increased income inequality, this law moral decay includes the immorality of people due to the need for money, such as prostitution (Salahub et al., 2018). SACCOs were introduced to empower the youth and the low level of education provided little opportunity for few young people to go to school (Kokkinos et al., 2022). In his famous book *The Stages of Economic Growth*, Rowstow divided the process of economic development of all companies into five stages (Ghaffar et al., 2019). Traditional society, the assumption of take-off, take-off, the hunt for adulthood and a time of high mass consumption (Rumbia et al., 2022).

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According to the ILO (Ogarkova & Mishchenko, 2019), unemployment refers to a situation in which a person aged 15 and over who meets the conditions is unemployed for a given week, is able to accept work within two weeks after actively looking for work or having found one in the last four weeks, which starts in less than three months. In general, unemployment refers to a situation where a member of the labor force is actively looking for work, but cannot find it at the prevailing wage rate during a given time period (Fiorelli, 2018). Economic development is the creation of wealth from which community benefits are realized. It is more than a work program; it is an investment in the growth of the economy and an increase in the prosperity and quality of life of all residents.

Problem statement

The proposed study aims to investigate the significant impact of high unemployment on the economic development of Wakiso District, one of the fastest growing regions in Uganda. Unemployment, especially among the youth, is a major problem facing the country and Wakiso district is no exception where there is an increased rate of unemployment (Bosna, 2022). This study seeks to analyze the current unemployment rate in the district by examining the demographic characteristics of the unemployed population such as age, gender and educational level (Abbas et al., 2020). It then examines the multifaceted impact of this high unemployment on various aspects of economic development in the region, including poverty levels, household income, investment and overall economic growth (James et al., 2023). The study also identifies key factors that contribute to the prevalence of unemployment in Wakiso District such as skills mismatch, lack of job opportunities or infrastructural deficiencies. It will also evaluate the effectiveness of existing government policies and interventions aimed at solving unemployment and supporting economic development in the district (Rai & Chaturvedi, 2019). The findings of this research will provide valuable insights for policy makers and stakeholders, which will ultimately inform the development of targeted and effective strategies to mitigate the negative impact of unemployment and promote sustainable economic growth in Wakiso District, Uganda.

Purpose of the study

The purpose of the study was to examine the effect of unemployment on economic development from 1994 to 2021

Specific study objectives

- 1** To determine the level of unemployment in Uganda
- 2** To examine the trend of economic development in Uganda
- 3** To establish the relationship between unemployment and economic development in Uganda

Research questions

1. What is the level of unemployment in Uganda?
2. What is the trend of economic development in Uganda?

3. What is the relationship between unemployment and economic development in Uganda?

Methodology

The study used quantitative research which focused on quantifying the collection and analysis of data such as secondary data. Secondary data involved extraction of relevant information from trusted sources. These sources of data under this study were Uganda Bureau of Statistics (UBOS) and International Labor Organization (ILO). The research focused on mainly two variables that is, the dependent and independent variables. The dependent variable is economic development (GDP rate) and the independent variable is unemployment rate in Uganda from 1994-2021 associated with non-stationary.

Table 1: Description of variables

Variable	Description	Data type
Economic development	Real GDP in years	Count
Unemployment rate	Lagging indicator	count

This study applied quantitative methods to analyze the data. The study used appropriate statistical software packages like STATA and SPSS (Nelson et al., 2022). In specifying the model for research, the researcher first tested for stationary of the data because when all the variables are stationary at level we can use regression to see the relationship between them thus we first investigated for stationary in order to avoid spurious regression. That is associated with non-stationary data and distorts results (Nelson et al., 2023). “A time series is said to be stationary when it’s mean and variance do not vary systematically over time” (Gujalati 2004) thus regression analysis was to be used, that is simple regression where the revenue generated and the total capital expenditure by the government is related. Therefore, the regression model in the study model was taken the form of;

Economic development= $b_0 + b_1$ unemployment rate

Where; b_0 is the intercept

B_1 is the slope

Economic development is the dependent variable while unemployment rate is the independent variable

Diagnostic test

A diagnostic test which this study was employed are the data in question in time series, preliminary test was be carried out to establish normality, multicollinearity and stationery of the series. Jarque Bera test employed to test for normality Augmented Dickey-Fuller (ADF) Johansen Co-integration procedure for testing co-integration on variables.

Multi collinearity test

The correlation matrix for the variables drawn and analysed. When the correlation value is very close to zero it was concluded that the values have no close relationship. When the R² of the run regression is high and the partial coefficients of the regression are statistically different from zero then we bound to conclude that there is no multicollinearity.

Unit Root Tests

Using the ADF test for stationary values, unit root tests was carried out for each variable. The ADF Test was used on series in level and in the 1st difference. Conclusions about stationary was made by comparing the ADF-Statistic and the Critical Values (C.V) at 1, 5 and 10 percent. When the ADF-Statistics is greater in absolute terms than the critical values, the series is said to be stationary and the reverse implies non-stationarity.

Series that are stationary are in levels are integrated of order zero $\{1(0)\}$. While those stationary after the first difference, then the series was be integrated of order two $\{1(2)\}$ and so on.

3.3.4. Vector Error Correction Model (VECM)

This is a restricted VAR which was to help estimate the speed of the dependent variable; in this case, GDP returns to equilibrium after there are changes in the explanatory variables. VECM was only be applied if the co-integration test proves existence of a rough long-run relationship between the variables, so as to estimate the short-run dynamics as well as transitory aspect or long-run dynamics of the variables.

Results.

The Level of Unemployment

The first objective of this study was to assess the level of unemployment in Uganda from the year 1991 to 2017. Under this objective, the Normality, Stationery and linearity were tested.

Table 2: Data on Unemployment rate and Economic Development (Real GDP)

Year	Unemployment rate (%)	Economic Development (real GDP)



1994	3	1.8
1995	2.8	5.9
1996	2.7	6.7
1997	3.2	7.7
1998	2.7	9.2
1999	2.2	6.6
2001	2.8	4.6
2002	2.8	6.1
2003	2.8	8
2004	2.8	3.9
2005	2.4	8.8
2006	3.5	7.1
2007	3.2	6.2
2008	2.5	5.8 10
2009	2	7
2010	3.7	8.8
2011	3	10.4
2012	3.7	8.1
2013	4.1	7.7
2014	4.2	6.8
2015	4.2	2.2
2016	4.2	4.7
2017	3.9	

Figure 1: Normality Test

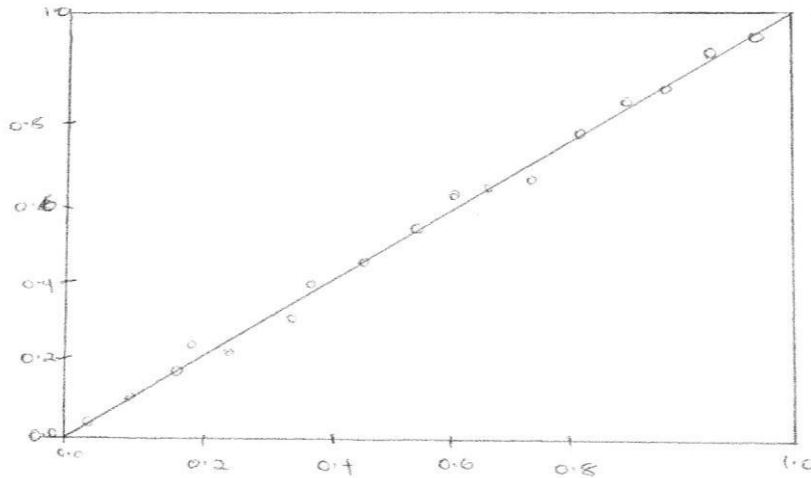


Figure 1 indicates the distribution of normality under unemployment rate in Uganda since 1991 to 2017. The criterion is that when the plots are nearing the regression line using P-P plots, the variable under the study is said to be normally distributed. Since the plots are near the line therefore unemployment is normally distributed.

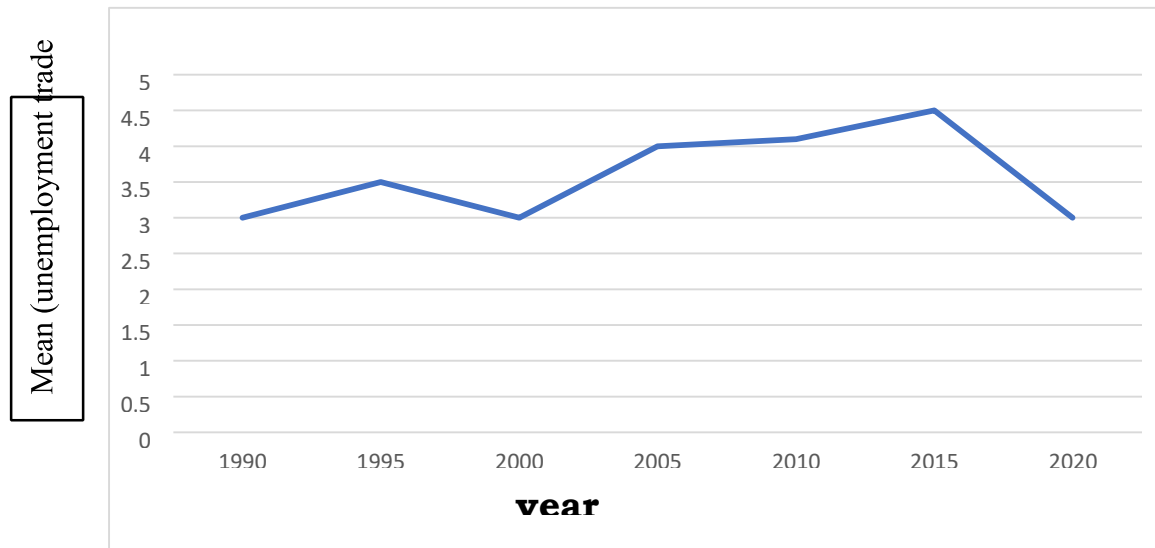
Table 3: Summary Statistics.

	Unemployment rate (%)
Mean	3.18
Median	3.20
Maximum	4.19
Minimum	2.00
Standard deviation	0.62
Skewness	0.09
Kurtosis	2.13
Jarque-Bera	0.90
Probability	0.64
Sum	85.89
Sum Sq.Dev	9.89
Observations	27

Source: Researcher, 2023

Table 4.1.3 shows Unemployment rates which stood at 3.18 percent on the average from 1991-2017 in Uganda. The maximum unemployment rate from 1991-2017 in Uganda was 4.19% while the minimum unemployment rate stood at 2.00% percent. Jarque-Bera value of 0.90% and the probability value of 0.64% show that economic unemployment rate was normally distributed since the null hypothesis study of normality is accepted at 63.69% percent.

Figure 2: Trend of Unemployment rate



Source: Researcher, 2023

Over the years, there has been an increase in the rate of unemployment in Uganda in 1992 and later a sharp reduction in the rates in 1994. However, there was a continuous increase in the unemployment rate till 2000 thus showing a cyclic trend.

Level of Economic Development

The level of Economic Development in Uganda under this study was assessed using summary table of statistics and histogram to transpose the normality of the data. The assessment of the level of Economic Development was the second objective in this study

Table 4: Summary Statistics

	Economic development (GDP %)
Mean	6.31
Median	6.60
Maximum	10.40

Minimum	1.80
Standard deviation	2.24
Skewness	-0.28
Kurtosis	2.26
Jarque-Bera	0.56
Probability	0.75
Sum	170.50
Sum. sq. dev	131.29
Observations	27

Source: Researcher, 2023

Table 4 elaborates that Ugandan economy was growing on the average at 6.31 percent, the maximum Economic Development rate from 1991-20 17 in Uganda is 10.40 while the minimum Development rate of the economy stood at 1.80 percent. Jarque-Bera value of 0.56 and the probability value of 0.75 shows that economic growth rate was normally distributed since the null hypothesis study of normality is accepted at 75.35% percent.

Figure 3: Trend of Economic Development

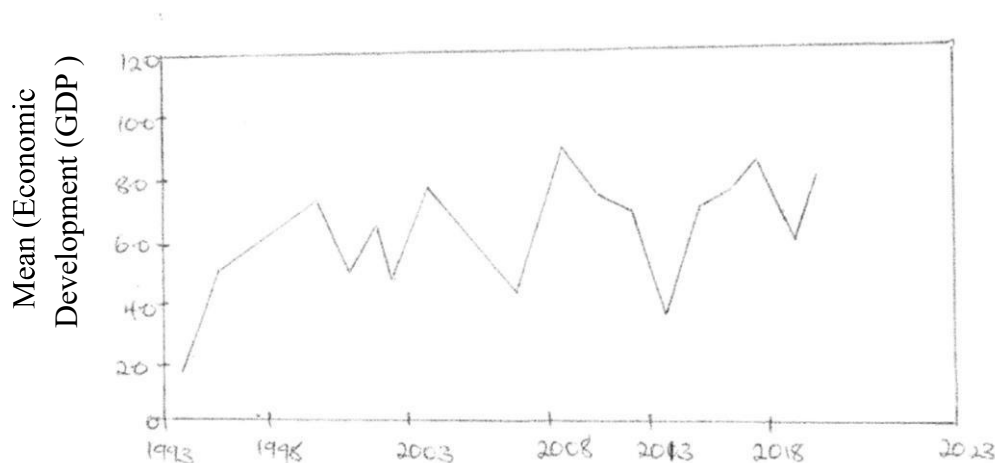


Figure 3 implies the trend of Economic Development over years from 1991 to 2017. From 1991 to 1995 there was a steady increase in economic development of the country. The country's economic development continues fluctuating over years. Thus, showing a cyclical trend in Economic Development of Uganda

Relationship between Unemployment and Economic Development

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To establish the relationship between the Unemployment and Economic development was the third objective of this study.

Table 5: VECM estimates for Economic Development and Unemployment rate.

	D (unemployment rate)	D(LnEconomic Development)
Constant	030236	-270363
ECT(-1)	.013665	-.142153
R-square	0.3227	0.3227

Source: Researcher, 2023

Table 5 Elaborates the estimated coefficients of the Error Correction Terms of natural Logarithms for LnGdp and Ln unemployment. The ECT of Economic Development is negative as expected and the rest are positive. But significant from the equation the adjustment is 68% of the total unemployment in the previous year's equilibrium. This suggests long run equilibrium although values are not significant though slow and the positive sign of the ECTs suggest equilibrium correcting in the short run.

Granger Causality Test

This is performed to ascertain the relationship between Economic Development and Unemployment rate.

Table 5: Relationship between Economic Development (GDP) and Unemployment.

Null hypotheses	F-statistics	Chi square	P-value	conclusion
Total unemployment has no effect on GDP	0.351	3.212406	0.1823	Fail to reject

Source: Researcher, 2023

Table 5 depicts the Null hypothesis of study that the lagged value of the coefficient in each equation are zero against the alternative that the coefficients are not zero, Table 4.3.2 reveals that there is no short run causality running Economic Development (GDP) to Unemployment rate since the coefficients of the lagged coefficients are equal to zero, and the p-value is greater than the level of significance (0.05).

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Diagnostic Test using Autocorrelation and Heteroscedasticity

The Breusch-Godfrey test was performed to assess the whether there is serial correlation in the model Table presents the results of the l3reusch-Godfrey and Breusch-pagan.

Table 6: Results from the Breusch- Pagan — Godfrey Test

Heteroscedasticity Test:

F statistic	0.580837	Prob. F (2.24)	0.5671
Obs*R-squared	1.246546	Prob Chi Square (2)	0.5362
0.681570	Prob Chi Square (2)	0.5362	Scaled explained SS
Test:			
F statistics	1.362615	Prob. F (2.22)	0.2768
Obs*R squared	2.975957	Prob. Chi Square (2)	0.2258

Source: Researcher, 2023

The null hypothesis Study is that there is autocorrelation at lag order. If at a specified lag, the calculated p-value is less than Critical (0.05). The residuals indicate that there is no Heteroscedasticity since the p-value is greater than 0.05.The Null hypothesis is accepted and conclude that there is no Heteroscedasticity among the residuals which is desirable for our model.

Summary of Findings

This study revealed that Unemployment negatively affected Economic Development in Uganda for the period under study. The coefficients of Unemployment rates were rightly signed, implying that they were consistent with the theoretical expectation of this study. This was attributed to the dominant manifestation of unemployment in Uganda which was caused by the techniques of production adopted in the country (labour- savings). This study found that the type of unemployment that characterized the Ugandan economy was structural Unemployment Uganda had been using capital intensive technique of production which is capable of increasing cost of production and hence unemployment. Economic Development rates was deteriorate, making it difficult to achieving rapid and sustained economic development rates. It was found in this study that as unemployment rates increase economic development rates decrease.

Conclusions

The results of OLS revealed that an increase in unemployment rates reduced economic development rates in Uganda. The coefficient of unemployment was statistically significant and consistent with the theoretical expectation. The F-statistics values in all models of this study indicated that unemployment rates jointly and significantly affected economic development rates in the country at 5% level. However, both structural rigidity and unstable monetary policy have been identified as the major causes of unemployment in Uganda Adamson (2000). This study concluded that the major cause of unemployment in Uganda was the method of production adopted by the government in the country. The method of production adopted in this country was capital intensive (labour savings) which was capable of increasing unemployment rates there by reducing economic growth rates.

Recommendations

Based on the findings made in the course of this study the following recommendations are made: This study found that the type of unemployment characterized in the Ugandan economy was structural, hence the need by the government and relevant agencies to formulate policies to encourage self-employment and reduce cost of doing business in the country so as to achieve a high, rapid and sustained economic development. The government should also embark on creation of more job opportunities to the people through construction and setting up more industries in order to mobilize and create more jobs for the people.

The government should also sensitize the people through holding seminars and different classes for the people about entrepreneurship and how to become risk takers in order to reduce the rate of unemployment in the country.

Furthermore, the government and policy makers can also focus on providing financial support to the youth thus creating more jobs.

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